

Cryoport, Inc.
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
X ACT OF 1934**

For the quarterly period ended June 30, 2018

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

Commission File Number: 001-34632

CRYOPORT, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada

88-0313393

**(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)**

17305 Daimler St.

Irvine, CA 92614

(Address of principal executive offices)

(949) 470-2300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer "Smaller reporting company"
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: Cryoport, Inc. - Form 10-Q

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

As of August 3, 2018 there were 28,569,672 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	3
ITEM 1. Financial Statements	3
<u>Condensed Consolidated Balance Sheets at June 30, 2018 (Unaudited) and December 31, 2017</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>ITEM 4. Controls and Procedures</u>	<u>28</u>
<u>PART II. OTHER INFORMATION</u>	<u>28</u>
<u>ITEM 1. Legal Proceedings</u>	<u>28</u>
<u>ITEM 1A. Risk Factors</u>	<u>28</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>29</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>29</u>
<u>ITEM 5. Other Information</u>	<u>29</u>
<u>ITEM 6. Exhibits</u>	<u>29</u>
<u>SIGNATURES</u>	<u>30</u>

Cryoport, Inc. and Subsidiaries**Condensed Consolidated Balance Sheets**

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$20,011,137	\$15,042,189
Accounts receivable, net of allowance for doubtful accounts of \$105,000 and \$70,000, respectively	3,618,929	1,625,476
Inventories	97,290	114,796
Prepaid expenses and other current assets	502,617	516,427
Total current assets	24,229,973	17,298,888
Property and equipment, net	3,038,618	2,511,174
Intangible assets, net	117,818	90,646
Deposits	351,844	363,403
Total assets	\$27,738,253	\$20,264,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued expenses	\$2,210,955	\$1,232,975
Accrued compensation and related expenses	902,919	925,514
Deferred revenue	19,106	26,654
Total current liabilities	3,132,980	2,185,143
Deferred rent liability	183,557	192,202
Total liabilities	3,316,537	2,377,345
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 2,500,000 shares authorized:		
Class A convertible preferred stock — \$0.001 par value; 800,000 shares authorized; none issued and outstanding	—	—

Edgar Filing: Cryoport, Inc. - Form 10-Q

Class B convertible preferred stock — \$0.001 par value; 585,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 28,450,653 and 25,701,924 issued and outstanding at June 30, 2018 and December 31, 2017, respectively	28,451	25,702
Additional paid-in capital	160,979,798	149,293,947
Accumulated deficit	(136,586,533)	(131,432,883)
Total stockholders' equity	24,421,716	17,886,766
Total liabilities and stockholders' equity	\$27,738,253	\$20,264,111

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries**Condensed Consolidated Statements of Operations**

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	\$4,627,011	\$2,917,378	\$8,650,200	\$5,629,612
Cost of revenues	2,123,304	1,524,189	3,962,130	2,982,926
Gross margin	2,503,707	1,393,189	4,688,070	2,646,686
Operating costs and expenses:				
General and administrative	2,668,845	1,789,514	4,737,355	3,492,546
Sales and marketing	1,851,456	1,236,833	3,435,884	2,306,768
Engineering and development	448,591	230,736	778,321	480,579
Total operating costs and expenses	4,968,892	3,257,083	8,951,560	6,279,893
Loss from operations	(2,465,185)	(1,863,894)	(4,263,490)	(3,633,207)
Other income (expense):				
Interest expense	—	(26)	—	(15,693)
Warrant inducement and repricing expense	—	—	(899,410)	—
Other income, net	7,120	3,463	22,888	3,463
Loss before provision for income taxes	(2,458,065)	(1,860,457)	(5,140,012)	(3,645,437)
Provision for income taxes	(12,825)	—	(13,638)	(4,231)
Net loss	\$(2,470,890)	\$(1,860,457)	\$(5,153,650)	\$(3,649,668)
Net loss per share – basic and diluted	\$(0.09)	\$(0.08)	\$(0.19)	\$(0.18)
Weighted average shares outstanding – basic and diluted	27,808,873	23,965,825	27,294,384	20,802,628

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries**Condensed Consolidated Statements of Cash Flows****(unaudited)**

	For the Six Months Ended June 30,	
	2018	2017
Cash Flows From Operating Activities:		
Net loss	\$(5,153,650)	\$(3,649,668)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	379,193	307,905
Amortization of debt discounts and deferred financing costs	—	6,130
Stock-based compensation expense	2,495,239	1,565,001
Warrant inducement and repricing expense	899,410	—
Loss on disposal of property and equipment	62,446	49,840
Provision for bad debt	35,675	1,636
Changes in operating assets and liabilities:		
Accounts receivable	(2,029,128)	(56,888)
Inventories	17,506	16,878
Prepaid expenses and other assets	25,369	(22,010)
Accounts payable and other accrued expenses	961,787	205,633
Accrued compensation and related expenses	(22,595)	179,291
Accrued interest	—	(1,843)
Net cash used in operating activities	(2,328,748)	(1,398,095)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(969,083)	(1,022,321)
Patent and trademark costs	(27,172)	(24,728)
Net cash used in investing activities	(996,255)	(1,047,049)
Cash Flows From Financing Activities:		
Proceeds from the public offering, net of offering costs	—	11,405,924
Proceeds from February 2018 tender offer, net of offering costs	4,641,807	—
Proceeds from exercise of stock options and warrants	3,652,144	25,438
Repayment of related-party notes payable	—	(656,221)
Net cash provided by financing activities	8,293,951	10,775,141
Net change in cash and cash equivalents	4,968,948	8,329,997
Cash and cash equivalents — beginning of period	15,042,189	4,524,529
Cash and cash equivalents — end of period	\$20,011,137	\$12,854,526

