

LIFEWAY FOODS INC
Form 4
March 16, 2007

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BERNARDI RENZO

(Last) (First) (Middle)

C/O LIFEWAY FOODS, INC., 6431
W. OAKTON ST.

(Street)

MORTON GROVE, IL 60053

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
LIFEWAY FOODS INC [LWAY]

3. Date of Earliest Transaction
(Month/Day/Year)
03/14/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D)		5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				Code	V Amount (A) or (D) Price			
Common stock, no par value	03/14/2007		S	2,500	D	\$ 9.25 9,000	D	
Common stock, no par value	03/15/2007		S	3,000	D	\$ 9.11 6,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Nu... Deriv... Secur... Bene... Own... Follo... Repo... Trans... (Instr...)
						Date Exercisable	Expiration Date	Title	Amount or Number of Shares
						Code	V	(A)	(D)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BERNARDI RENZO C/O LIFEWAY FOODS, INC. 6431 W. OAKTON ST. MORTON GROVE, IL 60053	X			

Signatures

/s/ Renzo Bernardi 03/16/2007
**Signature of Reporting Person Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
 Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. FONT-SIZE: 10pt; FONT-FAMILY: times new roman">

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<p>You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common stock offered by this prospectus. This prospectus</p>	
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does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including, the section entitled "Risk Factors" before deciding to invest in our common stock. CryoPort, Inc. is referred to throughout this prospectus as "CryoPort," "the Company," "we" or "us."

General

We are a cryogenic transport container company, involved in the safe transport of biological specimens at temperatures below zero centigrade. While over the past years most of our sales have been derived from the sale of our reusable product line, the Company's long term potential and prospects will come from the one-way line of products which have been in development over the past four years.

Our principal focus is to further develop and launch, the CryoPort Express® One-Way Shipper System, a line of one-time use dry cryogenic shippers for the transport of biological materials. A dry cryogenic shipper is a device that uses liquid nitrogen which is contained inside a vacuum insulated bottle as a refrigerant to provide storage temperatures below minus 150 ° centigrade. The dry shipper is designed such that there can be no pressure build up as the liquid nitrogen evaporates, or spillage of liquid nitrogen. A foam retention system is employed to ensure that liquid nitrogen stays inside the vacuum container. Biological specimens are stored in a "well" inside the container and refrigeration is provided by cold nitrogen gas evolving from the liquid nitrogen entrapped within the foam retention system. Biological specimens transported using the cryogenic shipper can include live cell pharmaceutical products; e.g., cancer vaccines, diagnostic materials, semen and embryos, infectious substances and other items that require continuous exposure to frozen or cryogenic temperatures (less than -150 ° C).

During the recent fiscal year ended March 31, 2008, we generated revenues of \$83,564 and we incurred a net loss of \$4,564,054. At that date we had working capital in the amount of \$981,209 and an accumulated deficit of \$13,929,204. For three months ended June 30, 2008, we incurred a net loss of \$8,222,481, including a loss on extinguishment of debt of \$6,902,941. The Report of Independent Registered Public Accounting Firm on our March 31, 2008 consolidated financial statements includes a paragraph stating that the recurring losses and negative cash flows incurred from operations, raise substantial doubt about our ability to continue as a going concern.

Our principal executive office is located at 20382 Barents Sea Circle, Lake Forest, California 92630 and our telephone number at that address is (949) 470-2300.

Recent Financing

On June 9, 2008, we completed the transactions contemplated under a certain Securities Purchase Agreement with an accredited investor providing for the issuance of our Original Issue Discount 8% Secured Convertible Debentures (the "May Debentures") having a principal face amount of \$1,250,000 and generating gross proceeds to us of \$1,062,500 after giving effect to a 15% discount. After accounting for commissions and legal and other fees, the net proceeds to us totaled \$870,625.

The principal amount under the May Debentures is payable in 23 monthly payments of \$54,348 beginning January 31, 2009. We may elect to make principal and interest payments in shares of common stock provided, generally, that we are not in default under the May Debentures and there is then in effect a registration statement with respect to the shares issuable upon conversion of the May Debentures. If we elect to make principal or interest payments in common stock, the conversion rate will be the lesser of (a) the Conversion Price (as defined below), or (b) 85% of the lesser of (i) the average of the volume weighted average price for the ten consecutive trading days ending immediately prior to the applicable date an interest payment is due or (ii) the average of such price for the ten consecutive trading days

ending immediately prior to the date the applicable shares are issued and delivered if such delivery is after the interest payment date.

At any time, holder may convert the May Debentures into shares of common stock at a fixed conversion price of \$0.84, subject to adjustment in the event the Company issues common stock (or securities convertible into or exercisable for common stock) at a price below the conversion price as such price may be in effect at various times (the "Conversion Price"). Based on the market price of our common stock of \$0.71 on the date of the issuance of the May Debentures, the total value of the shares underlying the May Debentures and registered herewith is \$1,056,547.

In connection with the financing transaction, we issued to the investor five-year warrants to purchase 1,488,095 shares of common stock at \$0.92 per share and five-year warrants to purchase 1,488,095 shares of common stock at \$1.35 per share (collectively, the "May Warrants").

We also entered into a registration rights agreement with the investors that requires us to register the shares issuable upon conversion of the May Debentures and exercise of the May Warrants within 45 days after the closing date of the transaction. If the registration statement of which this prospectus forms a part is not filed within that time period or is not declared effective within 90 days after the closing date (120 days in the event of a full review by the Securities and Exchange Commission), we will be required to pay liquidated damages in cash in an amount equal to 2% of the total subscription amount for every month that we fails to attain a timely filing or effectiveness, as the case may be, subject to exception as set forth in the registration rights agreement.

This Offering

Shares offered by Selling Stockholders	Up to 4,613,095 shares, including 1,488,095 shares issuable upon conversion of convertible debentures and 3,125,000 shares issuable upon exercise of warrants
Common Stock to be outstanding after the offering	45,702,798*
Use of Proceeds	We will not receive any proceeds from the sale of the common stock hereunder. See "Use of Proceeds" for a complete description
Risk Factors	The purchase of our common stock involves a high degree of risk. You should carefully review and consider "Risk Factors" beginning on page 3

* Based on the current issued and outstanding number of shares of 41,089,703 as of August 11, 2008, and assuming issuance of all 4,613,095 shares upon conversion of convertible debentures and exercise of warrants issued to the investors and the placement agent and registered herewith, the number of shares offered herewith represents approximately 11% of the total issued and outstanding shares of common stock.

RISK FACTORS

An investment in our shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our shares could decline significantly and you may lose all or a part of your investment. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. See "Forward-Looking Statements."

Risks Related to Our Business

We have incurred significant losses to date and may continue to incur losses.

During the recent fiscal year ended March 31, 2008, we generated revenues of \$83,564 and we incurred a net loss of \$4,564,054. At that date we had working capital in the amount of \$981,209 and an accumulated deficit of \$13,929,204. Continuing losses will have an adverse impact on our cash flow and may impair our ability to raise additional capital required to continue and expand our operations.

The Report of Independent Registered Public Accounting Firm on our March 31, 2008 consolidated financial statements includes an explanatory paragraph stating that the recurring losses incurred from operations, working capital deficit and accumulated deficit raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

If we are unable to obtain additional funding, we may have to reduce our business operations.

We anticipate, based on currently proposed plans and assumptions relating to our ability to market and sell our products, that our cash on hand including the proceeds from a recent financing transaction will satisfy our operational and capital requirements for the next 24 months. However, if we are unable to realize satisfactory revenue in the near future, we will be required to seek additional financing to continue our operations beyond that period. We will also require additional financing to expand into other markets and further develop and market our products. Except for the warrants issued in our recent offerings, we have no current arrangements with respect to any additional financing. Consequently, there can be no assurance that any additional financing on commercially reasonable terms or at all will be available when needed. The inability to obtain additional capital may reduce our ability to continue to conduct business operations. Any additional equity financing may involve substantial dilution to our then existing stockholders. Our future capital requirements will depend upon many factors, including:

- continued scientific progress in our products;
- competing technological and market developments;
- our ability to establish additional collaborative relationships; and
- the effect of commercialization activities and facility expansions if and as required.

We have limited financial resources and to date no positive cash flow from operations. There can be no assurance that we will be able to obtain financing on acceptable terms in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. Raising additional funding may be complicated by certain provisions in the securities purchase agreements entered into in connection with our most recent financing.

If we experience delays, difficulties or unanticipated costs in establishing the sales, distribution and marketing capabilities necessary to successfully commercialize our products, we will have difficulty maintaining and increasing our sales.

We are continuing to develop sales, distribution and marketing capabilities in the Americas, Europe and Asia. It will be expensive and time-consuming for us to develop a global marketing and sales network. Moreover, we may choose, or find it necessary, to enter into additional strategic collaborations to sell, market and distribute our products. We may not be able to provide adequate incentive to our sales force or to establish and maintain favorable distribution and marketing collaborations with other companies to promote our products. In addition, any third party with whom we have established a marketing and distribution relationship may not devote sufficient time to the marketing and sales of our products thereby exposing us to potential expenses in exiting such distribution agreements. The Company, and any of its third-party collaborators, must also market its products in compliance with federal, state, local and international laws relating to the providing of incentives and inducements. Violation of these laws can result in substantial penalties. If we are unable to successfully motivate and expand our marketing and sales force and further develop our sales and marketing capabilities, or if our distributors fail to promote our products, we will have difficulty maintaining and increasing our sales.

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We are dependent on new products.

Our future revenue stream depends to a large degree on our ability to bring new products to market on a timely basis. We must continue to make significant investments in research and development in order to continue to develop new products, enhance existing products and achieve market acceptance of such products. We may incur problems in the future in innovating and introducing new products. Our development stage products may not be successfully completed or, if developed, may not achieve significant customer acceptance. If we were unable to successfully define, develop and introduce competitive new products, and enhance existing products, our future results of operations would be adversely affected. Development and manufacturing schedules for technology products are difficult to predict, and we might not achieve timely initial customer shipments of new products. The timely availability of these products in volume and their acceptance by customers are important to our future success. A delay in new product introductions could have a significant impact on our results of operations.

Our success depends, in part, on our ability to obtain patent protection for our products, preserve our trade secrets, and operate without infringing the proprietary rights of others.

Our policy is to seek to protect our proprietary position by, among other methods, filing U.S. and foreign patent applications related to our technology, inventions and improvements that are important to the development of our business. We have three U.S. patents relating to various aspects of our products. Our patents or patent applications may be challenged, invalidated or circumvented in the future or the rights granted may not provide a competitive advantage. We intend to vigorously protect and defend our intellectual property. Costly and time-consuming litigation brought by us may be necessary to enforce our patents and to protect our trade secrets and know-how, or to determine the enforceability, scope and validity of the proprietary rights of others.

We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. We typically require our employees, consultants, advisors and suppliers to execute confidentiality agreements in connection with their employment, consulting, or advisory relationships with us. If any of these agreements are breached, we may not have adequate remedies available thereunder to protect our intellectual property or we may incur substantial expenses enforcing our rights. Furthermore, our competitors may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our proprietary technology, or we may not be able to meaningfully protect our rights in unpatented proprietary technology.

We cannot assure that our current and potential competitors and other third parties have not filed or in the future, will not file patent applications for, or have not received or in the future will not receive, patents or obtain additional proprietary rights that will prevent, limit or interfere with our ability to make, use or sell our products either in the U.S. or internationally. In the event we were to require licenses to patents issued to third parties, such licenses may not be available or, if available, may not be available on terms acceptable to us. In addition, we cannot assure that we would be successful in any attempt to redesign our products or processes to avoid infringement or that any such redesign could be accomplished in a cost-effective manner. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling our products, which would harm our business.

We are not aware of any other company that is infringing any of our patents or trademarks nor do we believe that it is infringing on the patents or trademarks of any other person or organization.

If we experience manufacturing delays or interruptions in production, then we may experience customer dissatisfaction and our reputation could suffer.

If we fail to produce enough products at our own manufacturing facility or at a third-party manufacturing facility, we may be unable to deliver products to our customers on a timely basis, which could lead to customer dissatisfaction and

could harm our reputation and ability to compete. We currently acquire various component parts for our products from a number of independent manufacturers in the United States. We would likely experience significant delays or cessation in producing our products if a labor strike, natural disaster, local or regional conflict or other supply disruption were to occur at any of our main suppliers. If we are unable to procure a component from one of our manufacturers, we may be required to enter into arrangements with one or more alternative manufacturing companies which may cause delays in producing our products. In addition, because we depend on third-party manufacturers, our profit margins may be lower, which will make it more difficult for us to achieve profitability. To date, we have not experienced any material delays to the point that our ability to adequately service customer needs has been compromised. As the business develops and quantity of production increases, it becomes more likely that such problems could arise.

Because we rely on a limited number of suppliers, we may experience difficulty in meeting our customers' demands for our products in a timely manner or within budget.

We currently purchase key components of our products from a variety of outside sources. Some of these components may only be available to us through a few sources, however, management has identified alternative materials and suppliers should the need arise. We generally do not have long-term agreements with any of our suppliers.

Consequently, in the event that our suppliers delay or interrupt the supply of components for any reason, we could potentially experience higher product costs and longer lead times in order fulfillment. Suppliers that we materially rely upon are Spaulding Composites Company and Lydall Thermal Acoustical Sales.

Our Products May Contain Errors or Defects, which Could Result in Damage to Our Reputation, Lost Revenues, Diverted Development Resources and Increased Service Costs, Warranty Claims and Litigation.

Our products must meet stringent requirements. We warrant to our customers that our products will be free of defect for various periods of time, depending on the product. In addition, certain of our contracts include epidemic failure clauses. If invoked, these clauses may entitle the customer to return or obtain credits for products and inventory, or to cancel outstanding purchase orders even if the products themselves are not defective.

We must develop our products quickly to keep pace with the rapidly changing market, and we have a history of frequently introducing new products. Products and services as sophisticated as ours could contain undetected errors or defects, especially when first introduced or when new models or versions are released. In general, our products may not be free from errors or defects after commercial shipments have begun, which could result in damage to our reputation, lost revenues, diverted development resources, increased customer service and support costs and warranty claims and litigation which could harm our business, results of operations and financial condition.

Our management has limited experience in managing and operating a public company. Any failure to comply or adequately comply with federal securities laws, rules or regulations could subject us to fines or regulatory actions, which may materially adversely affect our business, results of operations and financial condition.

Our current management has limited experience managing and operating a public company and relies in many instances on the professional experience and advice of third parties including our consultants and attorneys. Failure to comply or adequately comply with any laws, rules, or regulations applicable to our business may result in fines or regulatory actions, which may materially adversely affect our business, results of operations, or financial condition.

If we fail to maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.

Our internal control over financial reporting may have weaknesses and conditions that need to be addressed, the disclosure of which may have an adverse impact on the price of our common stock. We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of our internal controls over financial reporting or disclosure of our public accounting firm's attestation to or report on management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

Standards for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 are uncertain, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal controls over financial reporting, and attestation of our assessment by our independent registered public accounting firm. Currently, we believe these two requirements will apply to our annual reports for fiscal 2010. The

standards that must be met for management to assess the internal controls over financial reporting as effective are evolving and complex, and require significant documentation, testing, and possible remediation to meet the detailed standards. We expect to incur significant expenses and to devote resources to Section 404 compliance during the remainder of fiscal 2009 and on an ongoing basis. It is difficult for us to predict how long it will take to complete the assessment of the effectiveness of our internal control over financial reporting for each year and to remediate any deficiencies in our internal control over financial reporting. As a result, we may not be able to complete the assessment and remediation process on a timely basis. In addition, the attestation process by our independent registered public accounting firm is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accounting firm. In the event that our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, we cannot predict how regulators will react or how the market prices of our shares will be affected; however, we believe that there is a risk that investor confidence and share value may be negatively impacted.

If we cannot compete effectively, we will lose business.

The market for our products, services and solutions is positioned to become competitive. There are technological and marketing barriers to entry, but we cannot guarantee that the barriers we are capable of producing will be sufficient to defend the market share we wish to gain against future competitors. The principal competitive factors in this market include:

- Ongoing development of enhanced technical features and benefits;
- Reductions in the manufacturing cost of competitors' products;
- The ability to maintain and expand distribution channels;
- Brand name;
- The ability to deliver our products to our customers when requested;
- The timing of introductions of new products and services; and
- Financial resources.

These and other prospective competitors have substantially greater resources, more customers, longer operating histories, greater name recognition and more established relationships in the industry. As a result, these competitors may be able to develop and expand their networks and product offerings more quickly, devote greater resources to the marketing and sale of their products and adopt more aggressive pricing policies. In addition, these competitors have entered and will likely continue to enter into business relationships to provide additional products competitive to those we provide or plan to provide.

Risks Relating to Our Current Financing Arrangements:

The variable price feature of our convertible debentures could require us to issue a substantially greater number of shares, which will cause dilution to our existing stockholders.

On October 1, 2007, we issued to four accredited investors our Original Issue Discount 8% Senior Secured Convertible Debentures (the "Debentures") having a principal face amount of \$4,707,705. The entire principal amount under the Debentures is due and payable 30 months after the closing date. Interest payments will be payable in cash quarterly commencing on January 1, 2008. In addition, we are required to make 24 equal monthly principal redemption payments commencing March 31, 2008. We may elect to make such interest or principal payments in shares of common stock provided, generally, that we are not in default under the Debentures and there is then in effect a registration statement with respect to the shares issuable upon conversion of the Debentures or in payment of interest due thereunder. If we elect to make interest payments in common stock, the conversion rate will be the lesser of (a) \$0.84 or (b) 85% of the lesser of (i) the average of the volume weighted average price for the ten consecutive trading days ending immediately prior to the applicable date an interest payment is due or (ii) the average of such price for the ten consecutive trading days ending immediately prior to the date the applicable shares are issued and delivered if such delivery is after the interest payment date.

On June 9, 2008, we completed the transactions contemplated under a certain Securities Purchase Agreement with an accredited investor providing for the issuance of our Original Issue Discount 8% Secured Convertible Debentures (the "May Debentures") having a principal face amount of \$1,250,000 and generating gross proceeds to us of \$1,062,500 after giving effect to a 15% discount. After accounting for commissions and legal and other fees, the net proceeds to us totaled \$870,625.

The principal amount under the May Debentures is payable in 23 monthly payments of \$54,348 beginning January 31, 2009. We may elect to make principal and interest payments in shares of common stock provided, generally, that we are not in default under the May Debentures and there is then in effect a registration statement with respect to the

shares issuable upon conversion of the May Debentures. If we elect to make principal or interest payments in common stock, the conversion rate will be the lesser of (a) the conversion price, or (b) 85% of the lesser of (i) the average of the volume weighted average price for the ten consecutive trading days ending immediately prior to the applicable date an interest payment is due or (ii) the average of such price for the ten consecutive trading days ending immediately prior to the date the applicable shares are issued and delivered if such delivery is after the interest payment date.

At any time, holder may convert the May Debentures into shares of common stock at a fixed conversion price of \$0.84, subject to adjustment in the event the Company issues common stock (or securities convertible into or exercisable for common stock) at a price below the conversion price as such price may be in effect at various times. Based on the market price of our common stock of \$0.71 on the date of the issuance of the May Debentures, the total value of the shares underlying the May Debentures and registered herewith is \$1,056,547.

If we are unable to make payments in cash, we must make those payments in shares of our common stock at a discount to the market price of our common stock. The number of shares we will be required to issue upon conversion of the notes will increase if the market price of our stock decreases.

The lower the stock price, the greater the number of shares issuable under the convertible debentures.