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2018 and 2017

(Unaudited)

Note 1. Management’s Representation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Cryoport, Inc. (the “Company”, “our” or “we”) in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statement presentation. However, the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The Company has evaluated subsequent events through the date of this filing and determined that no subsequent events have occurred that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the notes thereto other than as disclosed in the accompanying notes.

Note 2. Nature of the Business

Cryoport is the premier provider of cryogenic logistics solutions to the life sciences industry through its purpose-built proprietary packaging, information technology and specialized cold chain logistics expertise. The Company provides leading edge logistics solutions for biologic materials, such as immunotherapies, stem cells, CAR-T cells and reproductive cells for clients worldwide. Leading global companies, such as FedEx, UPS and DHL have each separately selected Cryoport as the preferred cryogenic logistics provider for time- and temperature-sensitive

biological material. Cryoport actively supports points-of-care, contract research organizations, central laboratories, pharmaceutical and biotechnology companies, contract manufacturers and university researchers.

The Company is a Nevada corporation and its common stock is traded on the NASDAQ Capital Market exchange under the ticker symbol "CYRX."

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Cryoport, Inc. and its wholly owned subsidiaries, Cryoport Systems, Inc. and Cryoport Europe Limited (collectively, the "Company"). All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimated amounts. The Company's significant estimates include the allowance for doubtful accounts, recoverability of long-lived assets, allowance for inventory obsolescence, deferred taxes and their accompanying valuations, and valuation of equity instruments.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. The carrying value for all such instruments approximates fair value at June 30, 2018 and December 31, 2017 due to their short-term nature.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Concentrations of Credit Risk

The Company maintains its cash accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”) with basic deposit insurance coverage limits up to \$250,000 per owner. At June 30, 2018, the Company had cash balances of approximately \$19.8 million which exceeded the FDIC insurance limit. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure.

Customers

The Company grants credit to customers within the U.S. and to a limited number of international customers and does not require collateral. Revenues from international customers are generally secured by advance payments except for established foreign customers. The Company generally requires advance or credit card payments for initial revenues from new customers. The Company’s ability to collect receivables can be affected by economic fluctuations in the geographic areas and industries served by the Company. Reserves for uncollectible amounts are provided based on past experience and a specific analysis of the accounts, which management believes is sufficient. Accounts receivable at June 30, 2018 and December 31, 2017 are net of reserves for doubtful accounts of \$105,000 and \$70,000, respectively. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. The Company maintains reserves for bad debt and such losses, in the aggregate, historically have not exceeded its estimates.

The Company’s customers are in the biotechnology, pharmaceutical and life science industries. Consequently, there is a concentration of accounts receivable within these industries, which is subject to normal credit risk. As of June 30, 2018, there was one customer that accounted for 31.7% of net accounts receivable. There was no other single customer that owed us more than 10% of net accounts receivable at June 30, 2018 and December 31, 2017.

The Company has revenue from foreign customers primarily in Europe, Japan, Canada, India and Australia. During the six months ended June 30, 2018 and 2017, the Company had revenues from foreign customers of approximately \$894,000 and \$714,600, respectively, which constituted approximately 10.3% and 12.7%, respectively, of total

revenues. For the six months ended June 30, 2018, there was one customer that accounted for 15.1% of total revenues. No other single customer generated over 10% of total revenues during the six months ended June 30, 2018 and 2017.

During the three months ended June 30, 2018 and 2017, the Company had revenues from foreign customers of approximately \$365,800 and \$365,300, respectively, which constituted approximately 7.9% and 12.5%, respectively, of total revenues. For the three months ended June 30, 2018, there was one customer that accounted for 21.0% of total revenues. No other single customer generated over 10% of total revenues during the three months ended June 30, 2018 and 2017.

Inventories

The Company's inventories consist of packaging materials and accessories that are sold to customers. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the standard cost method which approximates the first-in, first-to-expire method. Inventories are reviewed periodically for slow-moving or obsolete status. The Company writes down the carrying value of its inventories to reflect situations in which the cost of inventories is not expected to be recovered. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories. Raw materials and finished goods include material costs less reserves for obsolete or excess inventories. The Company evaluates the current level of inventories considering historical trends and other factors, such as selling prices and costs of completion, disposal and transportation, and based on the evaluation, records adjustments to reflect inventories at net realizable value. These adjustments are estimates, which could vary significantly from actual results if future economic conditions, customer demand, competition or other relevant factors differ from expectations. These estimates require us to make assessments about future demand for the Company's products in order to categorize the status of such inventories items as slow-moving, obsolete or in excess-of-need. These estimates are subject to the ongoing accuracy of the Company's forecasts of market conditions, industry trends, competition and other factors.

Property and Equipment

The Company provides shipping containers ("Shippers") to its customers and charges a fee in exchange for the use of the Shipper. The Company's arrangements are similar to the accounting standard for leases since they convey the right to use the Shipper over a period of time. The Company retains the title to the Shippers and provides its customers the use of the Shipper for a specific shipping cycle. At the culmination of the customer's shipping cycle, the Shipper is returned to the Company. As a result, the Company classifies the Shippers as property and equipment for the per-use Shipper program.

Property and equipment are recorded at cost. Shippers and data loggers, which comprise 36% and 47% of the Company's net property and equipment balance at June 30, 2018 and December 31, 2017, respectively, are depreciated using the straight-line method over their estimated useful lives of three years. Equipment and furniture are depreciated

using the straight-line method over their estimated useful lives (generally three to seven years) and leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the lease term, whichever is shorter.

Betterments, renewals and extraordinary repairs that extend the lives of the assets are capitalized; other repairs and maintenance charges are expensed as incurred. The cost and related accumulated depreciation and amortization applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized in the condensed consolidated statements of operations.

Intangible Assets

Intangible assets are comprised of patents and trademarks and software development costs. The Company capitalizes costs of obtaining patents and trademarks, which are amortized, using the straight-line method over their estimated useful life of five years once the patent or trademark has been issued. The Company capitalizes certain costs related to software developed for internal use. Software development costs incurred during the preliminary or maintenance project stages are expensed as incurred, while costs incurred during the application development stage are capitalized and amortized using the straight-line method over the estimated useful life of the software, which is five years. Capitalized costs include purchased materials and costs of services.

Long-lived Assets

If indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the fair value to the carrying value. We believe the future cash flows to be received from the long-lived assets will exceed the assets' carrying value, and accordingly, we have not recognized any impairment losses through June 30, 2018.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of the debt instruments and equity financings. Deferred financing costs related to the issuance of debt are amortized over the term of the financing instrument using the effective interest method while offering costs from equity financings are netted against the gross proceeds received from the equity financings.

Income Taxes

The Company accounts for income taxes under the provision of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, *Income Taxes*, or ASC 740. As of June 30, 2018 and December 31, 2017, there were no unrecognized tax benefits included in the accompanying condensed consolidated balance sheets that would, if recognized, affect the effective tax rates.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. Based on the weight of available evidence, the Company’s management has determined that it is more likely than not that the net deferred tax assets will not be realized. Therefore, the Company has recorded a full valuation allowance against the net deferred tax assets. The Company’s income tax provision consists of state minimum taxes.

The Company’s policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on its condensed consolidated balance sheets at June 30, 2018 and December 31, 2017 and has not recognized interest and/or penalties in the condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017. The Company is subject to taxation in the U.S. and various state jurisdictions. As of June 30, 2018, the Company is no longer subject to U.S. federal examinations for years before 2014 and for California franchise and income tax examinations for years before 2013. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses were generated and carried forward and make adjustments up to the amount of the net operating loss carry forward amount. The Company is not currently under examination by U.S. federal or state jurisdictions.

Revenue Recognition

See Note 7.

Accounting for Shipping and Handling Revenue, Fees and Costs

The Company classifies amounts billed for shipping and handling as revenue. Shipping and handling fees and costs are included in cost of revenues in the accompanying condensed consolidated statements of operations.

Engineering and Development Expenses

Expenditures relating to engineering and development are expensed in the period incurred.

Stock-Based Compensation

The Company accounts for stock-based payments to employees and directors in accordance with stock-based payment accounting guidance which requires all stock-based payments to employees and directors, including grants of employee stock options and warrants, to be recognized based upon their fair values. The fair value of stock-based awards is estimated at the grant date using the Black-Scholes Option Pricing Model (“Black-Scholes”) and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. The determination of fair value using Black-Scholes is affected by the Company’s stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

The Company accounts for forfeitures of unvested awards as they occur. The Company’s stock-based compensation plans are discussed further in Note 6.

Equity Instruments Issued to Non-Employees for Acquiring Goods or Services

Issuances of the Company's common stock for acquiring goods or services are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for the fair value of the equity instruments issued to consultants or vendors is determined at the earlier of (i) the date at which a commitment for performance to earn the equity instruments is reached (a "performance commitment" which would include a penalty considered to be of a magnitude that is a sufficiently large disincentive for nonperformance) or (ii) the date at which performance is complete. When it is appropriate for the Company to recognize the cost of a transaction during financial reporting periods prior to the measurement date, for purposes of recognition of costs during those periods, the equity instrument is measured at the then-current fair values at each of those interim financial reporting dates.

Basic and Diluted Net Loss Per Share

We calculate basic and diluted net loss per share attributable to common stockholders using the weighted average number of common shares outstanding during the periods presented and adjust the amount of net loss used in this calculation for deemed dividends and cumulative preferred stock dividends (if any), whether they are earned or not during the period. In periods of a net loss position, basic and diluted weighted average common shares are the same. For the diluted earnings per share calculation, we adjust the weighted average number of common shares outstanding to include dilutive stock options, warrants and shares associated with the conversion of convertible debt and convertible preferred stock outstanding during the periods.