If we elect to make periodic principal and interest payments in stock in lieu of cash (or are unable to make cash payments), the number of shares issuable upon conversion of the convertible debentures is determined by the market price of our common stock prevailing at the time of each conversion. The lower the market price, the greater the number of shares issuable under the debentures. Upon issuance of the shares, to the extent that holders of those shares will attempt to sell the shares into the market, these sales may further reduce the market price of our common stock. This in turn will increase the number of shares issuable under the agreement. This may lead to an escalation of lower market prices and ever greater numbers of shares to be issued. A larger number of shares issuable at a discount to a continuously declining stock price will expose our stockholders to greater dilution and a reduction of the value of their investment.

The issuance of our stock upon conversion of the convertible debentures could encourage short sales by third parties, which could contribute to the future decline of our stock price and materially dilute existing stockholders' equity and voting rights.

The convertible debentures have the potential to cause significant downward pressure on the price of our common stock. This is particularly the case if the shares issued upon conversion and placed into the market exceed the market's ability to absorb the increased number of shares of stock. Such an event could place further downward pressure on the price of our common stock. The opportunity exists for short sellers and others to contribute to the future decline of our stock price. If there are significant short sales of our stock, the price decline that would result from this activity will cause the share price to decline more so, which, in turn, may cause long holders of the stock to sell their shares thereby contributing to sales of stock in the market. If there is an imbalance on the sell side of the market for the stock, our stock price will decline. If this occurs, the number of shares of our common stock that is issuable upon conversion of the debentures will increase, which will materially dilute existing stockholders' equity and voting rights.

Risks relating principally to our common stock and its market value:

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including:

technological innovations or new products and services by us or our competitors;

additions or departures of key personnel;

sales of our common stock;

our ability to integrate operations, technology, products and services;

our ability to execute our business plan;

operating results below expectations;

loss of any strategic relationship;

industry developments;

economic and other external factors; and

period-to-period fluctuations in our financial results.

You may consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above listed factors. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have not paid dividends on our common stock in the past and do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

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Our stock is deemed to be penny stock.

Our stock is currently traded on the OTC Bulletin Board and is subject to the "penny stock rules" adopted pursuant to Section 15 (g) of the Securities Exchange Act of 1934, as amended, or Exchange Act. The penny stock rules apply to non-NASDAQ companies whose common stock trades at less than \$5.00 per share or which have tangible net worth of less than \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). Such rules require, among other things, that brokers who trade "penny stock" to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Penny stocks sold in violation of the applicable rules may entitle the buyer of the stock to rescind the sale and receive a full refund from the broker.

Many brokers have decided not to trade "penny stock" because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the "penny stock rules" for any significant period, there may develop an adverse impact on the market, if any, for our securities. Because our securities are subject to the "penny stock rules," investors will find it more difficult to dispose of our securities. Further, for companies whose securities are traded in the OTC Bulletin Board, it is more difficult: (i) to obtain accurate quotations, (ii) to obtain coverage for significant news events because major wire services, such as the Dow Jones News Service, generally do not publish press releases about such companies, and (iii) to obtain needed capital.

FORWARD-LOOKING STATEMENTS

Our representatives and we may from time to time make written or oral statements that are "forward-looking," including statements contained in this prospectus and other filings with the Securities and Exchange Commission, reports to our stockholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements which constitute forward-looking statements may be made by us or on our behalf. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "may," "should," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors on which such statements are based are assumptions concerning uncertainties, including but not limited to uncertainties associated with the following:

- (a) volatility or decline of our stock price;
- (b) potential fluctuation in quarterly results;
- (c) our failure to earn revenues or profits;
- (d) inadequate capital and barriers to raising the additional capital or to obtaining the financing needed to implement its business plans;
- (e) inadequate capital to continue business;
- (f) changes in demand for our products and services;

Explanation of Responses:

- (g) rapid and significant changes in markets;
- (h) litigation with or legal claims and allegations by outside parties;
- (i) insufficient revenues to cover operating costs.

USE OF PROCEEDS

We will receive no proceeds from the sale of shares of common stock offered by the selling security holders herewith. However, we will generate proceeds from the cash exercise of the warrants, if any. We intend to use those proceeds for general corporate purposes.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

The information herein contains forward-looking statements. All statements other than statements of historical fact made herein are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as “believes,” “estimates,” “could,” “possibly,” “probably,” “anticipates,” “projects,” “expects,” “may,” “should” or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management’s current expectations and are inherently uncertain. Our actual results may differ significantly from management’s expectations.

The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

General Overview

We were originally formed with the intention to first develop a reusable line of cryogenic shippers and once underway, to begin the research and development of a disposable, one-way cryogenic shipper. Until recently, the Company did not have the funds to fully implement its business plan. The reusable line of cryogenic shippers has been in production since 2002, however, anticipated difficulties in penetrating the well established market for reusable cryogenic shippers, as well as a need for continuous redevelopment of the product line has allowed for only limited revenue generation from the sale of the reusable cryogenic shipper. During this time, we maintained research and development activities focused on the new product line of the CryoPort Express® One-Way Shipper System. Until the beginning of fiscal year 2006, the limited revenues produced from the reusable product line along with limited capital funding required us to assign only minimal resources to the development of the one-way cryogenic shippers. We continue to raise funds to allow us to focus on accelerating the development and launch of the CryoPort Express® One-Way Shipper System product line. We are focusing significant resources to the market research and product development of the CryoPort Express® One-Way Shipper System with the goal of launching the new product into the market during the second quarter of calendar year 2008. While it had been our plan to introduce the CryoPort Express® One-Way Shipper System product line in limited quantities to selective customers during the second quarter of fiscal year 2007, lack of adequate funding, has caused us to revise the estimates for the product release as well as for the ramp-up timetables related to the product manufacturing and sales and marketing activities. A broad launch to the general market expected to follow after feedback from this introductory distribution of the CryoPort Express® One-Way Shipper System is received and customer demand is further understood. A higher volume demand is expected to develop as pharmaceutical products requiring cryogenic or frozen protection come to market.

We have discussed development of a shipper from the one-way product line under confidentiality agreements for drug delivery with several vaccine manufacturers. Although we have received and fulfilled purchase orders from these vaccine manufacturers, we do not currently have any pending purchase orders. These potential customers for the new CryoPort Express® One-Way Shipper System are currently using our reusable shippers in clinical trials. To address the high volume ramp up necessary to provide these customers with one-way shippers, we are currently involved in negotiations for a manufacturing and distribution partnership with two large, and well established manufacturing companies.

Going Concern

Explanation of Responses:

As reported in the Report of Independent Registered Public Accounting Firm on our March 31, 2008 and 2007 financial statements, the Company has incurred recurring losses and negative cash flows from operations since inception. These factors, among others, raise substantial doubt about our ability to continue as a going concern.

There are significant uncertainties which negatively affect the Company's operations. These are principally related to (i) the limited distribution network for the Company's reusable product line, (ii) the expected launch of the new CryoPort Express® One-Way Shipper System, (iii) the absence of any commitment or firm orders from key customers in the Company's target markets for the reusable or the one-way shippers, (iv) the success in bringing products concurrently under development to market with the Company's key customers. Moreover, there is no assurance as to when, if ever, the Company will be able to conduct the Company's operations on a profitable basis. The Company's limited sales to date for the Company's reusable product, the lack of any purchase requirements in the existing distribution agreements and those currently under negotiations, make it impossible to identify any trends in the Company's business prospects.

The Company has not generated significant revenues from operations and has no assurance of any future significant revenues. The Company incurred net losses of \$8,222,481, including a \$6,902,941 loss on debt extinguishment, during the three months ended June 30, 2008 and net losses of \$745,508 during the three month period ended June 30, 2007. In addition, the Company used cash of \$694,914 in its operating activities during the three months ended June 30, 2008. Further, the Company has a working capital deficit of \$220,563 as of June 30, 2008. These factors, raise substantial doubt about the Company's ability to continue as a going concern.

The Company's management has recognized that the Company must obtain additional capital for the further development and launch of the one-way product and the eventual achievement of sustained profitable operations. In response to this need for capital, on October 1, 2007, the Company issued to four accredited investors Original Issue Discount 8% Senior Secured Convertible Debentures (the "Debentures") having a combined principal face amount of \$4,707,705 and generating gross proceeds of \$4,001,551. After accounting for commissions, legal and other fees, the net proceeds to the Company totaled \$3,436,551 (see Note 8 to the accompanying consolidated financial statements). On May 30, 2008, the Company received additional net proceeds of \$870,625 from an additional convertible debenture (see Note 8 to the accompanying consolidated financial statements). As a result of the recent financing, the Company had an aggregate cash and cash equivalents and restricted cash balance of approximately \$2,002,000 as of August 10, 2008. Management projects that these proceeds will allow the launch of the Company's new CryoPort Express® One-Way Shipper and provide the Company with the ability to continue as a going concern, which the Company expects to be reflected in subsequent quarterly reports.

Management is committed to utilizing the proceeds of these recent financings to fully execute its business plan and grow at the desired rate to achieve sustainable profitable operations. To further facilitate the ability of the Company to continue as a going concern the Company's management has begun taking the following steps:

- 1) Focusing all efforts on the successful launch of the CryoPort Express® One-Way Shipper. Now that funds have been made available management efforts will be focused on utilizing all resources towards the acquisition of raw materials to provide adequate inventory levels and towards the expansion of manufacturing and processing capabilities to support the launch of the CryoPort Express® One-Way Shipper.
- 2) Continuing to minimize operating and financing expenditures as necessary to ensure the availability of funds until revenues generated and cash collections adequately support the continued business operations. The Company's largest expenses for the three month period ended June 30, 2008, relate to non-cash expenses including (i) \$6,902,941 non-cash loss on extinguishment of debt related to the April 30, 2008 Amendment to the October 2007 Debenture (see Note 8), ii) \$435,437 non-cash expense included in interest expense relating to the amortization of discounts and deferred financing fees on convertible debentures, and (iii) non-cash expense recorded in selling, general and administrative costs of \$82,387 related to the issuance of common stock shares in lieu of cash for consulting services and the valuation of warrants issued to various consultants, directors, and employees. For the three months ended June 30, 2008, the Company also incurred cash expenses of (i) approximately \$41,724 for the audit fees and consulting services related to the filing of the Company's annual and quarterly reports, compliance with Sarbanes-Oxley requirements, and for the filing of the Company's annual tax returns and (ii) approximately \$82,500 included in research and development costs related to the software development for the web based system to be used with the CryoPort Express® One-Way Shipper. The remaining operating expenses for the three months ended June 30, 2008 related primarily to minimal personnel costs, rent and utilities and meeting the legal and reporting requirements of a public company.
- 3) Utilizing part-time consultants and temporary employee and requiring employees to manage multiple roles and responsibilities whenever possible as the Company has historically utilized in its efforts to keep operating costs low.
- 4) Continuing to require that key employees and the Company's Board of Directors receive Company stock in lieu of cash as a portion of their compensation in an effort to minimize monthly cash flow. With this

strategy, the Company has established a critical mass of experienced business professionals capable of taking the Company forward.

- 5) Maintaining current levels for sales, marketing, engineering, scientific and operating personnel and cautiously and gradually adding critical and key personnel only as necessary to support the successful launch and expected revenue growth of the CryoPort Express® One-Way Shipper and any further expansion of the Company's product offerings in the reusable and one-way cryogenic shipping markets, leading it to additional revenues and profits.
- 6) Adding other expenses such as customer service, administrative and operations staff only commensurate with producing increased revenues.
- 7) Focusing current research and development efforts only on final and future development, production and distribution of the CryoPort Express® One-Way Shipper System.
- 8) Increasing sales and marketing resource efforts to focus on marketing and sales research into the bio-pharmaceutical, clinical trials and cold-chain distribution industries in order to ensure a successful full launch of the CryoPort Express® One-Way Shipper System.

Research and Development

The Company has completed the research and development efforts associated with phase one of its new product line, the CryoPort Express® One-Way Shipper System, a line of use-and-return dry cryogenic shippers, for the transport of biological materials. The Company continues to provide ongoing research associated with the CryoPort Express® One-Way Shipper System, as it develops improvements in both the manufacturing processes and product materials for the purpose of achieving additional cost efficiencies. As with any research effort, there is uncertainty and risk associated with whether these efforts will produce results in a timely manner so as to enhance the Company's market position. For the three months ended June 30, 2008 and 2007, research and development costs were \$110,791 and \$28,587, respectively. Company sponsored research and development costs related to future products and redesign of present products are expensed as incurred and include such costs as salaries, employee benefits, costs determined utilizing the Black-Scholes option-pricing model for options issued to the Scientific Advisory Board and prototype design and materials costs.

Results of Operations--Year Ended March 31, 2008 Compared to Year Ended March 31, 2007

Net Sales. During the year ended March 31, 2008 the Company generated \$83,564 from reusable shipper sales compared to revenues of \$67,103 during the year ended March 31, 2007, an increase of \$16,461 (24.5%). These low revenues in both years is primarily due to the Company's shift initiated in mid-2006 in its sales and marketing focus from the reusable shipper product line to the further development and planned product launch of the CryoPort Express® One-Way Shipper System for its introduction into the biopharmaceutical industry sector and to the delays in the Company's securing adequate funding for the manufacturing and marketing launch of the new product line. Additionally, continued product manufacturing upgrades slowed production activities of the reusable shippers.

Cost of Sales. Cost of sales for the year ended March 31, 2008 increased \$209,432 (118.4%) to \$386,371 from \$176,939 for the year ended March 31, 2007 as the result of increased fixed overhead manufacturing costs as the result of the Company's shift in focus and preparation for the launch of the new CryoPort Express® One-Way Shipper System and the additional costs related to the relocation of the Company's operations to Lake Forest, CA in September 2007. During both periods, cost of sales exceeded sales due to fixed manufacturing costs and plant underutilization.

Gross Loss . Gross loss for the year ended March 31, 2008 increased by \$192,971 (175.7%) to \$302,807 compared to \$109,836 for the year ended March 31, 2007. The increase in the gross loss is due to increased fixed overhead manufacturing costs as the result of the company's shift in focus and preparation for the launch of the new CryoPort Express® One-Way Shipper System and the additional costs related to the relocation of the Company's operations to Lake Forest, CA in September 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$651,550 (34.3%) to \$2,550,778 for the year ended March 31, 2008 compared to \$1,899,228 for the year ended March 31, 2007 due mainly to increases in general and administrative costs of \$489,849 and selling expenses of \$161,701. The increase in general and administrative expenses was primarily due to \$1,283,265 of option and warrant related charges as the result of: issuances of warrants to employees and directors in accordance with the provisions of SFAS 123(R) and issuances of common stock and warrants for services, lease agreement and fixed asset purchases. Additional general and administrative expense increases were the result of increased legal fees, insurance premiums, salaries and travel expenses. The increase in selling expenses was primarily related to increased salaries expenses, travel costs and trade show and advertising expenses which were the result of market research, product development and the launch preparation for the CryoPort Express® One-Way Shipper System.

Research and Development Expenses. Research and development expenses increased by \$78,370 (89.2%) to \$166,227 for the year ended March 31, 2008 as compared to \$87,857 for the year ended March 31, 2007 in relation to

the progression of the research and development activity, related to the product development and launch preparation for the CryoPort Express® One-Way Shipper System. These research and development expense increases included additional project costs for development of the web based customer service portal, as well as increases in consulting fees travel expenses and third party certification testing.

Interest Expense. Interest expense increased by \$1,364,980 (599.4%) to \$1,592,718 for the year ended March 31, 2008 as compared to \$227,738 for the year ended March 31, 2007 primarily as the result of \$1,214,986 of amortized convertible debt discount, \$284,618 accrued interest expense and 87,706 amortized deferred financing expenses accrued interest expense related to the convertible debentures which were offset by decreased interest expense from related party notes and other notes payable as the result of decreased principal balances.

Interest Income. Interest income increased \$50,076 (100.0%) for the year ended March 31, 2008 as compared to \$0 for the year ended March 31, 2007 primarily as the result of interest earned on cash deposit balances in the Company's money market account.

Net Loss. As a result of the factors described above, the net loss for the year ended March 31, 2008 increased by \$2,237,795 (96.2%) to \$4,564,054 or (\$0.12) per share compared to \$2,326,259 or (\$0.08) per share for the year ended March 31, 2007.

Three months ended June 30, 2008 compared to three months ended June 30, 2007:

Net Sales. During the three months ended June 30, 2008, the Company generated \$13,424 from reusable shipper sales compared to revenues of \$5,541 in the same period of the prior year, an increase of \$7,883 (142%). This revenue increase is primarily as a result of the additional sales of the Company's reusable products in addition to new revenues from introductory sales from the pre-launch of the CryoPort Express® One-Way Shipper System. The overall low revenues are the result of the Company's shift in its sales and marketing focus initiated during fiscal year 2006 to allow for the planning of the introduction of the one-way shipper into the bio-pharmaceutical and bio-tech industry sectors. This shift allowed the marketing and sales efforts to focus on research into the bio-pharmaceutical, clinical trials and cold-chain distribution industries in order to better position the Company for a timely and successful launch of the CryoPort Express® One-Way Shipper System.

Gross Profit/Loss. Gross loss for the three month period ended June 30, 2008 increased by \$42,188 (67%) to \$104,954 compared to \$62,766 for the three month period ended June 30, 2007. The increase in the gross loss is mainly attributable to increased manufacturing overhead costs incurred as the Company added personnel and incurred additional equipment maintenance and repair and depreciation costs related to the planning and preparation for production of the CryoPort Express® One-Way Shipper and to the production shut-down as a result of the relocation and restructuring of the Company's production operations in Lake Forest, CA initiated in mid-September 2007, resulting in lower manufacturing overhead costs in 2007. During both periods cost of sales exceeded sales due to plant under utilization.

Cost of sales for the three month period ended June 30, 2008 increased \$50,071 (73%) to \$118,378 from \$68,307 for the three month period ended June 30, 2007 primarily as the result of increased manufacturing overhead costs incurred as the Company added personnel and incurred additional equipment maintenance and repair costs related to the planning and preparation for production of the CryoPort Express® One-Way Shipper and to the production shut-down for the relocation and restructuring of the Company's production operations in Lake Forest, CA initiated in mid-September 2007, resulting in lower manufacturing overhead costs in 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by \$34,515 (6%) to \$560,040 for the three month period ended June 30, 2008 as compared to \$594,555 for the three month period ended June 30, 2007 due primarily to a \$106,145 (20%) decrease in general and administrative expenses from \$543,349 for the three month period ended June 30, 2007 to \$437,204 for the three month period ended June 30, 2008 which was partially offset by a \$71,630 (140%) increase in sales and marketing expenses from \$51,206 for the three month period ended June 30, 2007 to \$122,836 for the three month period ended June 30, 2008. The decrease in the general and administrative expenses is due to decreased consulting fees relating to the issuance of 375,000 shares issued in lieu of cash for 2007 consulting services, which was partially offset by increased accounting fees related to consulting costs related to compliance with Sarbanes-Oxley requirements and travel and related meeting costs associated with the planning for the launch of the CryoPort Express® One-Way Shipper. The increase in sales and marketing expenses is related to increased travel, advertising and trade show costs associated with the initial launch efforts of the CryoPort Express® One-Way Shipper.

Research and Development Expenses. Research and development expenses increased by \$82,204 (288%) to \$110,791 for the three month period ended June 30, 2008 as compared to \$28,587 for the three month period ended June 30, 2007 primarily due to the consulting costs associated with the software development for the web based system to be used with the CryoPort Express® One-Way Shipper and to other research and development activity related to the CryoPort Express® One-Way Shipper System, as the Company strives to develop improvements in both the manufacturing processes and product materials for the purpose of achieving additional product cost efficiencies.