The following shows the amounts used in computing net loss per share for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	\$ (2,470,890)	\$ (1,860,457)	\$ (5,153,650)	\$ (3,649,668)
Weighted average common shares issued and outstanding - basic and diluted	27,808,873	23,965,825	27,294,384	20,802,628
Basic and diluted net loss per share attributable to common stockholders	\$ (0.09)	\$ (0.08)	\$ (0.19)	\$ (0.18)

The following table sets forth the number of shares excluded from the computation of diluted loss per share, as their inclusion would have been anti-dilutive:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Stock options	3,228,636	506,192	2,985,721	513,746
Warrants	1,543,052	875,947	1,460,316	875,947
	4,771,688	1,382,139	4,446,036	1,389,693

Segment Reporting

We currently operate in one reportable segment and our Chief Executive Officer is the chief operating decision maker.

Fair Value Measurements

We measure fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include the following:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data. These inputs include quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in the assessment of fair value.

We have no assets or liabilities that are required to be measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017.

Foreign Currency Transactions

We record foreign currency transactions at the exchange rate prevailing at the date of the transaction with resultant gains and losses being included in results of operations. Foreign currency transaction gains and losses have not been significant for any of the periods presented.

Balance Sheet Arrangements

We do not currently have any off balance sheet arrangements.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance. Subsequent to the issuance of ASU No. 2014-09, the FASB clarified the guidance through several Accounting Standards Updates; hereinafter the collection of revenue guidance is referred to as "Topic 606." Topic 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The Company adopted Topic 606 on January 1, 2018 using the modified retrospective transition method; accordingly, Topic 606 has been applied to the fiscal 2018 financial statements and disclosures going forward, but the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of Topic 606 to be immaterial to our operating results on an ongoing basis. See Note 7, "Revenue Recognition," for additional details on this implementation and the required disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which provides for a comprehensive change to lease accounting. The new standard requires that a lessee recognize a lease obligation liability and a right-to-use asset for virtually all leases of property, plant and equipment, subsequently amortized over the lease term. The new standard is effective for fiscal years beginning after December 15, 2018, with a modified retrospective transition. Management is currently evaluating the impact this standard will have on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting” which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, “Compensation – Stock Compensation”, to include share-based payment transactions for acquiring goods and services from nonemployees. Some of the areas for simplification apply only to nonpublic entities. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, “Revenue from Contracts with Customers”. which simplifies the accounting for share-based payments granted to nonemployees for goods and services. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods therein with a modified retrospective transition. Management is currently evaluating the impact this standard will have on our consolidated financial statements.

Note 4. Commitments and Contingencies

Facility and Equipment Leases

We lease 27,600 square feet of corporate, research and development, and logistics facilities in Irvine, California under an operating lease expiring February 2023, subject to our option to extend the lease for two additional five-year periods. The initial base rent is approximately \$24,700 per month. We also lease 8,100 square feet of logistics facilities in Livingston, New Jersey under an operating lease expiring December 2024, subject to our option to extend the lease for an additional five-year period. The initial base rent is approximately \$7,600 per month. In addition, we lease 7,600 square feet of logistics facilities in Hoofddorp, The Netherlands under an operating lease expiring March 2023, subject to our option to extend the lease for two additional five-year periods. The initial base rent is approximately \$4,500 per month. These lease agreements contain certain scheduled annual rent increases which will be accounted for on a straight-line basis.

Employment Agreements

We have entered into employment agreements with certain of our officers under which payment and benefits would become payable in the event of termination by us for any reason other than cause, or upon a change in control of our Company, or by the employee for good reason.

Litigation

The Company may become 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 consolidated financial condition or results of operations.

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying condensed consolidated balance sheets.

The Company indemnifies its directors, officers, employees and agents, as permitted under the laws of the States of California and Nevada. In connection with its facility lease, the Company has indemnified its lessor for certain claims arising from the use of the facility. The duration of the guarantees and indemnities varies and is generally tied to the life of the agreement.

Note 5. Stockholders' Equity

Authorized Stock

The Company has 100,000,000 authorized shares of common stock with a par value of \$0.001 per share.

In September 2011, our stockholders approved an amendment to the Amended and Restated Articles of Incorporation to authorize a class of undesignated or "blank check" preferred stock, consisting of 2,500,000 shares at \$0.001 par value per share. Shares of preferred stock may be issued in one or more series, with such rights, preferences, privileges and restrictions to be fixed by the Board of Directors. In May 2014, the Company designated 800,000 shares of the authorized preferred stock as Class A Convertible Preferred Stock. In February 2015, the Company designated 400,000 shares of the Company's authorized preferred stock as Class B Convertible Preferred Stock. In April 2015, the Company increased the number shares of Class B Convertible Preferred Stock from 400,000 shares to 585,000 shares. In May 2018, the shareholders approved an increase in the number of authorized common shares from 50,000,000 shares to 100,000,000 shares.

Common Stock Issued for Services

During the six months ended June 30, 2018, 3,095 shares of common stock with a fair value of \$35,000 were issued to two members of the board of directors as compensation for services.