Interest Expense. Interest expense increased \$497,769 to \$555,769 for the three month period ended June 30, 2008 as compared to \$58,000 for the three month period ended June 30, 2007. This increase is primarily due to \$418,275 of amortized debt discount, \$17,162 of amortized financing fees, and \$96,721 of accrued interest, all related to the convertible debentures issued in October 2007 and May 2008. These increases were offset by a reduction in interest expense for related party notes payable and note payable to officer as the result of the payments made against the principal note balances.

Interest Income. The Company recorded interest income of \$12,814 for the three month period ended June 30, 2008 as compared to zero for the three month period ended June 30, 2007 as the result of increased cash balances related to the funds received in connection with the convertible debentures issued in October 2007 and May 2008.

Loss on Extinguishment of Debt. The Company incurred a loss on extinguishment of debt of \$6,902,941 during the three months ended June 30, 2008 as the result of the April 30, 2008 Amendment of the October Debentures which provided for a three month deferral of principal payments. The loss consists of a combination of the \$5,858,344 increase in the fair market value of warrants issued in connection with the October Debentures as a result of the increase in the number of shares to be purchased under each of the October Warrants and to the decrease in the exercise price of October Warrants from \$0.90, \$0.92 and \$1.60 to \$0.60 each, the elimination of the April 30, 2008 unamortized balance of deferred financing costs of \$312,197 and the \$732,400 reduction in the unamortized discount balance related to the October Debentures to reflect the present value of the debentures as of April 30, 2008 (see Note 8 of the accompanying consolidated financial statements). There was no loss on extinguishment of debt in the three months ended June 30, 2007.

Net Loss. As a result of the factors described above, the net loss for the three months ended June 30, 2008 increased by \$7,476,973 to \$8,222,481 or (\$0.20) per share compared to \$745,508 or (\$0.02) per share for the three months ended June 30, 2007. Loss from operations for the three months ended June 30, 2008 increased \$89,877 to \$775,785 compared to \$685,908 for the three months ended June 30, 2007.

Assets and Liabilities

At June 30, 2008, the Company had total assets of \$3,240,343 compared to total assets of \$3,460,889 at March 31, 2008, an increase of \$220,546. The Company's combined cash balance as of June 30, 2008 was \$2,395,618 including restricted cash, a decrease of \$39,083 compared to \$2,434,701 as of March 31, 2008. During the three month period ended June 30, 2008, cash provided by financing activities of \$683,713 was offset by cash used in operations of \$694,914 and cash used in investing activities of \$30,132. As of August 10, 2008, the Company's cash on hand was approximately \$2,002,000. The decrease in current cash on hand is due to cash used in operations and cash paid for principal and interest payments.

Net accounts receivable at June 30, 2008 was \$2,051, a decrease of \$19,360 (90%) from \$21,411 at March 31, 2008. This decrease is due to the revenue decrease during the three months ended June 30, 2008 compared to the three months ended March 31, 2008, primarily as a result of decreased sales of reusable shippers.

Net inventories increased \$73,084 (60%), to \$195,036 as of June 30, 2008, from \$121,952 as of March 31, 2008. The increase in inventories is due to the purchases of raw materials during the three months ended June 30, 2008 for the build-up of dewars in finished goods inventory in anticipation of the full launch of the CryoPort Express® One-Way Shipper System. This increase from purchases was partially offset by usages of inventory during the three months ended June 30, 2008 in order to fulfill sales of reusable shippers.

Net fixed assets increased \$14,868 to \$208,720 at June 30, 2008 from \$193,852 at March 31, 2008 as a result of increases of \$29,499 for purchases of additional production equipment during June 30, 2008 to support the anticipated increased manufacturing operations for the launch of the CryoPort Express® One-Way Shipper System, which was partially offset by \$14,631 of depreciation for the three months ended June 30, 2008.

Net intangible assets increased to \$1,107 at June 30, 2008 from \$474 at March 31, 2008 as a result of fees paid for new trademark applications.

The Company has recorded the combined value of \$349,834 of the valuation of shares and warrants as calculated using the Black Scholes option pricing model issued to Carpe DM under a 36-month consulting agreement to as prepaid expense which is being amortized over the life of the services agreement. As of June 30, 2008, the unamortized balance of the value of the shares and warrants issued to Carpe DM, Inc. was \$262,381 of which \$116,604 is included in prepaid expenses and other current assets and \$145,777 is included as a non-current asset.

Net deferred financing fees decreased \$221,685 to \$104,084 at June 30, 2008 compared to \$325,769 at March 31, 2008 due to reductions for the elimination of the unamortized balance of \$312,197 related to the October Debentures due to the extinguishment of debt as of April 30, 2008 and the amortization of \$17,162 of deferred financing fees during the three months ended June 30, 2008, which were offset by the addition of \$107,673 in deferred financing fees related to the May 2008 Debenture.

Total liabilities at June 30, 2008 were \$4,652,944, an increase of \$1,191,874 (34%) from \$3,461,070 as of March 31, 2008. Accounts payable was \$235,859 at June 30, 2008, an increase of \$1,561 from \$234,298 at March 31, 2008. This increase was mainly due to the amortization of debt discounts and the recording of the amended October 2007 debentures at fair value and to additional payables related to manufacturing equipment purchases during the three months ended June 30, 2008. Accrued expenses increased \$9,398 (10%) to \$104,446 at June 30, 2008 from \$95,048 at

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March 31, 2008. Accrued warranty costs decreased \$5,625 (19%) to \$24,368 at June 30, 2008 from \$29,993 as of March 31, 2008 relating to the usage of the accrual for warranty replacements during the three months ended June 30, 2008. Accrued salaries were \$133,749 at June 30, 2008, a decrease of \$4,354 (3%) from \$138,103 at March 31, 2008. This decrease is due to accrued bonus payments which were paid in April 2008.

On October 1, 2007, the Company issued to four accredited investors Original Issue Discount 8% Senior Secured Convertible Debentures (the "October Debentures") having a principal face amount of \$4,707,705 and generating gross proceeds of \$4,001,551. After accounting for commissions, legal and other fees, the net proceeds to the Company totaled \$3,436,551.

In connection with the financing transaction, the Company issued to the investors five-year warrants to purchase 5,604,411 shares of common stock at \$0.92 per share and two-year warrants to purchase 1,401,103 shares of common stock at \$0.90 per share and 1,401,103 shares of common stock at \$1.60 per share (collectively, the "October Warrants"). Valuation of these warrants as calculated using the Black Scholes option pricing model equaled \$7,838,791 on the date of grant.

Under EITF Issue No. 00-27, the value of the October Warrants issued to the investors is calculated relative to the total amount of the debt offering. The relative fair value of the October Warrants issued to the investors was determined to be \$2,941,267, or 62.5% of the total offering. The relative fair value of the October Warrants, along with the effective beneficial conversion feature of the debt (\$3,557,761) and the face value discount given to the investors (\$706,154), totaled in excess of the face amount of the October Debentures. As such, the Company recorded a debt discount equal to the face value of the October Debentures of \$4,707,705. The debt discount is being amortized by the Company through the maturity dates of the October Debentures. On April 30, 2008, in connection with the deferral of three months of principal payments, the unamortized balance of the debt discount was decreased from \$3,375,592 to \$ 2,643,192 to reflect the fair value of the convertible debt as of the date of the debt extinguishment, and \$732,400 is included in the loss on extinguishment of debt. As of June 30, 2008 and March 31, 2008, the unamortized balance of the debt discount was \$2,413,349 and 3,522,357, respectively. During the three months ended June 30, 2008, the Company recorded additional interest expense of \$376,608 related to the amortization of the debt discount.

On May 30, 2008, the Company issued to an accredited investor an Original Issue Discount 8% Senior Secured Convertible Debenture (the "May 2008 Debenture") having a principal face amount of \$1,250,000 and generating gross proceeds of \$1,062,500. After accounting for commissions, legal and other fees, the net proceeds to the Company totaled \$870,625.

In connection with the financing transaction, the Company issued to the investor five-year warrants to purchase 1,488,095 shares of the Company's common stock at \$0.92 per share and five-year warrants to purchase 1,488,095 shares of common stock at \$1.35 per share (collectively, the "May Warrants").

Under EITF Issue No. 00-27, the value of the May Warrants issued to the investors is calculated relative to the total amount of the debt offering. The relative fair value of the May Warrants issued to the investors was determined to be \$815,471, or 65.2% of the total offering. The relative fair value of the May Warrants, along with the effective beneficial conversion feature of the debt (\$434,529) and the face value discount given to the investors (\$187,500), totaled in excess of the face amount of the May Debenture. As such, the Company recorded a debt discount equal to the face value of the May Debenture of \$1,250,000. The debt discount is being amortized by the Company through the maturity date of the May Debenture. As of June 30, 2008, the unamortized balance of the debt discount was \$1,208,333. During the three months ended June 30, 2008, the Company recorded additional interest expense of \$41,667 related to the amortization of the debt discount.

Current portion of related party notes payable was \$150,000 at June 30, 2008 and March 31, 2008 to \$150,000 in accordance with the terms of the promissory notes. On July 31, 2008, the Company paid the April 1, 2008 note payments, due on these related party notes. Management expects to continue to pay all payments due prior to the expiration of the 120-day grace periods.

The March 31, 2008 balance of \$12,000 on the note payable to Falk Shaff and Ziebell, was paid in full during the three months ended June 30, 2008.

Current portion of notes payable to officer remained the same balance of \$72,000 at June 30, 2008 and March 31, 2008, reflecting the maximum monthly payment due of \$6,000 per month.

Long-term related party notes payable decreased \$11,406 to \$1,570,678 at June 30, 2008 from \$1,582,084 at March 31, 2008 due to aggregate payments made of \$30,000 against the principal note balances which were offset by additional interest accrued of \$18,594 for the three month period ended June 30, 2008.

Liquidity and Capital Reserves

As of June 30, 2008 the Company's current assets of \$ 2,747,645 exceeded its current liabilities of \$2,968,208 by \$220,563. \$2,144,437 of current liabilities as of June 30, 2008 represents current portions of convertible debentures.

Total assets increased to \$3,460,889 at March 31, 2008 from \$483,687 at March 31, 2007 as a result of cash received from the financing through convertible debentures and the sale of common stock partially offset by cash funds used in operating activities.

The Company's total outstanding indebtedness increased to \$3,461,070 at March 31, 2008 from \$2,771,519 at March 31, 2007 primarily from the issuance of convertible debentures and increases in accrued interest on notes payable to related parties, which were partially offset by a decrease in accounts payable, accrued salaries expenses, notes payable, notes payable to officer and a decrease in accrued warranty costs.

Total cash including restricted cash, decreased \$39,083 to \$2,395,618 at June 30, 2008 from \$2,434,701 at March 31, 2008 as a result of cash used in operating activities of \$694,914 and purchases of fixed assets and trademark costs of \$30,132 which were partially offset by \$683,713 cash provided by financing activities primarily due to proceeds from borrowings from the May 2008 Debenture less principal payments on notes payable and line of credit.

Total assets increased \$220,546 to \$3,240,343 as of June 30, 2008 compared to \$3,460,889 as of March 31, 2008 mainly as a result of the proceeds from borrowings under the May 2008 Debenture, the increase in inventories, and the increase in deferred financing fees related to the May 2008 Debenture which were partially offset by cash used in operating activities during the three months ended June 30, 2008.

The Company's total outstanding indebtedness increased \$1,191,874 to \$4,652,944 at June 30, 2008 from \$3,461,070 at March 31, 2008 primarily from the issuance of the May 2008 Debentures offset by unamortized discounts, and by payments against notes payable, line of credit and accrued salaries.

Recent Financings

On October 1, 2007, the Company issued to four accredited investors Original Issue Discount 8% Senior Secured Convertible Debentures (the "Debentures") having a principal face amount of \$4,707,705 and generating gross proceeds of \$4,001,551. After accounting for commissions, legal and other fees, the net proceeds to the Company totaled \$3,436,551 (see Note 10 to the accompanying consolidated financial statements).

In accordance with the Convertible Debenture Agreement as amended on February 19, 2008, the principal amount under the Debentures is payable to the investors in 24 monthly redemption payments which commenced on March 31, 2008. The Company may elect to make principal redemptions in shares of common stock. If the Company elects to make principal redemptions in common stock, the conversion rate will be the lesser of (a) the Conversion Price (as defined below), or (b) 85% of the lesser of (i) the average of the volume weighted average price for the ten consecutive trading days ending immediately prior to the applicable date a principal redemption is due or (ii) the average of such price for the ten consecutive trading days ending immediately prior to the date the applicable shares are issued and delivered if such delivery is after the principal redemption due date. On March 31, 2008, the Company converted principal redemptions totaling \$188,308 into 224,176 registered common stock shares using the conversion price of \$0.84 per share.

At any time, holders may convert the Debentures into shares of common stock at a fixed conversion price of \$0.84, subject to adjustment in the event the Company issues common stock (or securities convertible into or exercisable for common stock) at a price below the conversion price as such price may be in effect at various times (the "Conversion Price"). On January 31, 2008, \$100,000 of the Debentures was converted by an investor. Using the conversion rate of

\$0.84 per the terms of the Debenture, 119,047 registered common stock shares were issued to the investor.

Quarterly interest payments for these convertible debentures are payable in cash and commenced on January 1, 2008. The Company may elect to make interest payments in shares of common stock provided, generally, that it is not in default under the Debentures and it has met certain equity conditions prior to the due date of the interest payments. If the Company elects to make interest payments in common stock, the conversion rate will be the lesser of (a) the Conversion Price (as defined below), or (b) 85% of the lesser of (i) the average of the volume weighted average price for the ten consecutive trading days ending immediately prior to the applicable date an interest payment is due or (ii) the average of such price for the ten consecutive trading days ending immediately prior to the date the applicable shares are issued and delivered if such delivery is after the interest payment date. During the year ended March 31, 2008, the Company converted accrued interest payments of \$186,975 accrued interest on the convertible notes into 222,590 shares of common stock using a conversion rate of \$0.84 per share. As of March 31, 2008, the Company had recorded \$5,446 accrued interest on the convertible notes included in the accompanying consolidated balance sheet and a total of \$192,421 of interest expense related to the face rate of interest in the accompanying consolidated statement of operations for the year ended March 31, 2008.

As of March 31, 2008, the principal balances of the Debentures totaled \$4,419,397 of which the current portion of \$1,936,884 is included in the Company's current liabilities in the accompanying consolidated balance sheet for March 31, 2008.

The Debentures rank senior to all of the Company's current and future indebtedness and are secured by substantially all of the Company's assets.

On March 31, 2008, the Company issued 224,176 shares of registered common stock for principal redemptions totaling \$188,308 and 110,501 common stock shares for March 2008 interest payments totaling \$92,821 to the holders of the Debentures using the conversion rate of \$0.84. In April 2008, the Company was notified by the holders that the qualifying equity conditions had not been fully satisfied with relation to the conversion of the principal and interest payments made by the Company on March 31, 2008. As a result, in April 2008 the Company rescinded and cancelled 140,143 shares of registered common stock for principal redemptions totaling \$117,720 and submitted the cash payments in the same amounts to those holders. Pursuant to a one-time waiver agreement with one of the Debenture holders, the remaining \$70,588 of the March 31 principal redemption was adjusted to reflect a one-time conversion rate of \$0.70 and, in April 2008 the Company issued the holder 16,807 additional registered shares in consideration. Also in consideration of a one-time waiver with the Debenture holders, the full amount of the March 31, 2008 interest payments were adjusted to reflect a one-time conversion price of \$0.70 and in April 2008 the Company issued the Debenture holders 22,099 additional common stock shares. As of March 31, 2008, the Company has recorded additional interest expense for the 2007 Debentures of \$5,446 related to the one-time conversion rate adjustments of the March 31, 2008 principal and interest payments from \$0.84 to \$0.70.

On June 9, 2008, the Company completed the transactions contemplated under a certain Securities Purchase Agreement with an accredited investor providing for the issuance of the Company's Original Issue Discount 8% Secured Convertible Debentures (the "May Debentures") having a principal face amount of \$1,250,000 and generating gross proceeds to us of \$1,062,500 after giving effect to a 15% discount. After accounting for commissions and legal and other fees, the net proceeds to the Company totaled \$870,625.

The principal amount under the May Debentures is payable in 23 monthly payments of \$54,348 beginning January 31, 2009. The Company may elect to make principal and interest payments in shares of common stock provided, generally, that it is not in default under the May Debentures and there is then in effect a registration statement with respect to the shares issuable upon conversion of the May Debentures. If the Company elects to make principal or interest payments in common stock, the conversion rate will be the lesser of (a) the Conversion Price (as defined below), or (b) 85% of the lesser of (i) the average of the volume weighted average price for the ten consecutive trading days ending immediately prior to the applicable date an interest payment is due or (ii) the average of such price for the ten consecutive trading days ending immediately prior to the date the applicable shares are issued and delivered if such delivery is after the interest payment date.

At any time, holder may convert the May Debentures into shares of common stock at a fixed conversion price of \$0.84, subject to adjustment in the event the Company issues common stock (or securities convertible into or exercisable for common stock) at a price below the conversion price as such price may be in effect at various times (the "Conversion Price"). Based on the market price of the Company's common stock of \$0.71 on the date of the issuance of the May Debentures, the total value of the shares underlying the May Debentures and registered herewith is \$1,056,547.

In connection with the financing transaction, the Company issued to the investor five-year warrants to purchase 1,488,095 shares of common stock at \$0.92 per share and five-year warrants to purchase 1,488,095 shares of common stock at \$1.35 per share (collectively, the "May Warrants").

The Company also entered into a registration rights agreement with the investors that requires it to register the shares issuable upon conversion of the May Debentures and exercise of the May Warrants within 45 days after the closing date of the transaction. If the registration statement of which this prospectus forms a part is not filed within that time period or is not declared effective within 90 days after the closing date (120 days in the event of a full review by the Securities and Exchange Commission), the Company will be required to pay liquidated damages in cash in an amount equal to 2% of the total subscription amount for every month that it fails to attain a timely filing or effectiveness, as the case may be, subject to exception as set forth in the registration rights agreement.

The Company had a non-interest bearing note payable to a third party for \$77,304, which was due in April 2003. As of March 31, 2008, the remaining unpaid balance was \$12,000. The Company has made the final payments on the note of \$5,000 in April 2008 and \$7,000 in May 2008.

As of March 31, 2008 and 2007, the Company had aggregate principal balances of \$1,249,500 and \$1,339,500 respectively, in outstanding unsecured indebtedness owed to five related parties, including four former members of the board of directors, representing working capital advances made to the Company from February 2001 through March 2005. These notes bear interest at the rate of 6% per annum and provide for aggregate monthly principal payments which commenced April 1, 2006 of \$2,500, and which increased by an aggregate of \$2,500 every six months to the current maximum aggregate payment of \$10,000 per month. Any remaining unpaid principal and accrued interest is due at maturity on various dates through March 1, 2015.

Related-party interest expense under these notes was \$78,243 and \$85,595 for the years ended March 31, 2008 and 2007, respectively. Accrued interest, which is included in related-party notes payable in the accompanying balance sheets, related to these notes amounted to \$482,584 and \$404,341 as of March 31, 2008 and 2007, respectively. As of

March 31, 2008, the Company had not made the required payments under the related-party notes which were due on January 1, February 1, and March 1, 2008. However, pursuant to the note agreements, the Company has a 120-day grace period to pay missed payments before the notes are in default. On April 29, 2008, May 30, 2008, and June 27, 2008, the Company paid the January 1, February 1 and March 1 payments respectively, due on these related party notes. Management expects to continue to pay all payments due prior to the expiration of the 120-day grace periods.