Common Stock Reserved for Future Issuance

As of June 30, 2018, approximately 8.4 million shares of common stock were issuable upon conversion or exercise of rights granted under prior financing arrangements, stock options and warrants, as follows:

Exercise of stock options	5,950,759
Exercise of warrants	2,463,591
Total shares of common stock reserved for future issuances	8,414,350

February 2018 Tender Offer

On February 8, 2018, we completed an exchange offer with respect to the Company's outstanding warrants to purchase one share of common stock at an exercise price of \$3.57 per share (the "Original Warrants"). Through February 2, 2018, we offered holders of the Original Warrants the opportunity to exchange such Original Warrants for an equal number of warrants to purchase one share of common stock at an exercise price of \$3.00 per share (the "New Warrants"), conditioned upon the immediate exercise of such New Warrants.

Pursuant to the February 2018 Tender Offer, warrants to purchase 1,580,388 shares of the Company's common stock were tendered by holders of warrants and were amended and exercised in connection therewith, resulting in the issuance by the Company of an aggregate of 1,580,388 shares of its common stock for aggregate gross proceeds of \$4.7 million.

The Original Warrants were issued (i) in July 2015 in connection with the Company's registered public offering of 2,090,750 units (each unit consisting of one share of the Company's common stock and one Original Warrant), and (ii) in January 2016 in connection with the mandatory exchange of all of the Company's outstanding Class A Convertible Preferred Stock and Class B Convertible Preferred Stock into 4,977,038 units (each unit consisting of one share of the Company's common stock and one Original Warrant).

The terms of the New Warrants included (i) an exercise price of \$3.00 per share and (ii) an exercise period that expired concurrently with the expiration of the Offer at 5:00 p.m. (Eastern Time) on February 2, 2018 (the "Expiration Date"). In addition, the shares issuable upon exercise of the New Warrants (the "New Warrant Shares") were subject to a 60-day lock-up period.

The purpose of the Offer was to raise funds to support the Company's growth plans by providing the holders of the Original Warrants an incentive to exchange their Original Warrants for New Warrants and exercise the New Warrants to purchase shares of the Company's common stock at a reduced exercise price as compared to the Original Warrants. The Company received all of the proceeds from the immediate exercise of the New Warrants, which will be used by the Company for business growth, including as working capital and for other general corporate purposes.

As a result of reducing the exercise price of certain warrants in connection with the February 2018 Tender Offer, a warrant repricing expense of \$899,400 was incurred which was determined using the Black-Scholes option pricing model and was calculated as the difference between the fair value of the warrants prior to, and immediately after, the reduction in the exercise price on the date of repricing. Such amount is included in warrant inducement and repricing expense in the consolidated statement of operations for the six months ended June 30, 2018. In connection with this offering, the Company incurred \$99,400 in offering costs that were offset against the proceeds from this offering.

Note 6. Stock-Based Compensation

Warrant Activity

We typically issue warrants to purchase shares of our common stock to investors as part of a financing transaction or in connection with services rendered by placement agents and consultants. Our outstanding warrants expire on varying dates through November 2021. A summary of warrant activity is as follows:

	Number of Shares	Weighted- Average Exercise Price/Share	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Outstanding — December 31, 2017	5,141,112	\$ 4.09		
Issued	—	—		
Exercised	(2,664,460)	3.49		
Expired	(13,061)	57.52		
Outstanding — June 30, 2018	2,463,591	\$ 4.10	1.8	\$29,049,400
Vested (exercisable) — June 30, 2018	2,463,591	\$ 4.10	1.8	\$29,049,400

Aggregate intrinsic value represents the difference between the exercise price of the warrant and the closing market price of our common stock on June 29, 2018, which was \$15.78 per share.

The total intrinsic value of warrants exercised during the six months ended June 30, 2018 was \$17.5 million.

Stock Options

We have five stock incentive plans: the 2002 Stock Incentive Plan (the “2002 Plan”), the 2009 Stock Incentive Plan (the “2009 Plan”), the 2011 Stock Incentive Plan (the “2011 Plan”), the 2015 Omnibus Equity Incentive Plan (the “2015 Plan”), and the 2018 Omnibus Equity Incentive Plan (the “2018 Plan”), (collectively, the “Plans”). The 2002 Plan, the 2009 Plan, the 2011 Plan and the 2015 Plan (the “Prior Plans”) have been superseded by the 2018 Plan. In May 2018, the stockholders approved the 2018 Plan for issuance up to 3,730,179 shares. The Prior Plans will remain in effect until all awards granted under such Prior Plans have been exercised, forfeited, cancelled, or have otherwise expired or terminated in accordance with the terms of such awards, but no awards will be made pursuant to the Prior Plans after the effectiveness of the 2018 Plan. As of June 30, 2018, the Company had 4,168,567 shares available for future awards under the 2018 Plan.

During the six months ended June 30, 2018, we granted stock options at exercise prices equal to or greater than the quoted market price of our common stock on the grant date. The fair value of each option grant was estimated on the date of grant using Black-Scholes with the following weighted average assumptions:

Expected life (years)	5.3 – 7.0
Risk-free interest rate	2.6% - 2.9%
Volatility	97.7% – 110%
Dividend yield	0%

The expected option life assumption is estimated based on the simplified method. Accordingly, the Company has utilized the average of the contractual term of the options and the weighted average vesting period for all options to calculate the expected option term. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of our employee stock options. The expected volatility is based on the historical volatility of our stock commensurate with the expected life of the stock-based award. We do not anticipate paying dividends on the common stock in the foreseeable future.

We recognize stock-based compensation expense over the vesting period using the straight-line single option method. Stock-based compensation expense is recognized only for those awards that vest. We account for the forfeitures of unvested awards as they occur.

Total stock-based compensation expense related to all of our share-based payment awards is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenues	\$57,947	\$11,699	\$93,404	\$18,523
General and administrative	1,007,090	614,190	1,734,813	1,217,109
Sales and marketing	303,766	163,273	533,331	321,075
Engineering and development	76,926	5,397	133,691	8,294
	\$1,445,729	\$794,559	\$2,495,239	\$1,565,001

A summary of stock option activity is as follows:

	Number of Shares	Weighted- Average Exercise Price/Share	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Outstanding — December 31, 2017	5,322,858	\$ 4.16		
Granted (weighted-average fair value of \$7.31 per share)	937,900	8.87		
Exercised	(227,495)	3.35		
Forfeited	(82,504)	7.88		

Edgar Filing: Cryoport, Inc. - Form 10-Q

Outstanding — June 30, 2018	5,950,759	\$ 4.88	7.6	\$64,854,100
Vested (exercisable) — June 30, 2018	3,334,656	\$ 4.32	6.8	\$38,236,600
Expected to vest after June 30, 2018 (unexercisable)	2,616,103	\$ 5.61	8.6	\$26,617,500

(1) Aggregate intrinsic value represents the difference between the exercise price of the option and the closing market price of our common stock on June 29, 2018, which was \$15.78 per share.

As of June 30, 2018, there was unrecognized compensation expense of \$11.2 million related to unvested stock options, which we expect to recognize over a weighted average period of 2.8 years.

The total intrinsic value of stock options exercised during the six months ended June 30, 2018 was \$1.6 million.

Note 7. Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which modifies how all entities recognize revenue. Topic 606 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. We adopted Topic 606 on January 1, 2018 using the modified retrospective transition method. The adoption of Topic 606 did not have a material effect on our financial statements or results of operations, and no cumulative catch-up adjustment to the opening balance of retained earnings was required. We used the related practical expedients that allow us to not disclose the transaction price allocated to remaining unsatisfied obligations and an explanation of when we expect to recognize the related revenue.

Revenues are recognized when control is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Nature of Goods and Services

The Company provides Shippers to its customers and charges a fee in exchange for the use of the Shipper under long-term agreements with customers. The Company's arrangements convey to the customers the right to use the Shippers over a period of time. The Company retains title to the Shippers and provides its customers the use of the Shipper for a specified shipping cycle. At the culmination of the customer's shipping cycle, the Shipper is returned to the Company.

The vast majority of our revenues are covered under long-term agreements. We have determined that individual Statements of Work ("SOW"), whose terms and conditions taken with a Master Services Agreement ("MSA"), create the Topic 606 contracts which are generally short-term in nature (e.g., 15-day shipping cycle). Our agreements (including SOWs) generally do not have multiple performance obligations and, therefore, do not require an allocation of a single price amongst multiple goods or services. Prices under these agreements are generally fixed. The Company recognizes revenue for the use of the shipper at the time of the delivery of the shipper to the end user of the enclosed materials, and at the time that collectability is probable.

The Company also provides logistics support and management to some customers, which may include onsite logistics personnel. Revenue is recognized for these services as services are rendered over time and at the time that collectability is probable.

Revenue Disaggregation

The Company operates in one reportable segment and evaluates financial performance on a Company-wide basis. We consider sales disaggregated by end-market to depict how the nature, amount, timing and uncertainty of revenues and cash flows are impacted by changes in economic factors. The following table disaggregates our revenues by major source for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2017	2018	2017	2018
	(\$ in 000's)		(\$ in 000's)	
Biopharmaceutical	\$3,849	\$2,229	\$7,131	\$4,252
Reproductive medicine	499	426	1,001	844
Animal health	279	262	518	534
Total revenues	\$4,627	\$2,917	\$8,650	\$5,630

Performance Obligations

At contract inception, an assessment of the goods and services promised in the contracts with customers is performed and a performance obligation is identified for each distinct promise to transfer to the customer a good or service (or bundle of goods or services). To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. Revenue is recognized when our performance obligation has been met, which is when the Shipper has been delivered. The Company considers control to have transferred upon delivery because the Company has a present right to payment at that time, the Company has transferred physical possession of the asset, and the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

For arrangements under which the Company provides logistics support and management to the customer, the Company satisfies its performance obligations as those services are performed whereby the customer simultaneously receives and consumes the benefits of such services under the agreement.

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products pursuant to the accounting policy election allowed under Topic 606. Accordingly, the Company records amounts billed for shipping and handling as a component of revenue. Shipping and handling fees and costs are included in cost of revenues in the accompanying condensed consolidated statements of operations.