In August 2006, Peter Berry, the Company's Chief Executive Officer, agreed to convert his deferred salaries to a long-term note payable. Under the terms of this note, monthly payments of \$3,000 have made to Mr. Berry beginning in January 2007. In January 2008, these payments increased to \$6,000 and remain at that amount until the loan is fully paid in December 2010. Interest of 6% per annum on the outstanding principal balance of the note began to accrue on January 1, 2008 and will be paid on a monthly basis along with the monthly principal payment beginning in January 2008. As of March 31, 2008 and 2007, the total amount of deferred salaries under this arrangement is \$201,115 and \$242,950, respectively, of which \$129,115 and \$197,950, respectively is recorded as a long-term liability in the accompanying consolidated balance sheets.

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The following table lists all notes payable and their principal balances as of March 31, 2008:

Lender	Origination		Principal Bal.		Interest Rate
	Date	Maturity Date	March 31, 2008		
Convertible Debentures	Oct. 2007	Mar. 2010	\$	4,419,397	8%
Patrick Mullens	Aug. 2001	Jun. 2011	\$	362,500	6%
Marc Grossman	Feb. 2001	Sep. 2011	\$	306,000	6%
David Petreccia	Apr. 2001	Mar. 2011	\$	263,000	6%
Jeffrey Dell	Aug. 2001	Nov. 2009	\$	232,000	6%
Raymond Takahashi	Jun. 2003	Feb. 2008	\$	86,000	6%
Peter Berry	Sep. 2006	Dec. 2010	\$	201,115	6%
Falk, Shaff & Ziebell	Mar. 2002	Jun. 2008	\$	12,000	n/a

The Company has incurred negative cash flows from operations of \$1,820,250 for the year ended March 31, 2008 due to insufficient sales of the Company's reusable product group resulting from the Company's shift in its sales and marketing focus to the development and planned introduction of the CryoPort Express® One-Way Shipper System which the Company initiated during the third quarter of fiscal 2006, and to the operating costs related to the maintenance of minimal selling, general and administrative and research and development activities to support the development of the new product line. These negative cash flows from operations for the year ended March 31, 2008 have been financed primarily through net proceeds of \$3,436,551 from the October 2007 convertible debentures and from net proceeds of \$699,866 raised by issuance of common stock. During the year ended March 31, 2008, proceeds from exercise of warrants were \$107,500 for the year ended March 31, 2008 and net proceeds from the line of credit was 115,500. Repayments of notes payable principal balances during the year ended March 31, 2008 were \$190,000.

The Company's combined cash balance as of March 31, 2008 was \$2,434,701, including restricted cash. On June 9, 2008, the Company completed an additional financing through the issuance of a convertible debenture, and net proceeds received by the Company totaled \$870,625.

Based on presently known commitments and plans, the Company expects to fund its continued operations through use of cash on hand and cash receipts from sales resulting from the full launch of the CryoPort Express® One-Way Shipper as well as through proceeds from exercises of existing outstanding financing related warrants or additional long-term or equity financing. The Company management is currently focusing on the ramp up of its sales and marketing and manufacturing activities towards the successful launch the CryoPort Express® One-Way Shipper System product line as well as funding continued operations through additional long term debt or equity financing.

The Company does not expect to incur capital expenditures commensurate with the ramp up of operations for the launch of the CryoPort Express® One-Way Shipper System and sales volume increases. Future capital expenditures for manufacturing equipment for the launch of the CryoPort Express® One-Way Shipper System are expected to be funded out of line of credit or lease financing.

Critical Accounting Policies:

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, however, in the past the estimates and assumptions have been materially accurate and have not required any significant changes. Specific sensitivity of

Explanation of Responses:

each of the estimates and assumptions to change based on other outcomes that are reasonably likely to occur and would have a material effect is identified individually in each of the discussions of the critical accounting policies described below. Should the Company experience significant changes in the estimates or assumptions which would cause a material change to the amounts used in the preparation of the Company's financial statements, material quantitative information will be made available to investors as soon as it is reasonably available.

The Company believes the following critical accounting policies, among others, affect the Company's more significant judgments and estimates used in the preparation of the Company's consolidated financial statements:

Allowance for Doubtful Accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and the Company's best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. The Company evaluates the collectibility of the Company's receivables at least quarterly. Such costs of allowance for doubtful accounts is subject to estimates based on the historical actual costs of bad debt experienced, total accounts receivable amounts, age of accounts receivable and any knowledge of the customers' ability or inability to pay outstanding balances. If the financial condition of the Company's customers were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required. The differences could be material and could significantly impact cash flows from operating activities.

Inventory. The Company writes down its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future pricing and market conditions. Inventory reserve costs are subject to estimates made by the company based on historical experience, inventory quantities, age of inventory and any known expectations for product changes. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities. Once established, write-downs are considered permanent adjustments to the cost basis of the obsolete or unmarketable inventories.

Impairment of Long-Lived Assets. The Company assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of long-lived asset impairment is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. Manufacturing fixed assets are subject to obsolescence potential as result of changes in customer demands, manufacturing process changes and changes in materials used. The Company is not currently aware of any such changes that would cause impairment to the value of its manufacturing fixed assets.

Deferred Financing Costs. Deferred financing costs represent costs incurred in connection with the issuance of the convertible notes payable. Deferred financing costs are being amortized over the term of the financing instrument on a straight-line basis, which approximates the effective interest method.

Accrued Warranty Costs. The Company estimates the costs of the standard warranty, included with the reusable shippers at no additional cost to the customer for a period up to one year. These estimated costs are recorded as accrued warranty costs at the time of product sale. These estimated costs are subject to estimates made by the Company based on the historical actual warranty costs, number of products returned for warranty repair and length of warranty coverage.

Revenue Recognition. Product sales revenue is recognized upon passage of title to customers, typically upon shipment of product. Any provision for discounts and estimated returns are accounted for in the period the related sales are recorded. Products are generally sold with right of warranty repair for a one year period but with no right of return. Estimated costs of warranty repairs are recorded as accrued warranty costs as described above. Products shipped to customers for speculation purposes are not considered sold and no revenue is recorded by the Company until sales acceptance is acknowledged by the customer.

Stock-Based Compensation. The Company accounts for equity issuances to non-employees in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation, and Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other

Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date used to determine the fair value of the equity instrument issued is the earlier of the date on which the third-party performance is complete or the date on which it is probable that performance will occur.

On April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (“SFAS 123(R)”) which establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on accounting for transactions where an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period. SFAS 123(R) supersedes the Company’s previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (“APB 25”). In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (“SAB 107”) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which required the application of the accounting standard as of April 1, 2006, the first day of the Company's fiscal year 2007. The Company's consolidated financial statements as of and for the years ended March 31, 2008 and 2007 reflect the impact of SFAS 123(R).

The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statement of operations. As stock-based compensation expense recognized in the consolidated statement of operations for the year ended March 31, 2008 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated average forfeiture rate for the year ended March 31, 2008 was zero as the Company has not had a significant history of forfeitures.

Employee stock-based compensation expense recognized under SFAS No. 123(R) for the year ended March 31, 2008 was \$752,140, determined by the Black-Scholes valuation model. As of March 31, 2008, total unrecognized compensation cost, related to unvested stock options and warrants was approximately \$105,965, which is expected to be recognized as an expense over a weighted-average period of 2 years. See Note 2 to the Company's consolidated financial statements for additional information.

Convertible Debentures. If the conversion feature of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to EITF Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio," ("EITF 98-05") and EITF Issue No. 00-27, "Application of EITF Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"). In those circumstances, the convertible debt will be recorded net of the discount related to the BCF. The Company amortizes the discount to interest expense over the life of the debt using the effective interest method (see Note 10 of the accompanying consolidated financial statements).

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued SFAS No. 157, Fair Value Measurements. This new standard provides guidance for using fair value to measure assets and liabilities. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The adoption of this pronouncement is not expected to have material effect on the Company's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN 48 effective on April 1, 2007. The adoption of FIN 48

did not have a material impact on the Company's consolidated results of operations and financial condition.

On February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 . SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities, including not-for-profit organizations. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities , applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of this pronouncement is not expected to have material effect on the Company's consolidated financial statements.

Impact of Contractual Obligations and Commercial Commitments . The following summarizes the Company's contractual obligations at March 31, 2008 and the effects such obligations are expected to have on liquidity and cash flow in future periods.

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Yr	1-3 Years	4-5 Years	After 5 Years
Related Party Notes	\$ 1,249,500	\$ 150,000	\$ 240,000	\$ 240,000	\$ 619,500
Note Payable to P. Berry	201,115	72,000	129,115	-	-
Convertible Debentures (a)	4,419,397	1,936,884	2,482,513	-	-
Third Party Notes	12,000	12,000	-	-	-
Line of Credit	115,943	115,943	-	-	-
Total Contractual Cash Obligations	\$ 5,997,955	\$ 2,286,827	\$ 2,851,628	\$ 240,000	\$ 619,500

(a) Convertible debentures are expected to be paid in equivalent common stock using a contractual conversion rate of \$0.84 per common stock share.

Impact of Inflation. From time to time, the Company experiences price increases from third-party manufacturers and these increases cannot always be passed on to the Company's customers. While these price increases have not had a material impact on the Company's historical operations or profitability in the past, they could affect sales in the future.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

BUSINESS

We are a cryogenic transport container company, involved in the safe transport of biological specimens at temperatures below zero centigrade. While over the past years most of our sales have been derived from the sale of our reusable product line, the Company's long term potential and prospects will come from the one-way line of products which have been in development over the past four years.

Overview:

The principal focus of the Company is to further develop and launch, the CryoPort Express® One-Way Shipper System, a line of one-time use dry cryogenic shippers for the transport of biological materials. A dry cryogenic shipper is a device that uses liquid nitrogen which is contained inside a vacuum insulated bottle as a refrigerant to provide storage temperatures below minus 150 ° centigrade. The dry shipper is designed such that there can be no pressure build up as the liquid nitrogen evaporates, or spillage of liquid nitrogen. A foam retention system is employed to ensure that liquid nitrogen stays inside the vacuum container. Biological specimens are stored in a "well" inside the container and refrigeration is provided by cold nitrogen gas evolving from the liquid nitrogen entrapped within the foam retention system. Biological specimens transported using the cryogenic shipper can include live cell pharmaceutical products; e.g., cancer vaccines, diagnostic materials, semen and embryos, infectious substances and other items that require continuous exposure to frozen or cryogenic temperatures (less than -150 ° C).

The Company currently manufactures a line of reusable cryogenic dry shippers. These provide the cryogenic technology for the development of the CryoPort Express® One-Way Shipper System and serve as the essential components of the infrastructure that supports testing and research activities of the pharmaceutical and biotechnology industries. The Company's mission is to provide cost effective packaging systems for biological materials requiring, or benefiting from, a frozen or cryogenic temperature environment over an extended time period by introducing to market a cost effective one-time use cryogenic shipper. The conventional concept of cryogenic shipping employs the use of a high cost shipping container, used multiple times over multiple years. The Company plans to introduce the CryoPort Express® One-Way Shipper System product manufactured from alternative, lower cost materials, which will reduce overall operating costs. As with the reusable shippers, the one-way system will eliminate the need to replenish the refrigerant during transport.

The Company's production line incorporates innovative technologies developed for aerospace and other industries to develop products that are more cost effective, easier to use and more functional than the traditional dry ice devices and methods currently used for the shipment of temperature-sensitive materials.

The new CryoPort Express® One-Way Shipper System products shares many of the characteristics and basic design details of the currently available reusable products. The expected shared characteristics include general geometry and shape, similar liquid capacities and similar thermal performance characteristics. As a result, much of the market experience gained from the sale of these products is directly relevant to the usage characteristics of the new CryoPort Express® One-Way Shipper System products. There are two general sizes planned. A larger size of approximately 5 liters capacity, based on a product that has been produced for 5 years, is planned for shipping larger quantities of material and / or for use when longer holding times are required. A smaller size of approximately 1 liter capacity is planned for unit dose shipments, or small quantity shipments, that are direct to the end user and thus require shorter holding times. Because the shipment quantity is fairly small, a shorter holding time capability does not admit an unacceptable financial risk of product loss. The basis of the migration from reusable status to one-way use status is primarily one of cost and convenience which requires a generally lower cost product. Lower cost is achieved from higher production quantities, from lower cost materials and from automated manufacturing methods. The currently ongoing development related to these items is principally focused on material properties, particularly those properties related to the low temperature requirement and the vacuum retention characteristics; i.e., permeability of the

materials. Several different metallic and polymeric materials have been subjected to testing to this point. One non-traditional material has been qualified and is available for production subject to the demand for higher production quantities that will justify the capital investment. Other materials are currently being evaluated for long term vacuum retention characteristics by analyzing permeation properties. These are long term tests that are being conducted by a commercial, well known laboratory. Further on steps that are required to successfully market the products to a broad spectrum of potential customers are largely related to a perceived need to customize the product characteristics to specific customer's requirements. This can only be accomplished once the potential customer is identified and preliminary discussions are begun relative to the specific needs of that customer. Items potentially involved at this stage include the required holding time, the required product capacity, the impact of the distribution environment from in plant packing to end use unpacking. We believe that each potential customer may have a specific set of needs that can be satisfied from a catalog like listing of the generic characteristics of the planned products. Other advances additional to the development work on the cryogenic container include both an improved liquid nitrogen retention system and a secondary protective, spillproof packaging system. This secondary system, outer packaging has a low cost that lends itself to disposability. Further, it adds an additional liquid nitrogen retention capability to further assure compliance with IATA and ICAO regulations that prohibit egress of liquid nitrogen from the shipping package.

The Company currently occupies approximately 12,000 square feet of manufacturing and office space in Lake Forest, California and has six full-time employees and four consultants.

History:

Cryoport, Inc. (the "Company") was originally incorporated under the name G.T.5-Limited ("GT5") on May 25, 1990 as a Nevada Corporation. Upon completion of a Share Exchange Agreement, on March 15, 2005 the Company changed its name to Cryoport, Inc. and acquired all of the issued and outstanding shares of Cryoport Systems, Inc. in exchange for 24,108,105 shares of its common stock (which represented approximately 81% of the total issued and outstanding shares of common stock following the close of the transaction). Cryoport Systems, Inc, originally formed in 1999 as a California limited liability company and reorganized into a California corporation on December 11, 2000, remains the operating company under Cryoport, Inc.

Our Products

The Company's Current Product Line:

Reusable Cryogenic Dry Vapor Shippers. The Company has developed three lines of reusable cryogenic dry vapor shippers which the Company believes solve the specific problems in, and are responsive to the evolving needs of the market place of temperature-critical, frozen and refrigerated transport of biologicals. This line of shippers is capable of maintaining cryogenic temperatures of minus 150 centigrade or less, for up to 10 days.

These products, which are in full production at the Company's Lake Forest, California facility, consist of the AR1000, the DG1000 and the DS650. The DG1000 is designed for shipping biological material classified as dangerous goods by IATA standards. This shipper is IATA certified for the shipment of Class 6.2 Dangerous Goods. The AR1000 is utilized primarily in the veterinary and human assisted reproduction markets. This shipper may be used where packaging of the biological material need not comply with IATA Packing Instructions 602 or 650. The DS650 is utilized for the shipment of specimens for diagnosis, treatment or evaluation of disease that must conform to the IATA 650 packaging standards. In 2005, the Company introduced a new soft case for the same cryogenic Dewar; identified as the PSX1000 and the PS1000. These units are smaller, lighter in weight, and more easily handled than the units described above. The PSX1000 shippers are also certified to IATA Packing Instruction 602 and 650.

These shippers are lightweight, low-cost, re-usable vapor phase liquid nitrogen storage containers that combine the best features of packaging, cryogenics and high vacuum technology. Each of these three shippers is composed of an aluminum metallic Dewar flask, with a well for holding the biological material in the inner chamber. A Dewar flask, or "thermos bottle," is an example of a practical device in which the conduction, convection and radiation of heat are reduced as much as possible. A high surface, low density open cell plastic foam material surrounds the inner chamber for retaining the liquid nitrogen in-situ by absorption, adsorption and surface tension. Absorption is defined as the taking up of matter in bulk by other matter, as in dissolving of a gas by a liquid, whereas adsorption is the surface retention of solid, liquid or gas molecules, atoms or ions by a solid or liquid. This material absorbs LN2 up to six times faster than currently used materials, while providing the shipper with a hold time and capacity to transport biological materials safely and conveniently. The annular space between the inner and outer Dewar chambers is evacuated to a very high vacuum (10⁻⁶ Torr). The specimen-holding chamber has a primary cap to enclose the specimens, and a removable and replaceable secondary cap to further enclose the specimen holding container and to contain the LN2. The entire Dewar vessel is then wrapped in a plurality of insulating and cushioning materials and placed either in a hard plastic shipper shell, or in a ballistic nylon soft shell outer case with a hinged lid, as with the Company's PSX1000.

The Company believes the above product configuration satisfies the needs of the markets that require the temperature-critical, frozen and refrigerated transport of biological materials, such as pharmaceutical clinical trials, gene biotechnology, infectious materials handling, and animal and human reproduction. Due to the Company's unique proprietary technology and innovative design, its shippers are less prone to losing functional hold time when not kept in an upright position than the competing products. The Company's continuing R&D efforts have led to the introduction of smaller size units constructed of lower cost materials and utilizing high volume manufacturing methods that is making it practical to offer the CryoPort Express® One-Way Shipper System consisting of limited use cryogenic packages. It is the Company's intent to phase out the AR1000, DS650 and the DG1000 over the next 6 to 12 months, allowing the Company to concentrate on its cutting-edge technology in the CryoPort Express® One-Way Shipper System.

An important feature of the Company's shippers, including the CryoPort Express® One-Way Shipper is their compliance with the stringent packaging requirements of IATA Packing Instructions 602 and 650, respectively. These instructions include the internal pressure (hydraulic) and drop performance requirements. The Company believes its shippers were the first cost-effective cryogenic shippers to comply with these regulations, which it hopes will substantially enhance product acceptance, and facilitate its marketing efforts for both its reusable shippers and its planned CryoPort Express® One-Way Shipper System.

Biological Material Holders for Infectious and Dangerous Goods. The Company has also developed a patented containment bag which is used in connection with the shipment of infectious or dangerous goods. The CryoPort Express® One-Way Shipper and the DG1000 shipper include watertight primary receptacles (one and one-half millimeter vials.) Up to five vials are then placed onto aluminum holders and up to fifteen holders (75 vials) are placed into an absorbent pouch, designed to absorb the entire contents of all the vials in the event of leakage. This pouch containing up to 75 vials is then placed in a watertight secondary packaging plastic bag capable of withstanding cryogenic temperatures, and then sealed. This entire package is then placed in a unique, patented, secondary containment bag, which is a plastic film based material, critical to the function of the overall cryogenic package. These bags use a pressure-sensitive adhesive closure much like a common overnight courier envelope. As a result, these bags are inherently disposable, one-use-only. This bag is then placed into the well of the cryogenic shipper.

The Company's Future Products:

The Company's continuing R&D efforts are expected to lead to the introduction of smaller size units constructed of lower cost materials and utilizing high volume manufacturing methods that will make it practical to provide the one-time use cryogenic packages offered by the CryoPort Express® One-Way Shipper System.