Significant Payment Terms

Pursuant to the Company's contracts with its customers, amounts billed for services or products delivered by the Company are typically due and payable in full within 15 days from the date of the invoice (except for any amounts disputed by the customer in good faith). Accordingly, the Company determined that its contracts with customers do not include extended payment terms or a significant financing component.

Variable Consideration

In some cases, the nature of the Company's contracts may give rise to variable consideration, including discounts and allowances or other similar items that generally decrease the transaction price.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Revenues are recorded net of variable consideration, such as discounts and allowances.

Warranties

The Company's products and services are provided on an "as is" basis and no warranties are included in the contracts with customers. Also, the Company does not offer separately priced extended warranty or product maintenance contracts.

Contract Assets

Typically, we invoice the customer and recognize revenue once we have satisfied our performance obligation. Accordingly, our contract assets comprise accounts receivable. Generally, we do not have material amounts of other contract assets since revenue is recognized as control of goods is transferred or as services are performed.

Contract Liabilities (Deferred Revenue)

Contract liabilities are recorded when cash payments are received in advance of the Company's performance. Deferred revenue was \$19,100 and 26,700 at June 30, 2018 and December 31, 2017, respectively.

Practical Expedients and Exemptions

We have elected the following practical expedients allowed under Topic 606:

· Payment terms with our customers, which are one year or less, are not considered a significant financing component.

· Shipping and handling fees and costs incurred in connection with products sold are recorded in cost of sales and are not considered a performance obligation to our customers.

· Our performance obligations on our orders are generally satisfied within one year from a given reporting date and, therefore, we omit disclosure of the transaction price allocated to remaining performance obligations on open orders.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this Form 10-Q, the terms "Cryoport", "Company" and similar terms refer to Cryoport, Inc., and its wholly owned subsidiary, Cryoport Systems, Inc.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS:

This Quarterly Report on Form 10-Q contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 and concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. In some cases, you can identify these statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar words which are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable as of the date of this Quarterly Report, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this Quarterly Report. You should be aware that these statements are projections or estimates as to future events and are subject to a number of factors that may tend to influence the accuracy of the statements. These forward-looking statements should not be regarded as a representation by the Company or any other person that the events or plans of the Company will be achieved. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission ("SEC"), including those contained in our Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 8, 2018 and those reports filed after the date of this Quarterly Report. Actual results may differ materially from any forward looking statement.

The following management's discussion and analysis of the Company's financial condition and results of operations ("MD&A") should be read in conjunction with the condensed consolidated balance sheet as of June 30, 2018 (unaudited) and the consolidated balance sheet as of December 31, 2017 (audited) and the related unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017 and the related notes thereto (see Item 1. Financial Statements), as well as the audited consolidated financial statements of the Company for year ended December 31, 2017 and the nine months ended December 31, 2016 included in the Company's Form 10-K for the year ended December 31, 2017.

General Overview

Overview

We provide fully integrated, temperature-controlled logistics solutions to the life sciences industry through a seamless combination of proprietary packaging, information technology, and specialized temperature-controlled logistics knowhow. Our competencies and capabilities are used to develop solutions that are customized to our client's requirements. Our solutions integrate vital analytics, including 'chain-of-condition' and 'chain-of-custody' information, into a single data stream. We provide advanced, powerful, comprehensive and reliable technology-centric alternatives to traditional temperature-controlled distribution/logistics solutions for the life sciences industry.

Our services are utilized for temperature-controlled shipping, storage and information in the life sciences industry, which includes personalized medicine, immunotherapies, cellular therapies, CAR T-cell therapies, stem cell therapies, cell lines, vaccines, diagnostic materials, semen, eggs, embryos, cord blood, bio-pharmaceuticals, infectious substances, and other commodities that require continuous exposure to certain ranges of precision-controlled temperatures. As part of our services, our technologies provide the ability for us and/or our client, to monitor location and other specified critical variables for each shipment in real time. Information is recorded and archived for each shipment for scientific, quality assurance and regulatory purposes. This information provides an audit trail that can verify the '*in shipment*' condition of the life sciences commodity, material, product, vaccine or therapy being shipped. Cryoport's systems are designed to support clinical trials, Biologics License Applications (BLA), Investigational New Drug Applications and New Drug Applications (NDA) with the United States Food and Drug Administration (FDA). Cryoport solutions support FDA approved commercial biologic product distribution in the United States and government approved products in other jurisdictions globally, such as those in the EMEA (Europe, Middle East and Africa) and Asia-Pacific regions.

One of the most important features of our Cryoport Express® Solutions is our sophisticated, cloud-based, logistics management platform, which is branded as the Cryoport™. The Cryoport™ supports the management of shipments through a single interface, which includes order entry, document preparation, customs documentation, courier management, real-time shipment tracking, issue resolution, and regulatory compliance requirements. In addition, it provides unique and incisive information dashboards and validation documentation for every shipment through data collected by the SmartPak II™ Condition Monitoring System (SmartPak II™). The Cryoport™ records and retains a fully documented regulatory history of all Cryoport Express® Shippers, including ‘chain-of-custody’ and ‘chain-of-condition’ information for each shipment, which is used to ensure the quality, safety, efficacy and controlled conditions to ensure that the stability of shipped biologic commodities are maintained throughout the shipping cycle. At the client’s option, recorded information is archived, allowing the client to meet exacting requirements necessary for scientific work and for proof of regulatory compliance during the logistics process.