The Company is currently in transition from the hard case reusable shippers to the CryoPort Express® One-Way Shipper System. The phase-out of these reusable shippers is planned over the next 6 to 12 months. The Company plans to continue research and development efforts to continually improve the features of the CryoPort Express® One-Way Shipper and to further enable both higher mass manufacturing and additional cost reduction opportunities.

The Company's driving logic in developing the CryoPort Express® One-Way Shipper System continues to be:

- To make the cost of the cryogenic package less than, or equal to, the total cost of ownership (on a one time use basis including return shipping and handling) of a reusable unit depending on the ultimate capacity and hold time of the shipper.
- To create the opportunity to ultimately offer a seamless "bio-express" courier service to the Company's target markets via its strategic partners.

Explanation of Responses:

- To provide a cost effective shipper that can compete with the economics of using dry ice and dry ice shippers.

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Our Strategy:

The Company's present objective is to leverage its proprietary technology and developmental expertise to design, develop, manufacture and sell cryogenic shipping devices. The key elements of its strategy include:

Expand the Company's product offerings to address growing markets. Given the need for a temperature-sensitive shipping device that can cost effectively be used, the Company is continuing the development of the CryoPort Express® One-Way Shipper System, which utilizes a one-time use shipping device that performs as well as its reusable shippers to eliminate the customer's need for return or disposal of the shipper, and the costs associated therewith plus the costs associated with maintaining and managing an inventory of shippers, as well as significantly minimizes loss of specimen viability during the shipping process.

Expand the Company's marketing and distribution channels. The Company's products serve the shipping needs of companies across a broad spectrum of industries on a growing international level. It is the Company's goal to establish those contacts necessary to achieve a broader distribution of its products.

Establish strategic partnerships. In order to expedite the Company's time to market and increase its market presence, the Company is currently negotiating to establish strategic alliances to facilitate the manufacture, promotion and distribution of its products, including establishing alliances with shipping container manufacturers (both cryogenic and dry ice), integrated express companies, and freight forwarding companies.

Sales and Marketing:

The Company currently has an internal sales and marketing group which manages both its direct sales efforts and its third party resellers, which include Air Liquide and Tegrant (formerly SCA Thermosafe). The Company also has relationships with several other distributors and agents. The Company's current distribution channels cover the Americas, Europe and Asia. During the year ended March 31, 2008 the Company had one distributor, Tegrant, which accounted for ---62% of the Company's overall sales volumes. These sales were in the Company's reusable shippers that will be phased-out over the next 6 to 12 months.

The Company's geographical sales for the year ended March 31, 2008 were as follows:

USA	87.3%
Europe	10.0%
Asia	2.4%

Customer Base:

The Company believes that the primary customers for its dry vapor shippers (both the reusable and the CryoPort Express® One-Way Shipper System) are concentrated in the following markets for the following reasons:

- Pharmaceutical clinical trials
- Gene biotechnology
- Transport of infectious materials and dangerous goods
- Pharmaceutical distribution
- Human assisted reproduction artificial insemination

Pharmaceutical Clinical Trials. Every pharmaceutical company developing a new drug that must be approved by the Food and Drug Administration conducts clinical trials to, among other things, test the safety and efficacy of the

Explanation of Responses:

potential new drug. In connection with the clinical trials, the companies may enroll patients from all over the world who regularly submit a blood specimen at the local hospital, doctor's office or laboratory. These samples are then sent to the specified testing laboratory, which may be local or in another country. The testing laboratories will typically set the requirements for the storage and shipment of blood specimens. While domestic shipping of these specimens is sometimes accomplished adequately using dry ice, international shipments present several problems, as dry ice, under the best of circumstances, can only provide freezing for up to 36 hours, in the absence of re-icing (which is quite costly). Because shipments of packages internationally can be delayed for more than 36 hours due to flight cancellations, incorrect destinations, labor problems, ground logistics and safety reasons, dry ice is not always a reliable and cost effective option. Clinical trial specimens are often irreplaceable because each one represents data at a prescribed point in time, in a series of specimens on a given patient, who may be participating in a trial for years. Sample integrity during the shipping process is vital to retaining the maximum number of patients in each trial. The Company's shippers are ideally suited for this market, as the hold time provided by its shipper ensures that specimens can be sent over long distances with minimal concern that they will arrive in a condition that will cause their exclusion from the trial.

Furthermore, the IATA requires that all airborne shipments of laboratory specimens be transmitted in either IATA 650 or 602 certified packaging. The Company has developed and obtained IATA certification of the CryoPort Express® One-Way Shipper System, it is ideally suited for this market, in particular due to the elimination of the cost to return the reusable shipper.

Gene Biotechnology. According to a recent edition of the Corporate Technology Directory, there are approximately 3600 pharmaceutical and biotechnology companies in the United States. Of these companies, approximately 2600 are biotechnology companies and approximately 1000 are pharmaceutical companies. The gene biotechnology market includes basic and applied research and development in diverse areas such as stem cells, cloning, gene therapy, DNA tumor vaccines, tissue engineering, genomics, and blood products. Company's participating in the foregoing fields rely on the frozen transport of specimens in connection with their research and development efforts.

Transport of Infectious Materials and Dangerous Goods. The transport of potentially infectious materials demands strict adherence to regulations that protect public safety while maintaining the viability of the material being shipped. All blood products are considered to be potentially infective and must be treated as such. Pharmaceutical companies, private research laboratories and hospitals ship tissue cultures and microbiology specimens, which are also potentially infectious materials, between a variety of entities, including private and public health reference laboratories. Almost all specimens in this infectious materials category require either a refrigerated or frozen environment. According to a doctor at the National Institute of Health (NIH), over 2 million vials of potentially infective material are shipped domestically or internationally each year, within the NIH alone. The Company has developed the CryoPort Express® One-Way Shipper to meet the shipping requirements of this market.

Partly in response to the attack on the World Trade Center and the anthrax scare, government officials and health care professionals are focusing renewed attention on the possibility of attacks involving biological and chemical weapons such as anthrax, smallpox and sarin gas. Efforts expended on research and development to counteract biowarfare agents requires the frozen transport of these agents to and from facilities conducting the research and development. Vaccine research, including methods of vaccine delivery, also requires frozen transport. The Company's CryoPort Express® One-Way Shipper is suited to this type of research and development.

Pharmaceutical Distribution. The current focus for the CryoPort Express® One-Way Shipper System is in the area of pharmaceutical distribution. There are a significant number of therapeutic drugs and vaccines currently or soon to be, undergoing clinical trials. After the FDA approves them for commercial distribution, it will be necessary for the manufacturers to have a reliable and economical method of distribution to the physician who will administer the product to the patient. Although there are not now a large number of drugs, there are a substantial number in the development pipeline. It is likely that the most efficient and reliable method of distribution will be to ship a single dosage to the administering physician. These drugs are typically identified to individual patients and therefore will require a complete tracking history from the manufacturer to the patient. The most reliable method of doing this is to ship a unit dosage specifically for each patient. Because the drugs require maintenance at frozen or cryogenic temperatures, each such shipment will require a frozen or cryogenic shipping package. The Company anticipates being in a position to service that need.

Assisted Human Reproduction. According to The Wall Street Journal, January 6, 2000 issue, 30,000 infants are born annually in the United States through artificial insemination and according to Department of Health statistics, 10 million Americans annually are affected by infertility problems. It is estimated that this represents at least 50,000 doses of semen. Since relatively few sperm banks provide donor semen, frozen shipping is almost always involved. As with animal semen, human semen must be stored and shipped at cryogenic temperatures to retain viability, to stabilize the cells and to ensure reproducible results. This can only be accomplished with the use of liquid nitrogen or LN 2 dry vapor shippers. The Company anticipates that this market will continue to increase as this practice gains acceptance in new areas of the world.

Competition:

Within the Company's intended markets for the CryoPort Express® One-Way Shipper System, there is no currently known competition. The Company intends to become competitive by reason of improved technological characteristics and by introducing the concept of disposability and single use products. None of the traditional suppliers of cryogenic shippers is known to have competitive equipment nor are they expected to have anything available within a short period of time. The traditional suppliers, Chart Industries, Harsco, and Air Liquide have various models of dry shippers available that sell at prices that preclude any concept of disposability. On the other hand, they are more established and have larger organizations and have greater financial, operational, sales and marketing resources and experience in research and development than the Company does. Other competitive factors include the ability of the shipper to retain liquid nitrogen when placed in non-upright positions, the overall "leak-proofness" of the package which determines compliance with shipping regulations and the overall weight and volume of the package which determines shipping costs.

Industry Overview:

The Company's products are sold into a rapidly growing niche of the packaging industry focused on the temperature sensitive packaging and shipping of biological materials. Expenditures for "value added" packaging for frozen transport have been increasing for the past several years and are expected to continue to increase even more in the future as more domestic and international biotechnology firms introduce pharmaceutical products that require continuous refrigeration at cryogenic temperatures. This will require a greater dependence on passively controlled temperature transport systems (i.e., systems having no external power source). [References: Cryopak Industries – Investment Package/Annual Report and US Department of Commerce - US Industrial Outlook.]

The Company believes that growth in the following markets has resulted in the need for increased efficiencies and greater flexibility in the temperature sensitive packaging market:

- Pharmaceutical clinical trials, including transport of tissue culture samples;
- Pharmaceutical commercial product distribution
- Transportation of diagnostic specimens;
- Transportation of infectious materials;
- Intra laboratory diagnostic testing;
- Transport of temperature-sensitive specimens by courier;
- Analysis of biological samples;
- Gene biotechnology and vaccine production;
- Food engineering; and

Many of the biological products in these above markets require transport in a frozen state as well as the need for shipping containers which have the ability to maintain a frozen, cryogenic environment (e.g., -150°C) for a period ranging from two to ten days (depending on the distance and mode of shipment). These products include semen, embryo, tissue, tissue cultures, cultures of viruses and bacteria, enzymes, DNA materials, vaccines and certain pharmaceutical products. In some instances, transport of these products requires temperatures at, or approaching, -196°C.

One problem faced by many companies operating in these specialized markets is the limited number of cryogenic shipping systems serving their needs, particularly in the areas of pharmaceutical companies conducting clinical trials. The currently adopted protocol, and the most common method for packaging frozen transport in these industries is the use of solid carbon dioxide (dry ice). Dry ice is used in shipping extensively to maintain a frozen state for a period of one to four days. Dry ice is used in the transport of many biological products, such as pharmaceuticals, laboratory specimens and certain infectious materials that do not require true cryogenic temperatures. The common approach to shipping these items via ground freight is to pack the product in a container, such as an expanded polystyrene (Styrofoam) box or a molded polyurethane box, with a variable quantity of dry ice. The box is taped or strapped shut and shipped to its destination with freight charges based on its initial shipping weight.

With respect to shipments via specialized courier services, there is no standardized method or device currently in use for the purpose of transporting temperature-sensitive frozen biological specimens. One common method for courier transport of biologicals is to place frozen specimens, refrigerated specimens, and ambient specimens into a compartmentalized container, similar in size to a 55 quart Coleman or Igloo cooler. The freezer compartment in the container is loaded with a quantity of dry ice at minus 78°C, while the refrigerated compartment at 8°C utilizes ice substitutes.

Two manufacturers of the polystyrene and polyurethane containers frequently used in the shipping and courier transport of dry ice frozen specimens are Insulated Shipping Containers, Inc. and SCA Thermosafe (formerly Polyfoam Packers Corporation). When these containers are used with dry ice, the average sublimation rate (e.g., the rate at which dry ice turns from a solid to a gaseous state) in a container with a one and one-half inch wall thickness is slightly less than three pounds per 24 hours. Other existing refrigerant systems employ the use of gel packs and ice substitutes for temperature maintenance. Gels and eutectic solutions (phase changing materials) with a wide range of phasing temperatures have been developed in recent years to meet the needs of products with varying specific temperature control requirements.

The use of dry ice and ice substitutes, however, regardless of external packaging used, are frequently inadequate because they do not provide low enough storage temperatures and, in the case of dry ice, last for only a few days without re-icing. As a result, companies run the risk of increased costs due to lost specimens and additional shipping charges due to the need to re-ice.

Some of the other disadvantages to using dry ice for shipping or transporting temperature sensitive products are as follows:

- Availability of a dry ice source;
- Handling and storage of the dry ice;
- Cost of the dry ice;
- Weight of containers when packed with dry ice;
- Securing a shipping container with a high enough R-value to hold the dry ice and product for the required time period; and
- Securing a shipping container that meets the requirements for International Air Transportation Association (“IATA”), the Department of Transportation (“DOT”), the Center for Disease Control (“CDC”), and other regulatory agencies.

Due to the limitations of dry ice, shipment of specimens at true cryogenic temperatures can only be accomplished using liquid nitrogen (LN 2) dry vapor shippers, or by shipping over actual liquid nitrogen. While such shippers provide solutions to the issues encountered when shipping with dry ice, they too are experiencing some criticisms by users or potential users. For example, the cost for these products typically can range from \$650 to \$3,000 per unit, which can substantially limit their use for the transport of many common biologicals, particularly with respect to small quantities such as is the case with direct to the physician drug delivery. Because of the initial cost and limited production of these containers, they are designed to be reusable. However, the cost of returning these heavy containers can be significant, particularly in international markets, because most applications require only one-way shipping.

Another problem with these existing systems relates to the hold time of the unit in a normal, upright position versus the hold time when the unit is placed on its side or inverted. The liquid nitrogen can leak out of the container when it is positioned on its side or inverted. This leaking will compromise the dependability of these dry shippers, particularly when used in circumstances requiring lengthy shipping times. The Company’s current reusable shippers have only a 40% reduction in hold time when placed on their sides or inverted. One of the Company’s significant competitors, Chart Industries, Inc., publishes on their web site, a 60% reduction in hold time when its units are placed on their side and a 90% reduction when its units are inverted. Since other competitors use similar absorbent materials to that used by Chart Industries, Inc., the Company believes the performance characteristics will be similar for their products of this particular size and volume.

Finally, these containers are often promoted as being durable due to their metal construction. However, rough handling can result in the puncturing of the outer shell or cracking at the neck area, resulting in the loss of the high vacuum insulation. This renders the shippers useless. A hard-shell shipping enclosure is available as an optional accessory to provide additional protection for these units at an additional cost to the user. The metal construction also adds to the weight of the container, thereby adding substantially to shipping costs.

The CryoPort Solution:

During the past several years, a number of trends have emerged in the temperature-sensitive packaging industry as a result of economic and technological changes. The Company has focused its product development efforts to respond to what it perceives to be the more significant of these trends, specifically the following:

- Smaller, more efficient packaging (increasing thermal density);
- Emphasis on decreasing costs and system simplification;
- Need for turnkey services;
- Development of international programs and markets;

Explanation of Responses:

- Centralization of commercial products and services; and
- Development of regulatory standards.

Smaller, More Efficient Packaging. Advances in both materials and manufacturing technology have made it possible to reduce the size, weight, complexity and cost of packaging, while increasing the capabilities of high performance packaging. These advances are the result of developments in the aerospace industry in the areas of high strength, low weight materials and thermal technology. The Company is applying this technology in its product development efforts, and believes that it is at the forefront of applying this technology in the public sector. The Company's development efforts are focused on the application of polymers and high volume metal casting and forming methods that have traditionally been excluded from the cryogenic industry because product quantities have been too low to efficiently utilize these materials and methods. Cryoport currently manufactures its reusable shipper with an approximate liquid nitrogen volume of five liters. The Company's future intended products will be a range of shippers with liquid nitrogen capacities from approximately one to five liters in size.

Emphasis on Decreasing Costs and System Simplification. Because current dry vapor LN 2 shipping containers are expensive, many users do not keep an ample supply on hand. Consequently, some users require that these be returned promptly. This often results in very expensive express return shipping which will significantly magnify as shipping volumes increase. This has created a demand for smaller, lower cost dry vapor LN 2 shipping containers. In addition, many users have expressed a strong interest in the production of a dry vapor LN 2 shipper that is inexpensive enough to be used in a disposable or limited usage manner. The current sales price of CryoPort's reusable shippers range from \$735 to \$1,095. The price range for the new CryoPort Express® One-Way Shipper System ranges from \$75 to \$100 per use plus transportation costs, depending on size and contractual commitments.

As previously noted, dry vapor LN 2 shipping containers are made of medium gauge metal that makes them vulnerable to denting and breaking and increases shipping costs due to the added weight. Additionally, their design requires that they be kept in an upright position to achieve advertised hold times. If they are placed in a horizontal position, LN 2 can leak out or boil off, substantially reducing their hold times. The Company anticipates manufacturing its shippers in smaller sizes from lighter weight materials that significantly reduce their weight (thereby reducing shipping costs) and manufacturing cost, which will allow them to be used one time for outbound shipments. Additionally, the patented absorbent used to hold the LN 2 much more efficiently retains liquid when its shippers are positioned on their sides or inverted. The Company has significantly reduced the possible loss of liquid nitrogen refrigerant that all dry shippers experience when not kept vertical.

Turnkey Services. The pharmaceutical industry depends on clinical trials for Food and Drug Administration approval of new drugs. A significant number of these trials require frozen transport of specimens obtained from patients in the study. A number of pharmaceutical companies now specify temperature-sensitive frozen packaging and services as part of "turnkey" contracts with contract research organizations. To meet the demands of their customers, freight forwarding companies, such as World Courier, Federal Express and DHL, take responsibility for procuring appropriate packaging, shipping by airline, and delivering the specimens to the point of analytical testing. This comprehensive service addresses the stringent requirements imposed by pharmaceutical companies to ensure appropriate quality control for their clinical studies. The Company believes its dry shippers offered by the CryoPort Express® One-Way Shipper System greatly enhance the reliability of the quality control required.

Development of International Programs and Markets. The biotechnology and pharmaceutical industries are now transnational industries with locations in various parts of the industrially developed and developing world. Since many products produced by these industries must be shipped in temperature-sensitive packaging, the logistical problems presented by longer distances, and sometimes unreliable forwarding entities, are becoming of greater concern. Weekends, holidays, lost containers, hot weather and indirect courier routes all place a strain on the ability of current shipping devices to provide appropriate temperatures when extraordinary delays are encountered. Because the Company's shippers are able to maintain frozen or cryogenic temperatures of minus 150°C, or below, for up to 10 days, its shippers are better able to insure the integrity of specimens affected by unexpected shipping delays. Further, the maximum guaranteed temperature hold time of the Company's 5 liter shipper is 16 days which is quoted under perfect and ideal conditions when in a "static" (i.e. stationary) condition only. The functional (in shipping use) hold time of this same 5 liter shipper is 10 days. Functional hold times are intended to be an indication only of how many days a shipper can be expected to hold its temperature when subjected to normal shipping usage .

Centralization of Commercial Products and Services. In recent years, the competitive environment in health care has intensified rapidly, while increased managed care participation, coupled with Medicare and Medicaid reimbursement issues, have placed significant pressure to increase efficiency on market segments that service the health care industry. These include the diagnostic clinical laboratory industry and pharmaceutical industry. In response to these, and other pressures, the clinical laboratory industry experienced a consolidation, through both acquisition and attrition, which resulted in fewer, more centralized testing locations, processing a larger volume of specimens. With fewer testing sites processing increased volumes, a tremendous strain has been placed on the traditional modes for

transporting these goods.

With respect to the pharmaceutical industry, the emergence of international pharmaceutical conglomerates through mergers and acquisitions, such as Smith Kline Beecham, and the dramatic growth of relatively new companies such as Amgen, coupled with the emergence of contract research organizations, such as Quintiles (with testing laboratories in Atlanta, Georgia, Buenos Aires, Edinburgh, Pretoria, Singapore and Melbourne), which contract with pharmaceutical companies to handle, among other things, clinical trials and testing, means that distribution networks for the transport of temperature-sensitive products have become much more complex.

The Company believes that it has developed, and is developing, products that are ideally suited to address the issues presented by these trends.

Development of Regulatory Standards. The shipping of diagnostic specimens, infectious substances and dangerous goods, whether via air or ground, falls under the jurisdiction of many state, federal and international agencies. The quality of the containers, packaging materials and insulation that protect a specimen determine whether or not it will arrive in a usable condition. Many of the regulations for transporting dangerous goods in the United States are determined by international rules formulated under the auspices of the United Nations. For example, the International Civil Aviation Organization (“ICAO”) is the United Nations organization that develops regulations (Technical Instructions) for the safe transport of dangerous goods by air. If shipment is by air, compliance with the rules established by IATA is required. IATA is a trade association made up of airlines and air cargo carriers that publishes annual editions of the IATA Dangerous Goods Regulations. These regulations interpret and add to the ICAO Technical Instructions to reflect industry practices. Additionally, the CDC has regulations (published in the Code of Federal Regulations) for interstate shipping of specimens, and the Occupational Safety and Health Organization (“OSHA”) also addresses the safe handling of Class 6.2 Substances. The Company’s DG1000 meets packing instruction 602 and 650 and is certified for the shipment of Class 6.2 Dangerous Goods per the requirements of the International Civil Aviation Organization (ICAO) Technical Instructions for the Safe Transport of Dangerous Goods by Air and the International Air Transport Association (IATA).

Research and Development:

The Company's principal research and development activities for the years 2007 and 2008 continued to center around the investigation of higher volume manufacturing capabilities and materials of construction for the products and packages with the view of identifying those materials that yield fabrication costs consistent with the concept of disposability. A unit dose shipper was developed for the CryoPort Express® One-Way Shipper System and designs of a second concept were completed. Other research and development effort has been directed toward improvements to the liquid nitrogen retention system to render it more reliable in the general shipping environment and to the design of the outer packaging for all sizes of shippers to be offered by the CryoPort Express® One-Way Shipper System. The Company's research and development expenditures for the three months ended June 30, 2008 and 2007 were \$110,791 and \$28,587, respectively.

Manufacturing:

The component parts for the Company's products are primarily manufactured at third party manufacturing facilities. The Company also has a warehouse at the corporate offices in Lake Forest, California, where the Company is capable of manufacturing certain parts and full assembly of its products. Most of the components that the Company uses in the manufacture of its products are available from more than one qualified supplier. For some components, however, there are relatively few alternate sources of supply and the establishment of additional or replacement suppliers may not be accomplished immediately, however, the Company has identified alternate qualified suppliers which the Company believes could replace existing suppliers. Should this occur, the Company believes the maximum disruption of production could be a short period of time, on the order of approximately four to six weeks.

Primary manufacturers include Spaulding Composites Company, Peterson Spinning and Stamping, Lydall Industrial Thermal Solutions, Ludwig, Inc., and Porex Porous Products Group. There are no specific agreements with any manufacturer nor are there any long term commitments to any. It is believed that any of the currently used manufacturers could be replaced within a short period of time as none have a proprietary component nor a substantial capital investment specific to the Company's products.

The Company's manufacturing process uses non-hazardous cleaning solutions which are provided and disposed of by an EPA approved supplier. EPA compliance costs for the Company are therefore negligible.

Patents:

In order to remain competitive, the Company must develop and maintain protection on the proprietary aspects of its technologies. The Company relies on a combination of patents, copyrights, trademarks, trade secret laws and confidentiality agreements to protect its intellectual property rights. The Company currently holds two issued U.S. trademarks and three issued U.S. patents primarily covering various aspects of its products. In addition, the Company intends to file for additional patents to strengthen its intellectual property rights. The technology covered by the above indicated patents refer to matters specific to the use of liquid nitrogen dewars relative to the shipment of biological materials. The concepts include those of disposability, package configuration details, liquid nitrogen retention systems, systems related to thermal performance, systems related to packaging integrity, and matters generally relevant to the containment of liquid nitrogen. Similarly, the trademarks mentioned relate to the cryogenic temperature shipping activity. Patents and trademarks currently held by the Company include:

Type:	No.	Issued	Expiration
Patent	6,467,642	Oct. 22, 2002	Oct. 21, 2022
Patent	6,119,465	Sep. 19, 2000	Sep. 18, 2020
Patent	6,539,726	Apr. 1, 2003	Mar 31, 2023

Explanation of Responses:

Trademark	7,583,478,7	Oct. 9, 2002	Oct. 8, 2012
Trademark	7,586,797,8	Apr. 16, 2002	Apr. 16, 2012

The Company's success depends to a significant degree upon its ability to develop proprietary products and technologies and to obtain patent coverage for these products and technologies. The Company continues to file trademark and patent applications covering any newly developed products, methods and technologies. However, there can be no guarantee that any of its pending or future filed applications will be issued as patents. There can be no guarantee that the U.S. Patent and Trademark Office or some third party will not initiate an interference proceeding involving any of its pending applications or issued patents. Finally, there can be no guarantee that its issued patents or future issued patents, if any, will provide adequate protection from competition, as discussed below.

Patents provide some degree of protection for the Company's proprietary technology. However, the pursuit and assertion of patent rights involve complex legal and factual determinations and, therefore, are characterized by significant uncertainty. In addition, the laws governing patent issuance and the scope of patent coverage continue to evolve. Moreover, the patent rights the Company possesses or are pursuing generally cover its technologies to varying degrees. As a result, the Company cannot ensure that patents will issue from any of its patent applications, or that any of its issued patents will offer meaningful protection. In addition, the Company's issued patents may be successfully challenged, invalidated, circumvented or rendered unenforceable so that its patent rights may not create an effective barrier to competition. Moreover, the laws of some foreign countries may not protect its proprietary rights to the same extent, as do the laws of the United States. There can be no assurance that any patents issued to the Company will provide a legal basis for establishing an exclusive market for its products or provide it with any competitive advantages, or that patents of others will not have an adverse effect on its ability to do business or to continue to use its technologies freely.

The Company may be subject to third parties filing claims that its technologies or products infringe on their intellectual property. The Company cannot predict whether third parties will assert such claims against it or whether those claims will hurt its business. If the Company is forced to defend itself against such claims, regardless of their merit, the Company may face costly litigation and diversion of management's attention and resources. As a result of any such disputes, the Company may have to develop, at a substantial cost, non-infringing technology or enter into licensing agreements. These agreements may be unavailable on terms acceptable to it, or at all, which could seriously harm the Company's business or financial condition.

The Company also relies on trade secret protection of its intellectual property. The Company attempts to protect trade secrets by entering into confidentiality agreements with third parties, employees and consultants. It is possible that these agreements may be breached, invalidated or rendered unenforceable, and if so, the Company's trade secrets could be disclosed to its competitors. Despite the measures the Company has taken to protect its intellectual property, parties to its agreements may breach confidentiality provisions in its contracts or infringe or misappropriate its patents, copyrights, trademarks, trade secrets and other proprietary rights. In addition, third parties may independently discover or invent competitive technologies, or reverse engineer its trade secrets or other technology. Therefore, the measures the Company is taking to protect its proprietary technology may not be adequate.

Government Regulation:

The Company is subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. The Company may incur significant costs to comply with such laws and regulations now or in the future.

Users of the Company's shippers are subject to state, federal and international government and/or agency regulation with respect to the shipment of diagnostic specimens, infectious substances and dangerous goods. The quality of the containers, packaging materials and insulation that protect a specimen determine whether or not it will arrive in a usable condition. Many of the regulations for transporting dangerous goods in the United States are determined by international rules formulated under the auspices of the United Nations. Companies shipping certain items must comply with any applicable Department of Transportation and ICAO regulations, as well as rules established by IATA, the CDC, OSHA and any other relevant regulatory agency.

Employees

As of the date hereof, the Company has six full-time employees and four consultants.

DESCRIPTION OF PROPERTY

The Company's corporate, research and development, and warehouse facilities are located in one Company-leased office and warehouse building with approximately 12,000 square feet. The facilities are located at 20382 Barents Sea Circle, Lake Forest, CA 92630. The Company currently makes base lease payments of approximately \$12,000 per month, due at the beginning of each month, pursuant to a two year lease through August 2010 with renewal options for three additional one year lease terms. The landlord is Viking Investors, Barents Sea, LLC. The facilities are in good condition and are suitable for the Company's current requirements. The Company currently does not own any real property.

LEGAL PROCEEDINGS

The Company becomes a party to product litigation in the normal course of business. The Company accrues for open claims based on its historical experience and available insurance coverage. In the opinion of management, there are no legal matters involving the Company that would have a material adverse effect upon the Company's condition or results of operations.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The following table sets forth the name and age of each director and executive officer, the year first elected as a director and/or executive officer and the position(s) held with the Company:

Name	Age	Position	Date Elected
Peter Berry	60	Director and Chief Executive Officer, 2003 President	
Dee S. Kelly, CPA	46	Vice President of Finance	2003
Kenneth G. Carlson	54	Vice President of Sales and Marketing	2005
Bret Bollinger	41	Vice President of Operations	2008
Thomas Fischer, PhD	61	Director, Vice Chairman of the Board	2005
Gary C. Cannon	57	Director, Secretary of the Board	2005
Adam M. Michelin	64	Director	2005
Stephen L. Scott	56	Director	2005

Background of Directors and Officers:

Peter Berry, became the Company's President, Chief Executive Officer and a member of the Company's Board of Directors in connection with the Share Exchange Agreement. Mr. Berry joined CryoPort Systems, Inc. as a consultant in 2002 and became its President, Chief Executive Officer, Chief Operating Officer and a member of its Board of Directors in 2003. Prior to joining the Company, Mr. Berry was Vice President Sales & Marketing for BOC Cryostar, AG in Switzerland from 1996 to 2000 and principal of a private consulting practice from 2001 to 2003. Mr. Berry has over 30 years executive experience in cryogenic equipment with Union Carbide, BOC Group and MVE International. He also has business start up, turnaround, sales/marketing and operations background experience, both domestic and international, in manufacturing and service based industries.

Dee S. Kelly, CPA, became Vice President of Finance for the Company in August 2003. Ms. Kelly was formerly with Ernst & Young, LLP and has 24 years experience in public and private accounting. She has held executive financial positions with international bio-tech and medical device manufacturers. Ms. Kelly recently served as Vice President, Controller for Equifax Financial Services, Inc. from 1995 to 2000. Ms. Kelly joined the Company in 2003. Prior to joining the Company, Ms. Kelly was Corporate Controller for MacGillivray Freeman Films from 2000 to 2001, Corporate Controller for Masimo Corporation, a manufacturer of patient monitoring devices from 2001 to 2002 and principal of a private consulting practice since 2002.

Kenneth Carlson, MBA, became Vice President of Sales for the Company in August, 2005. Prior to joining the Company, Mr. Carlson was Vice President, General Manager of Phoenix Life Solutions, LLC, a marketer of defibrillators and emergency response systems. From 2000 to 2003, Mr. Carlson was Vice President, Sales for Falcon Waterfree Technologies, LLC, and from 1999 to 2000 he served as Vice President, Sales for Titan Scan Corporation, a manufacturer of electron-beam sterilization systems for medical products. Mr. Carlson has over 20 years of experience in sales, marketing and senior management roles for medical device and healthcare technology companies such as Johnson & Johnson and Zimmer, Inc. His background has involved strategic planning for start-up and early stage companies, including product introduction and distribution planning. Mr. Carlson received his Bachelor of Science degree from the University of Southern California and his Masters of Business degree from Arizona State University.

Bret Bollinger, became Vice president of Operations for CryoPort in February 2008. Prior to joining the Company, Mr. Bollinger was Director of Operations and Engineering for Triangle Brass Manufacturing from July 2003 to January 2008. Mr. Bollinger served as a Business Process Consultant for Vistant Corporation, a division of Cardinal Health from July of 2001 through July 2003 and as Operations and Order Fulfillment Manager for Ingersoll-Rand's Safety and Security Sector, Falcon Lock Company from July of 1999 to July of 2001. Mr. Bollinger has extensive background in manufacturing environments, including experience with opening both manufacturing and assembly plants domestically as well as in Mexico. In addition, he has experience in new product design and implementation. Mr. Bollinger holds a Bachelor of Science in Mechanical Engineering from Sacramento State University.

Gary C. Cannon, became the Company's Secretary and a member of the Company's Board of Directors in June 2005. Prior to joining the Company, Mr. Cannon was securities counsel and compliance officer for The Affordable Energy Group, Inc. from November 2004 to May 2005, and general and securities counsel for World Transport Authority, Inc. from July 2003 to November 2004. Mr. Cannon was in private practice from August 2000 to July 2003, and has practiced law for the past 21 years, representing all sizes of businesses in such areas as, formation, mergers and acquisitions, financing transactions, tax planning, and employee relations. Mr. Cannon has done extensive securities work and has served as a compliance officer for companies with respect to the Sarbanes-Oxley Act, and other compliance matters. Mr. Cannon obtained his Juris Doctorate from National University School of Law, his Masters of Business degree from National University and his Bachelor of Arts from United States International University.

Adam M. Michelin, became a member of the Company's Board of Directors in June 2005. Mr. Michelin is currently the Chief Executive Officer, of Naturade, Inc. a position he has held since November, 2007. Mr. Michelin has held several leadership positions including CEO for Enterprise Group from March 2005, Principle of Kibel Green, Inc., a position he held for 11 years prior to joining Enterprise Group, and Partner of KPMG for 10 years. Mr. Michelin has over 30 years of practice in the areas of executive leadership, operations and is very experienced in evaluating, structuring and implementing solutions for companies in operational and/or financial crisis. Mr. Michelin received his Juris Doctorate from the University of West Los Angeles and his Bachelor of Science from Tri State University.

Thomas S. Fischer, PhD, has over 20-years experience as a healthcare executive with a special emphasis on using information, analytic tools and technology to solve problems and improve operations. Currently retired, he consults in the healthcare sector. Dr. Fischer previously served as Senior Vice President and Chief Administrative Officer at Blue Shield of California from 1997 to 1999, and as Senior Vice President, Chief Information Officer from 1994 to 1997. Prior to Blue Shield, he held senior management positions with Kaiser Foundation Health Plan, Inc. for 12 years. Dr. Fischer obtained his Doctor of Philosophy in Mathematics from the University of Nebraska and his Bachelor of Science and Master of Science degrees from Portland State University.

Stephen L. Scott is a management and organizational consultant with over 20-years experience with diverse manufacturing businesses, including a specific background with developmental stage companies. Since 1996, Mr. Scott has been President of Technology Acquisition Group, providing expertise in corporate growth planning, strategic partner development, finance, operations, team building, product opportunity identification, corporate re-engineering and mergers and acquisitions. In addition to early stage and small companies, he has performed projects with Fortune 1000 firms such as IBM, GE, AT&T, Bristol-Myers Squibb, Warner-Lambert, Johnson & Johnson and Ayerst-Wyeth. Mr. Scott received his Juris Doctorate and Masters of Business Administration degrees from National University and his Bachelor of Science degree from the University of Akron.

The officers of the Company hold office until their successors are elected and qualified, or until their death, resignation or removal.

None of the directors or officers hold a directorship in any other reporting company except: Adam Michelin is Director, CEO/President and Treasurer of Redux Holdings, Inc. (RDXH); CEO/Chairman Naturade Inc.(NRDCQ) and Gary Cannon is Secretary and General Counsel of Redux Holdings, Inc. (RDXH) and General Counsel for the Affordable Energy Group, Inc. and for Global Development and Environmental Resources, Inc., both publicly traded companies.

None of the directors or officers listed above has:

- had a bankruptcy petition filed by or against any business of which that person was a general partner of executive officer either at the time of the bankruptcy or within two years prior to that time;

Explanation of Responses:

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- had any conviction in a criminal proceeding, or been subject to a pending criminal proceeding;
- been subject to any order, judgment, or decree by any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting such person's involvement in any type of business, securities or banking activities;
- been found by a court of competent jurisdiction, the Commission, or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law.

Board of Directors Meetings and Committees:

During the fiscal year ended March 31, 2008, there were nine meetings of the board of directors as well as several actions taken with the unanimous written consent of the directors. The Board has established an Audit Committee and a Compensation and Governance Committee. The Board is currently reviewing the requirements for and the need to set up an executive committee and other committees to help its board of directors oversee the operations of the Company.

Audit Committee

The Company's board of directors has a formally established audit committee and an adopted Audit Committee Charter. During the year ended March 31, 2008, the Company's Audit Committee held two meetings. The Company has determined that Adam Michelin, Audit Committee Chairman, qualifies as an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. of the Securities and Exchange Commission rules and is "independent" within the meaning of Rule 4200(a) (15) of the National Association of Securities Dealers. Mr. Fischer and Mr. Scott comprise the remaining audit committee members. The audit committee reviews the qualifications of the independent auditors, our annual and interim financial statements, the independent auditor's report, significant reporting or operating issues and corporate policies and procedures as they relate to accounting and financial controls.

Compensation and Governance Committee

The Company's board of directors has a formally established compensation and governance committee and an adopted Compensation and Governance Committee Charter. The current members of the Compensation and Governance Committee as appointed by the Board are Thomas Fischer, Chairman, Gary Cannon, and Steven Puente. Mr. Puente is an outside expert consultant serving on the Compensation and Governance Committee.

Nominating Procedures and Criteria

The Company does not have a nominating committee. The function of the nominating committee is handled by the Company's Compensation and Governance Committee.

Compensation Committee Interlocks and Insider Participation

Gary Cannon is Secretary of the Company, none of the other members of the Compensation Committee is or has been an officer or employee of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors and those persons who beneficially own more than 10% of the Company's outstanding shares of common stock to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission. Officers, directors, and greater than 10% beneficial owners are also required by rules promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of the copies of such forms furnished to the Company, we believe that during the year ended March 31, 2008, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with.

Code of Ethics for Principal Executive Officers and Senior Financial Officers.

The Board of Directors has adopted a Code of Ethics applicable to the Chief Executive Officer, the Vice President of Finance, all senior financial officers and all other employees. The Code of Ethics of the Company is available, free of charge, on request by writing to the Secretary of the Company at 20382 Barents Sea Circle, Lake Forest, CA, 92630.

EXECUTIVE COMPENSATION

2008 Executive Base Salary and Incentive Compensation Determination

Peter Berry

Mr. Berry has served as the Company's President and Chief Executive Officer since April, 2003. Mr. Berry currently has an annual base salary of \$192,000. Mr. Berry has an employment agreement with the Company which originally expired November 1, 2005. Based on the recommendations of the Compensation Committee, in December 2005, December 2006 and again in November 2007, the Board has approved the extension of Mr. Berry's employment contract for additional one-year terms with the same base salary as that provided for in the last year of the original employment agreement. Under the extended terms of his employment agreement, Mr. Berry is eligible for an annual cash bonus of up to 40% of his base salary, based on goals and objectives met as recommended by the Compensation Committee and approved by the full Board of Directors. During the fiscal year 2008, the Board approved a \$30,000 cash bonus for Mr. Berry. Based on the recommendation of the Compensation Committee and approval by the Board, Mr. Berry was granted incentive awards of 26,200 fully vested warrants exercisable at \$0.75 per share on August 27, 2007 and 26,200 fully vested warrants exercisable at \$1.07 per share on February 28, 2008. The exercise prices of the warrants are equal to the fair value of the Company's stock as of the grant dates. Mr. Berry also receives compensation in the form of health care benefits from the Company.

Dee S. Kelly

Ms. Kelly has served as the Company's Vice President, Finance since August 2003. Ms. Kelly, a California licensed Certified Public Accountant, works part-time for the Company as a consultant on a monthly retainer basis of \$10,000 per month. Based on the recommendation of the Compensation Committee and approval by the Board, Ms. Kelly was granted incentive awards of 61,000 fully vested warrants exercisable at \$1.07 per share on February 28, 2008. The exercise price of the warrants is equal to the fair value of the Company's stock as of the grant date. Ms. Kelly does not have an employment contract with the Company.

Kenneth G. Carlson

Mr. Carlson has served as the Company's Vice President of Sales and Marketing since August 2005. Mr. Carlson currently receives an annual salary of \$120,000 per year and has no employment contract. Based on the recommendation of the Compensation Committee and approval by the Board, Mr. Carlson was granted incentive awards of 65,000 fully vested warrants exercisable at \$1.07 per share on February 28, 2008. The exercise price of the warrants is equal to the fair value of the Company's stock as of the grant date. Mr. Carlson also receives compensation in the form of health care benefits from the Company.

Bret Bollinger

Mr. Bollinger became the Company's Vice President of Operations in February 2008. Mr. Bollinger currently receives an annual salary of \$130,000 per year pursuant to an employment contract. Under the terms of his employment agreement, Mr. Bollinger is eligible for an annual bonus from 30% to 50% of his base salary based on goals and objectives met, payable in either cash or warrants, as determined by the Chief Executive Officer and approved by the Board of Directors. Based on the recommendation of the Compensation Committee and approval by the Board, Mr. Bollinger was granted incentive awards of 150,000 warrants exercisable at \$1.07 per share on February 28, 2008 which vest at a rate of 50,000 upon grant date, 50,000 on February 28, 2009 and 50,000 on February 28, 2010. The exercise price of the warrants is equal to the fair value of the Company's stock as of the grant date. Mr. Bollinger also receives compensation in the form of health care benefits from the Company.

SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by the Company's Chief Executive Officer, and three other most highly compensated executive officers for the years ended March 31, 2008 and 2007.

Name and Principal Position	Fiscal Year	Salary \$	Bonus \$	Option and Warrant Awards \$ (3)	All Other Compensation \$	Total \$
Peter Berry, Chief Executive Officer and Director (1)	2008	\$ 136,000	\$ 30,000	\$ 47,395	\$ 3,300	\$ 216,695
	2007	\$ 96,000	\$ 30,000	\$ 58,283	\$ 3,300	\$ 187,583
Dee S. Kelly, Vice President, Finance (2)	2008	\$ 106,000	\$ 16,000	\$ 64,639	\$ -	\$ 186,639
	2007	\$ 89,000	\$ -	\$ 180,113		\$ 269,113
Kenneth Carlson, Vice President, Sales and Marketing (3)	2008	\$ 106,000	\$ 14,000	\$ 68,877	\$ 4,540	\$ 193,417
	2007	\$ 72,846	\$ -	\$ 173,877	\$ 4,020	\$ 250,743
Bret Bollinger, Vice President Operations (4)	2008	\$ 21,667	\$ -	\$ 52,983	\$ 1,196	\$ 75,846

- (1) Mr. Berry's Option and Warrant awards for 2007 includes \$58,283 related to the vesting of options granted in prior years.
- (2) Ms. Kelly bills the Company for her earnings as a part-time contract employee and deferred approximately \$20,000 of her billings during fiscal year 2008. Ms. Kelly's Option and Warrant awards for 2007 includes \$5,867 related to the vesting of options granted in prior years.
- (3) Reflects the dollar amount recognized for financial reporting purposes for the year ended March 31, 2008, in accordance with SFAS 123(R) of warrant and stock option awards pursuant to the 2002 Stock Option Plan, and thus includes amounts from awards granted in and prior to 2008. Assumptions used in the calculation of these amounts are included in Note 11, Stock Options and Warrants. All stock warrants were granted at the closing market price of the Company's stock on the date of grant. See Note 11 – Stock Options and Warrants.
- (4) Mr. Bollinger became Vice President of Operations in February 2008. At that time, he was granted 150,000 warrants of which 50,000 with a fair value of \$52,983, vested upon issuance. The balance of warrants issued to Mr. Bollinger vest 50,000 in February 2009 and 50,000 in February 2010.

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The “All Other Compensation” column in the 2008 Summary Compensation Table consists of the following:

Name and Principal Position	Fiscal Year	Perquisites and Other Personal Benefits \$	Tax Reimbursements \$	Insurance Premiums \$	Company Contributions to 401(k) plan \$ (1)	Severance Payments/Accruals \$	Change in Control Payments /Accruals \$	Total \$
Peter Berry, Chief Executive Officer and Director	2008	\$ -	\$ -	\$ 3,300	\$ -	\$ -	\$ -	\$ 3,300
	2007	\$ -	\$ -	\$ 3,300	\$ -	\$ -	\$ -	\$ 3,300
Dee S. Kelly, Vice President, Finance	2008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Kenneth G. Carlson, Vice President, Sales and Marketing	2008	\$ -	\$ -	\$ 4,540	\$ -	\$ -	\$ -	\$ 4,540
	2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bret Bollinger, Vice President, Operations	2008	\$ -	\$ -	\$ 1,196	\$ -	\$ -	\$ -	\$ 1,196

(1) The Company does not currently offer a 401(k) plan due to the low number of eligible employees.

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Outstanding Equity Awards at Fiscal Year-End:

The following table provides information on the holdings of equity awards by the named executive officers as of March 31, 2008.

Name	Grant Date	Warrant and Option Awards					Expiration Date
		Number of Securities Underlying Unexercised Options and Warrants (#) Exercisable	Number of Securities Underlying Unexercised Options and Warrants (#) Unexercisable	Equity Incentive Plan Awards	Number Of Securities Underlying Unexercised Options and Warrants (#)	Exercise Price (\$)	
Peter Berry	11/1/02	500,000	-	-	\$ 0.50	11/1/12	
	4/1/03	250,000	-	-	\$ 0.50	4/1/13	
	11/1/03	250,000	-	-	\$ 0.60	11/1/13	
	8/1/04	367,970	-	-	\$ 0.04	8/1/14	
	8/27/07	26,200	-	-	\$ 0.75	8/27/17	
	2/28/08	26,200	-	-	\$ 1.07	2/27/18	
Dee S. Kelly	10/1/03	75,000	-	-	\$ 0.60	10/1/13	
	8/1/04	36,752	-	-	\$ 0.04	8/1/14	
	8/3/06	158,500	-	-	\$ 1.00	8/3/16	
	1/3/07	61,000	-	-	\$ 0.28	1/3/17	
	2/28/08	61,000	-	-	\$ 1.07	2/27/18	
Kenneth G. Carlson	8/3/06	157,000	-	-	\$ 1.00	8/3/16	
	1/3/07	65,000	-	-	\$ 0.28	1/3/17	
	2/28/08	65,000	-	-	\$ 1.07	2/27/18	
Bret Bollinger	2/28/08	50,000	-	100,000	\$ 1.07	2/27/18	

Aggregated Warrant and Option Exercises in last Fiscal Year and Fiscal Year-End Warrant and Option Values:

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Warrants and Options at March 31, 2008		Value of Unexercised In-the-Money Warrants and Options at March 31, 2008 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Peter Berry	-	-	1,420,370	-	\$ 1,102,838	-
	-	7,500(11)	\$4.53	1/12/2025		

Explanation of Responses:

Dee S.
Kelly

3,645(12) 31,355(12) \$6.03 7/22/2025

(1)

All shares are fully vested as of December 31, 2013.

(2)

Issued on June 11, 2014, these options are fully vested as of January 2016.

(3)

Issued on January 12, 2015 these options vest over a four year period and will be fully vested in December 2018.

(4)

On November 30, 2015, Mr. Creech was appointed our Chief Financial Officer and was issued these options which vest over a 48 month period and will be fully vested in October 2019.

(5)

Mr. Czajkowski resigned as our Chief Financial Officer effective March 15, 2015. Mr. Czajkowski has 23,441 vested options which are exercisable up to the ten year anniversary date of grant, May 15, 2023 and 2,708 vested options which are exercisable up to the ten year anniversary of the date of grant, January 17, 2024.

(6)

Issued on December 16, 2013, these shares vest over a 48 month period and will be fully vested in December 2017.

(7)

Issued on January 12, 2015 these options vest over a four year period and will be fully vested in December 2018.

(8)

Issued on October 1, 2013, these shares vest over a 48 month period and will be fully vested in September 2017.

(9)

Issued on October 15, 2014, these shares vest over a 48 month period and will be fully vested in October 2018.

(10)

Issued on June 11, 2014, these shares vest over a 46 month period and will be fully vested in February 2018.

(11)

Issued on January 12, 2015 these options vest over a four year period and will be fully vested in December 2018.

(12)

Issued on July 23, 2015, these options vest over a four year period and will be fully vested in July 2019.

The chart above does not include the grant of options exercisable for 94,048, 57,567, 51,587 and 21,587 shares of common stock issued to each of Mr. Wolf, Dr. Schreiber, Dr. Price and Dr. Goyal, respectively, in January 2016.

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Employment Agreements

On December 18, 2009, we entered into an employment agreement with Jeffrey Wolf to act as our Chief Executive Officer, which was amended on November 22, 2011, and further amended on each of January 20, 2014 and January 11, 2016. Mr. Wolf receives an annual base salary of \$405,000 per year. He also may receive, at the sole discretion of the board, an additional cash performance-based bonus equal to up to 50% of his then outstanding base salary at the end of each year and a discretionary equity award, with the actual amount of his bonus to be increased or decreased in the sole discretion of the Board of Directors. Upon execution of the agreement, Mr. Wolf was issued options exercisable for 119,661 shares of our common stock. In addition, he is to receive certain options to purchase 2% of our fully diluted equity at an exercise price equal to the then current market price if our stock is traded on a nationally recognized exchange or NASDAQ and our market capitalization is at least \$250 million for at least 5 days. If Mr. Wolf's employment contract is terminated for death or disability (as defined in the agreement), he (or his estate in the event of death) will receive six months' severance. If Mr. Wolf's employment is terminated by us other than for cause, he will receive 12 months' severance. In addition, if Mr. Wolf's employment is terminated by us other than for cause all Restricted Shares, common stock and options to purchase common stock that would have vested shall immediately vest. Mr. Wolf will not be entitled to any additional severance in the event he is terminated for cause or voluntarily resigns. Under his employment agreement, Mr. Wolf has also agreed to non-competition provisions.

Effective November 30, 2015, we appointed Timothy Creech as our Chief Financial Officer. In connection with his appointment, Mr. Creech entered into a four-year employment agreement with us (the Creech Employment Agreement), which was amended on January 11, 2016. Pursuant to the Creech Employment Agreement, Mr. Creech receives an annual base salary of \$285,000 and will be eligible for a discretionary cash performance bonus payment of thirty-five percent (35%) of his base salary and a discretionary equity award with the actual amount of his bonus to be increased or decreased in the sole discretion of the Board of Directors. Additionally, Mr. Creech was granted an option to purchase 70,000 shares of our common stock with an exercise price equal to the Company's per share market price on the date of issue. These options vest pro rata, on a monthly basis, over forty-eight months. The Creech Employment Agreement also includes confidentiality obligations and inventions assignments by Mr. Creech. If Mr. Creech's employment is terminated for any reason, he or his estate as the case may be, will be entitled to receive the accrued base salary, vacation pay, expense reimbursement and any other entitlements accrued by him to the extent not previously paid (the Accrued Obligations); provided, however, that if his employment is terminated (1) by us without Just Cause (as defined in the Creech Employment Agreement) or (2) by Mr. Creech for Good Reason (as defined in the Creech Employment Agreement) then in addition to paying the Accrued Obligations: (x) we shall continue to pay his then current base salary for a period of six months; (y) he shall receive a pro-rated amount of the annual bonus which he would have received during the year without the occurrence of such termination at 100% of the targeted amount. If there is a Change of Control (as defined in our Amended and Restated 2014 Stock Incentive Plan) during the term of the Employment Agreement and at such time Mr. Creech has been employed by us for (i) less than five (5) months then fifty percent (50%) of the options granted to Mr. Creech will immediately vest, (ii) at least five (5) months but less than ten (10) months, then seventy five percent (75%) of the option granted to Mr. Creech will immediately vest; or (iii) at least ten (10) months, then the entire option will immediately vest.

Effective March 3, 2014, we appointed Taylor Schreiber, M.D., Ph.D., as our Vice President of Research and Development and effective July 23, 2015, Dr. Schreiber was appointed our Chief Scientific Officer. In connection with his appointment, Dr. Schreiber entered into a four-year employment agreement with us, which was amended January 12, 2015 and further amended on July 23, 2015 and January 11, 2016. Pursuant to the employment agreement, Dr. Schreiber receives an annual base salary of \$300,000 and will be eligible for discretionary cash performance bonus payment of thirty-five percent (35%) of his base salary and a discretionary equity award with the actual amount of his bonus to be increased or decreased in the sole discretion of the Board of Directors. Additionally, on June 11, 2014, the date that our stockholders approved our 2014 Stock Incentive Plan, we granted Dr. Schreiber an option to purchase 50,000 shares of our common stock with an exercise price equal to our per share market price on the date of issue (\$4.57). These options will vest pro rata, on a monthly basis, over 48 months, with a certain percentage vesting immediately upon grant. Dr. Schreiber was also eligible to receive, on the one year anniversary of his employment, an option to purchase 10,000 additional shares of our common stock if certain milestones were attained and such option was issued on January 11, 2015. The employment agreement also includes confidentiality obligations and inventions assignments by Dr. Schreiber. If Dr. Schreiber's employment is terminated for any reason, he or his estate as the case may be, will be entitled to receive the Accrued Obligations accrued by him to the extent not previously paid (the Accrued Obligations); provided, however, that if his employment is terminated (1) by the Company without Just Cause (as defined in the Employment Agreement), or (2) by Dr. Schreiber for Good Reason (as defined in the Employment Agreement) then in addition to paying the Accrued Obligations, (x) the Company shall continue to pay his then current base salary for a period of four months; (y) he shall receive a pro-rated amount of the annual bonus which he would have received during the year without the occurrence of such termination and (z) he will have the right to exercise any vested options until the earlier of the expiration of the severance or the expiration of the term of the option.

Effective December 16, 2013, we appointed Anil K. Goyal, Ph.D. as our Vice President of Business Development. In connection with his appointment, Dr. Goyal entered into a four-year employment agreement with us (the Goyal Employment Agreement), which was amended January 12, 2015 and further amended on January 11, 2016. Pursuant to the Goyal Employment Agreement, Dr. Goyal receives an annual base salary of \$255,000 and will be eligible for a discretionary cash performance bonus payment of thirty percent (30%) of his base salary and a discretionary equity award with the actual amount of his bonus to be increased or decreased in the sole discretion of the Board of Directors. Additionally, Dr. Goyal was granted an option to purchase 40,000 shares of our common stock with an exercise price equal to the Company's per share market price on the date of issue. These options vest pro rata, on a monthly basis, over 48 months. Dr. Goyal was also eligible to receive, on the one year anniversary of his employment, an option to purchase 12,500 shares of our common stock if certain milestones were attained and such option was issued on January 12, 2015. The Goyal Employment Agreement also includes confidentiality obligations and inventions assignments by Dr. Goyal. If Dr. Goyal's employment is terminated for any reason, he or his estate as the case may be, will be entitled to receive the accrued base salary, vacation pay, expense reimbursement and any other entitlements accrued by him to the extent not previously paid (the Accrued Obligations); provided, however, that if his employment is terminated (1) by us without Just Cause (as defined in the Goyal Employment Agreement) or (2) by Dr. Goyal for Good Reason (as defined in the Goyal Employment Agreement) then in addition to paying the Accrued Obligations: (x) we shall continue to pay his then current base salary for a period of four months; (y) he shall receive a pro-rated amount of the annual bonus which he would have received during the year without the occurrence of such termination; and (z) he will have the right to exercise any vested options and any options that would have vested in the next four months until the earlier of the expiration of the severance or the expiration of the term of the option.

Effective October 1, 2013, we appointed Melissa Price, Ph.D. as our Vice President of Clinical and Regulatory Affairs. In connection with her appointment, Dr. Price entered into a four-year employment agreement with us (the Price Employment Agreement), which was amended on January 20, 2014 and further amended on January 12, 2015, July 23, 2015 and January 11, 2016. On July 23, 2015, Dr. Price was appointed our Vice President of Product Development. Pursuant to the Price Employment Agreement, Dr. Price receives an annual base salary of \$250,000 and will be eligible for a discretionary cash performance bonus payment of thirty percent (30%) of her base salary and a discretionary equity award with the actual amount of her bonus to be increased or decreased in the sole discretion of the Board of Directors. Additionally, Dr. Price was granted an option to purchase 50,000 shares of our common stock with an exercise price equal to our per share market price on the date of issue. These options vest pro rata, on a monthly basis, over 48 months. Dr. Price was also eligible to receive an option to purchase 10,000 shares of our common stock if certain agreed to milestones were attained and such option was issued in October 2014. The Price Employment Agreement also includes confidentiality obligations and inventions assignments by Dr. Price. If Dr. Price's employment is terminated for any reason, she or her estate as the case may be, will be entitled to receive the Accrued Obligations accrued by her to the extent not previously paid; provided, however, that if her employment is terminated (1) by us without Just Cause (as defined in the Price Employment Agreement) or by Dr. Price for Good Reason (as defined in the Price Employment Agreement) then in addition to paying the Accrued Obligations, (x) we shall continue to pay her then current base salary for a period of four months; (y) she shall receive a pro-rated amount of the annual bonus which she would have received during the year without the occurrence of such termination and (z) she will have the right to exercise any vested options and any options that would have vested in the next four months until the earlier of the expiration of the severance or the expiration of the term of the option.

On March 9, 2015, we entered into a consulting agreement (the Consulting Agreement) with Danforth Advisors, LLC (Danforth) for finance, accounting and administrative functions, including interim chief financial officer services provided by Mr. Stephen J. DiPalma. We paid Danforth an agreed upon hourly rate for such services and reimbursed Danforth for expenses. The Consulting Agreement continued until December 31, 2015.

On May 15, 2013, we entered into an employment agreement with Matthew E. Czajkowski to act as our Chief Financial Officer, which was amended on January 20, 2014 and further amended on May 1, 2014. Mr. Czajkowski received an annual base salary of \$180,000 per year for his provision of services to us for 80% of his professional time. In addition, Mr. Czajkowski was eligible to receive, at the sole discretion of the board, additional performance-based bonuses equal to up to 50% of this then outstanding base salary at the end of each year. Mr. Czajkowski's employment contract provided for three months severance pay upon termination not for cause (as defined in the agreement) and accelerated vesting of all options that would have vested within one year of such termination. The agreement also provided for payments in the event of death and disability. On March 9, 2015, we entered into a severance agreement with Mr. Czajkowski effective as of March 15, 2015. In accordance with the terms of the severance agreement, Mr. Czajkowski resigned as our Chief Financial Officer effective as of March 15, 2015, and we paid Mr. Czajkowski all accrued and unpaid base salary and an expense reimbursement in addition to \$45,000. Mr. Czajkowski has the ability to exercise all stock options issued to him that vested prior to the date of resignation in accordance with the terms of his employment agreement at any time prior to the ten year anniversary of the date of grant and any unvested options at the time of resignation were immediately vested and are exercisable for 90 days after March 15, 2015. The severance agreement also contained additional provisions that are customary for agreements of this type, including confidentiality, non-competition and non-solicitation provisions.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of January 15, 2016, or as otherwise set forth below, with respect to the beneficial ownership of our common stock (i) all persons know to us to be the beneficial owners of more than 5% of the outstanding shares of our common stock, (ii) each of our directors and our executive officer named in the Summary Compensation Table, and (iii) all of our directors and our executive officer as a group. As of January 15, 2016 we had 8,424,641 shares of common stock outstanding.

Unless otherwise indicated the mailing address of each of the stockholders below is c/o Heat Biologics, Inc., 801 Capitola Drive, Bay 12, Durham, North Carolina 27713. Except as otherwise indicated, and subject to applicable community property laws, except to the extent authority is shared by both spouses under applicable law, the Company believes the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them.

Name of Beneficial Owner	Shares		Total	Percentage Ownership
	Common Stock	subject to Options (1)	Number of Shares Beneficially Owned	
Executive Officers & Directors				
Paul Belsky, M.D. (Director)	47,190	33,441	80,631	1.0%
Louis Bock (Director)		20,068	20,068	*
Timothy Creech (Chief Financial Officer)		5,834	5,834	*
Anil Goyal, Ph.D. (Vice President of Business Development)		26,920	26,920	*
Michael Kharitonov, Ph.D. (Director)(2)	49,960	41,050	91,010	1.1%
John Monahan, Ph.D. (Director)	1,211	41,050	42,261	*
Melissa Price, Ph.D. Vice President of Product Development (3)	692	37,807	38,499	*
Taylor Schreiber, M.D., PhD Chief Scientific Officer(4)	39,132	36,824	75,956	*
Edward Smith (Director)(5)	697,303	33,441	730,744	8.6%
Jeffrey Wolf (Director, CEO, Treasurer & Secretary)(6)	1,237,396	229,184	1,466,580	16.9%
Matthew Czajkowski (Former Chief Financial Officer)		26,149	26,149	*
Stephen DiPalma (Former Chief Financial Officer)				
All Executive Officers & Directors, as a group (11 persons)	2,072,884	531,768	2,604,652	29.1%

Explanation of Responses:

5% Stockholders(1)

Aristar Capital Management, LLC(5)	697,303	8.3%
Orion Holdings V, LLC (6)	695,653	8.3%
Seed-One Holdings VI, LLC(6)	536,862	6.4%
FW Heat Biologics, LLC(7)	453,673	5.4%
Franklin Resources, Inc. (8)	1,433,300	17.0%

*less than 1%

(1)

Represents shares subject to options which are vested and exercisable within 60 days of January 15, 2016.

(2)

Includes 49,960 shares of common stock held by Dr. Kharitonov. Dr. Kharitonov disclaims beneficial ownership of these shares except to the extent of any pecuniary interest (as defined in Rule 16a-1(a)(2) promulgated under the Exchange Act) that he may have in the Sunrise Equity, LLC.

(3)

The 692 shares of common stock are held in custodial accounts in the names of Dr. Price's children, of which Dr. Price disclaims beneficial ownership except to the extent of any pecuniary interest (as defined in Rule 16a-1(a)(2) promulgated under the Exchange Act) that she may have.

(4)

Dr. Schreiber and an entity controlled by Dr. Schreiber have been issued an aggregate of 39,132 shares of common stock that are included in the number of shares beneficially owned by Dr. Schreiber.

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(5)

Information obtained from a Schedule 13D/A filed on January 8, 2015 with the Securities and Exchange Commission filed on behalf of Aristar Capital Management, LLC of which Mr. Smith disclaims beneficial ownership of 697,303 shares of common stock, except to the extent of any pecuniary interest (as defined in Rule 16a-1(a)(2) promulgated under the Exchange Act) that he may have in such entities.

(6)

Includes 695,653 shares of common stock held by Orion Holdings V, LLC and 536,862 shares of common stock held by Seed-One Holdings VI, LLC, entities for which Mr. Wolf serves as the managing member. Mr. Wolf is deemed to beneficially own the shares held by such entities as in his role as the managing member he has the control over the voting and disposition of any shares held by these entities. Includes 3,660 shares purchased May 2014 and 1,221 shares converted from Series B, does not include 86,957 shares of common stock beneficially owned by Mr. Wolf's children's trust of which Mr. Wolf is not the trustee. Mr. Wolf disclaims beneficial ownership of these shares except to the extent of any pecuniary interest (as defined in Rule 16a-1(a)(2) promulgated under the Exchange Act) that he may have in such entities. In addition, if our Company is traded on a recognized national exchange or NASDAQ while Mr. Wolf is employed by us and the market capitalization of our Company is in excess of \$250 million for at least five consecutive trading days, then Mr. Wolf will be entitled to receive an additional stock option equal to 2% of the then outstanding shares of our common stock, at an exercise price equal to the then current market price as determined in good faith by the board.

(7)

Information obtained from a Schedule 13G filed February 12, 2014 with the Securities and Exchange Commission filed on behalf of (i) FW Heat Investors, L.P. (the Fund), a Delaware limited partnership, (ii) FW Heat Genpar, LLC (the General Partner), a Delaware limited liability company, as the general partner to the Fund, and (iii) Jay H. Hebert, as the sole member of the General Partner (Hebert) and, together with the Fund and the General Partner, the Reporting Persons). All 453,763 shares of Common Stock are held by the Fund. The mailing address of FW Heat Investors L.P is 201 Main Street, Fort Worth, Texas 76102.

(8)

Information obtained from a Schedule 13G/A filed with the Securities and Exchange Commission on April 10, 2015. Charles B. Johnson and Rupert H. Johnson, Jr. each own in excess of 10% of the outstanding common stock of Franklin Resources, Inc. (FRI) and are the principal stockholders of FRI. Franklin Advisor, Inc. a management subsidiary of FRI is also deemed to be a beneficial owner of the common stock owned by FRI. The address of Franklin Resources, Inc. is One Franklin Parkway, San Mateo, California 94403-1906.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS; DIRECTOR INDEPENDENCE

Related-Party Transaction Policy

Pursuant to our charter, our Audit Committee shall review on an on-going basis for potential conflicts of interest, and approve if appropriate, all our Related Party Transactions as required by of NASDAQ Rule 4350(h). For purposes of the Audit Committee Charter, Related Party Transactions shall mean those transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404.

The following is a summary of transactions since January 1, 2014 to which we have been a party in which the amount involved exceeded the lesser of \$120,000 or one percent of the average of our total assets at the end of the most recently completed fiscal year and in which any of our executive officers, directors or beneficial holders of more than five percent of our capital stock had or will have a direct or indirect material interest, other than compensation arrangements which are described under the section entitled Management Non-Employee Director Compensation and Management Executive Compensation.

On January 11, 2016, our named executive officers were awarded the following 2015 year-end bonus compensation: Jeffrey A. Wolf, our Chief Executive Officer, was granted options to purchase 94,048 shares of our common stock and received a cash bonus in the amount of \$177,500; Dr. Goyal was granted options to purchase 21,587 shares of our common stock and received a cash bonus in the amount of \$51,000; Dr. Price was granted options to purchase 51,587 shares of our common stock and received a cash bonus in the amount of \$75,000; and Dr. Schreiber was granted options to purchase 57,567 shares of our common stock and received a cash bonus in the amount of \$95,202. The stock options granted have an exercise price of \$2.47 per share, which is the closing price of our common stock on the grant date (January 11, 2016), vest pro rata, on a monthly basis, over a four (4) year period and expire ten (10) years from the date of the grant, unless terminated earlier.

On January 11, 2016 our non-executive directors were granted options to purchase 23,810 shares of our common stock. The stock options granted have an exercise price of \$2.47, which is the closing price of our common stock on the grant date (January 11, 2016), vest on January 11, 2017 and expire ten (10) years from the date of the grant, unless terminated earlier.

On July 23, 2015, we issued an additional 35,000 options to Dr. Schreiber vesting monthly on a pro rata basis over a four-year period.

On March 9, 2015, we entered into a severance agreement with Mr. Czajkowski effective as of March 15, 2015. In accordance with the terms of the severance agreement, Mr. Czajkowski resigned as our Chief Financial Officer effective as of March 15, 2015, and we paid Mr. Czajkowski all accrued and unpaid base salary and an expense reimbursement in addition to \$45,000. Mr. Czajkowski has the ability to exercise all stock options issued to him that vested prior to the date of resignation in accordance with the terms of his employment agreement at any time prior to the ten-year anniversary of the date of grant and any unvested options at the time of resignation were immediately vested and are exercisable for 90 days after March 15, 2015. The severance agreement also contained additional provisions that are customary for agreements of this type, including confidentiality, non-competition and non-solicitation provisions.

On January 12, 2015, our named executive officers were awarded the following 2014 year-end bonus compensation: Jeffrey A. Wolf, our Chief Executive Officer, was granted options to purchase 12,500 shares of our common stock and received a cash bonus in the amount of \$127,500; Dr. Goyal was granted options to purchase 12,500 shares of our common stock and received a cash bonus in the amount of \$49,500; Dr. Price received a cash bonus in the amount of \$47,250; and Dr. Schreiber was granted options to purchase 10,000 shares of our common stock and received a cash bonus in the amount of \$39,483. The stock options granted have an exercise price of \$4.53, which is the closing price of the Common Stock on the grant date (January 12, 2015), vest pro rata, on a monthly basis, over a four (4) year period and expire ten (10) years from the date of the grant, unless terminated earlier.

DESCRIPTION OF OUR SECURITIES

General

The following is a summary of the rights of our common stock and related provisions of our articles of incorporation and bylaws. For more detailed information, please see our articles of incorporation and bylaws.

We are authorized to issue 50,000,000 shares of common stock, par value \$0.0002 per share, of which 8,424,641 shares are outstanding and 10,000,000 shares of Preferred Stock, par value \$.0001 per share, of which 112,500 shares are designated Series 1 Preferred Stock, 2,000,000 shares are designated Series A Preferred Stock, 4,100,000 are designated as Series B-1 Preferred Stock and 2,000,000 are designated Series B-2 Preferred Stock. There are currently no shares of Preferred Stock outstanding.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters to be voted on by the shareholders. Subject to preferences that may be applicable to any outstanding shares of Preferred Stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the Board out of funds legally available therefore. If we liquidate, dissolve or wind up, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of Preferred Stock. Holders of common stock have no preemptive, conversion or subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable. Except as otherwise required by Delaware law, all stockholder action, other than the election of directors, is taken by the vote of a majority of the outstanding shares of common stock voting as a single class present at a meeting of stockholders at which a quorum consisting of a majority of the outstanding shares of common stock is present in person or proxy. The election of directors by our stockholders, is determined by a plurality of the votes cast by the stockholders entitled to vote at any meeting held for such purposes at which a quorum consisting of a majority of the outstanding shares of common stock is present in person or proxy.

Reverse Stock Split

On May 29, 2013, we effected a 1-for-2.3 reverse stock split. Upon the effectiveness of the reverse stock split, every 2.3 shares of outstanding common stock decreased to one share of common stock. Similarly, the number of shares of common stock into which each outstanding option and warrant to purchase common stock is exercisable decreased on a 1-for-2.3 basis and the exercise price of each outstanding option and warrant to purchase common stock increased proportionately. In addition, the applicable conversion price of the Preferred Stock that was outstanding at such time was proportionately increased to adjust for the stock split resulting in a proportionate decrease in the number of shares that were issued upon conversion of the Preferred Stock upon the closing of our initial public offering.

Unless otherwise indicated, all references to share numbers in this prospectus filed as part of this registration statement reflect the effects of this reverse stock split.

Outstanding Common Stock Warrants

On March 10, 2011, we issued warrants to purchase 32,610 shares of common stock to non-employee placement agents in consideration for a private equity placement transaction, of which 17,392 remain outstanding. The warrants have an exercise price of \$0.48 per share and expire 10 years from the issuance date.

In connection with our initial public offering, we issued warrants to the underwriters for 125,000 shares of common stock issuable at \$12.50 per share upon exercise. The warrants have a five-year life and expire on July 23, 2018. In addition, the warrants provide for registration rights upon request, in certain cases. The holders of the warrants were granted demand registration rights for a period of five years from the effective date of the offering and piggyback registration rights for a period of seven years from the effective date of the offering. The exercise price and number of shares issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a stock dividend or our recapitalization, reorganization, merger or consolidation. However, the warrant exercise price or underlying shares will not be adjusted for issuances of shares of common stock at a price below the warrant exercise price.

Stock Option Plans

In January, 2014, the Board adopted, and on June 11, 2014 at our 2014 Annual Meeting of Stockholders our stockholders approved our 2014 Stock Incentive Plan (the 2014 Plan) under which we are authorized to grant 500,000 awards in the form of options, restricted stock, restricted stock units and other stock based awards. In 2009, our Board adopted and our stockholders approved our 2009 Stock Incentive Plan (the 2009 Plan) under which we are authorized to grant 869,565 awards in the form of options, restricted stock, restricted stock units and other stock based awards. As of December 31, 2015: (1) 858,892 awards had been granted under the 2014 Plan, of which 3,750 were exercised, and 183,959 were canceled and there were 425,462 shares of Common Stock available for grant under the 2014 Plan, and (2) 860,270 awards had been granted under the 2009 Plan, of which 188,719 were exercised, and 118,446 were canceled and there were 27,835 shares of Common Stock available for grant under the 2009 Plan.

In March 2015, our Compensation Committee recommended and our Board of Directors adopted and at the 2015 Annual Meeting of Stockholders, our stockholders approved an amendment to the 2014 Plan to increase by 600,000 shares the aggregate number of shares of our Common Stock that may be delivered pursuant to awards granted during the life of the 2014 Plan. As of July 2013, we had the authority to grant up to 1,100,000 awards under the 2014 Plan, as amended.

Potential Anti-Takeover Effects

Certain provisions set forth in our Third Amended and Restated Certificate of Incorporation, as amended, in our bylaws and in Delaware law, which are summarized below, may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the shares held by stockholders.

Blank Check Preferred Stock. Our Certificate of Incorporation and bylaws contain provisions that permit us to issue, without any further vote or action by the stockholders, up to 10,000,000 shares of preferred stock in one or more series and, with respect to each such series, to fix the number of shares constituting the series and the designation of the series, the voting powers, if any, of the shares of the series, and the preferences and relative, participating, optional and other special rights, if any, and any qualifications, limitations or restrictions, of the shares of such series.

Special Meetings of Stockholders. Our bylaws provide that special meetings of stockholders may be called only by the chairman or by our board. Stockholders are not permitted to call a special meeting of stockholders, to require that the board call such a special meeting, or to require that our board request the calling of a special meeting of stockholders.

While the foregoing provisions of our certificate of incorporation, bylaws and Delaware law may have an anti-takeover effect, these provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board of directors and in the policies formulated by the Board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. In that regard, these provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

Delaware Takeover Statute

In general, Section 203 of the Delaware General Corporation Law prohibits a Delaware corporation that is a public company from engaging in any business combination (as defined below) with any interested stockholder (defined generally as an entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with such entity or person) for a period of three years following the date that such stockholder became an interested stockholder, unless: (1) prior to such date, the Board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (2) on consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (x) by persons who are directors and also officers and (y) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (3) on or subsequent to such date, the business combination is approved by the Board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 of the Delaware General Corporation Law defines business combination to include: (1) any merger or consolidation involving the corporation and the interested stockholder; (2) any sale, transfer, pledge or other disposition of ten percent or more of the assets of the corporation involving the interested stockholder; (3) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (4) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (5) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

Listing of Common Stock

Our common stock is currently listed on the NASDAQ Capital Market under the trading symbol HTBX.

Transfer Agent

We have retained Continental Stock Transfer & Trust Company as our transfer agent. They are located at 17 Battery Place, 8th floor, New York, New York 10004. Their telephone number is (212) 509-4000.

DESCRIPTION OF SECURITIES WE ARE OFFERING

We are offering shares of our common stock and warrants to purchase shares of our common stock. Each share of our common stock is being sold together with one of a warrant to purchase one share of common stock. The shares of our common stock and related warrants will be issued separately. We are also registering the shares of our common stock issuable from time to time upon exercise of the warrants offered hereby.

Common Stock

The material terms and provisions of our common stock and each other class of our securities which qualifies or limits our common stock are described under the caption Description of Our Securities in this prospectus.

Warrants

The following summary of certain terms and provisions of the warrants that are being offered hereby together with our common stock is not complete and is subject to, and qualified in its entirety by, the provisions of the warrant, the form of which has been filed as an exhibit to the registration statement of which this prospectus is a part. Prospective investors should carefully review the terms and provisions of the form of warrant for a complete description of the terms and conditions of the warrants.

Duration and Exercise Price

Each warrant offered hereby will have an exercise price of not less than 100% of the closing bid price of our common stock on the trading day immediately preceding the pricing of this offering. The warrants will be immediately exercisable and will expire on the fifth anniversary of the original issuance date. The warrants will be issued separately from our common stock, and may be transferred separately immediately thereafter. Warrants will be issued in certificated form only.

Exercisability

The warrants will be exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise (except in the case of a cashless exercise as discussed below). A holder (together with its affiliates) may not exercise any portion of the warrant to the extent that the holder would own more than 4.99% of the outstanding common stock after exercise, except that upon at least 61 days' prior notice from the holder to us, the holder may increase the amount of ownership of outstanding stock after exercising the holder's warrants up to 9.99% of the number of shares of our common stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants.

Cashless Exercise

If, at the time a holder exercises its warrant, there is no effective registration statement registering, or the prospectus contained therein is not available for an issuance of the shares underlying the warrant to the holder, then in lieu of making the cash payment otherwise contemplated to be made to us upon such exercise in payment of the aggregate exercise price, the holder may elect instead to receive upon such exercise (either in whole or in part) the net number of shares of our common stock determined according to a formula set forth in the warrant.

Anti-Dilution Protection

The warrant provides that the exercise price is subject to adjustment in the event of stock splits, reverse stock splits and the like.

Fundamental Transactions

In the event of any fundamental transaction, as described in the warrants and generally including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, the holder will have the right to have such warrants and all obligations and rights thereunder assumed by the successor or acquiring corporation.

Transferability

Subject to applicable laws and the restriction on transfer set forth in the warrant, the warrant may be transferred at the option of the holder upon surrender of the warrant to us together with the appropriate instruments of transfer.

No Listing

There is no established trading market for the warrants and we do not expect a market to develop. In addition, we do not intend to apply for the listing of the warrants on any national securities exchange or other trading market. Without an active trading market, the liquidity of the warrants will be limited.

Right as a Shareholder

Except as otherwise provided in the warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the warrants do not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their warrants.

Waivers and Amendments

Subject to certain exceptions, any term of the warrants may be amended or waived with our written consent and the written consent of the holders of at least a majority of the then-outstanding warrants.

UNDERWRITING

We have entered into an underwriting agreement with Roth Capital Partners, LLC, acting as the representative of the several underwriters named below, with respect to the shares of common stock and the related warrants subject to this offering. Subject to certain conditions, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the number of shares of common stock and the related warrants provided below opposite their respective names.

Underwriters	Number of Shares	Number of Warrants
Roth Capital Partners, LLC		
Aegis Capital Corporation		
Total		

The underwriters are offering the shares of common stock and the related warrants subject to their acceptance of the shares of common stock and the related