Our Cryoport Express® Solutions include a family of Cryoport Express® Shippers including liquid nitrogen dry vapor shippers and C3™ Shippers (Cryoport. Certified. Cool.), which are phase-change shippers. All Cryoport Express® Shippers are precision engineered assemblies that are reliable, cost-effective and reusable or recyclable. Our liquid nitrogen dry vapor Cryoport Express® Shippers utilize an innovative application of ‘dry vapor’ liquid nitrogen technology and, generally, include a SmartPak II™ Condition Monitoring System. Cryoport Express® Shippers meet International Air Transport Association (“IATA”) requirements for transport, including Class 6.2 infectious substances. Cryoport Express® Shippers are also International Safe Transit Association (“ISTA”) “Transit Tested” certified. Cryoport Express® dry vapor shippers are validated to maintain stable temperatures of minus 150° Celsius and below for up to ten days in dynamic shipping conditions. We currently feature five types of liquid nitrogen dry vapor Cryoport Express® Shippers: the Standard Dry Shipper (holding up to 75 2.0 ml vials), the High Volume Dry Shipper (holding up to 500 2.0 ml vials), the CXVC1 Shipper (holding up to 1,500 2.0 ml vials), the Slide Rite Dry Shipper (holding up to 500 2.0 ml vials) and the CryoMax™ Shipper (holding up to 36,400 2.0 ml vials). We currently offer one type of phase change Cryoport Express® Shippers: the C3™. Cryoport Express® C3™ Shippers are reusable and maintain stable temperatures at 2-8° Celsius for up to 96 hours. All Cryoport Express® Shippers are integrated with SmartPak II™ Condition Monitoring Systems for the reasons stated above.

As a part of our Cryoport Express® Solutions services, we assist and provide clients with secondary packaging that is placed inside the main chamber of our Cryoport Express® Shippers. In addition to vials, canes, straws, goblets, plates, etc., we offer engineering services to assist clients in creating and developing customized packaging that meet their requirements.

Cryoport is the global market leader in providing reliable and comprehensive temperature-controlled logistics solutions for the life sciences industry, with a primary focus on cryogenic logistics. Our advanced technologies and dedicated personnel allow us to continue to expand our services footprint with a growing suite of services, products and competencies for the life sciences industry, which currently include: information technology, packaging, real-time monitoring, analytics, logistics distribution, consulting, laboratory relocation, fleet management, embedded logistics support, validation services (especially for shipping lanes and packaging), etc. A sample of our client facing, value-added competencies addressing client requirements are as follows:

“Personalized Medicine and Cell-based Immunotherapy Solution,” designed for autologous therapies in which our Cryoport Express® Solutions serve as an enabling technology for the safe and efficient transportation of leukapheresis or apheresis blood products as well as the manufactured autologous cellular-based immunotherapies by providing a comprehensive logistics solution for the verified “chain of condition” and “chain of custody” transport from, (a) the collection of the patient’s blood or cells in a hospital or point-of-care setting, to (b) a central processing facility where they are manufactured into a personalized medicine, to (c) the safe, cryogenically preserved delivery of these irreplaceable cells to a point-of-care treatment facility. If required, the Cryoport Express® Shipper can then serve as a temporary freezer/repository to allow the efficient distribution of the personalized medicine to the patient when and where the medical provider needs it, without the expense and inconvenience of on-sight, cryopreservation storage equipment.

“Embedded Solution,” which is our total outsource solution. It is our most comprehensive solution and involves our management of the entire cryogenic logistics process for our client using Cryoport technology and Cryoport employees working at the client’s location to manage the client’s temperature-controlled logistics needs, in total.

“Fleet Management,” which is our fleet management support service designed to reduce our clients upfront and recurring costs through optimized utilization of resources and minimization of equipment loss. We offer both complete and partial temperature-controlled outsourced fleet management services, including fleet evaluation and disposition (if required), inventory control, fleet maintenance and ongoing fleet requalification and validation.

“Packaging Development,” using "Design of Experiment" and "Quality by Design" processes, Cryoport can design, engineer and employ customized packaging and/or accessories to ensure effective distribution of our client’s critical commodities using our in-house team of packaging engineering competencies in the cryogenic, 2-8°C and other temperature-controlled ranges to meet or exceed our client’s specifications. This capability usually includes integration of our SmartPak II™ Condition Monitoring System and the accommodation of our Cryoportal™ Logistics Management Platform into our clients packaging configurations, providing full access to our advanced condition monitoring systems and logistics management support competencies.

“Consulting Services,” giving clients an opportunity to leverage our in-house talent to: design custom logistics plans, perform lane assessment, lane validation, carrier validation; design custom packaging and validation, permitting clinical trial logistics design; commercial launch planning; systems integration; and end user training.

“Laboratory Relocation,” For large moves, we use redundant temperature-controlled shippers and environmentally controlled trucks. Along with our logistics partners we ensure the integrity of client materials during all logistics phases, including loading, transport, unloading and placement. Our service includes lane and carrier permitting and validation. Our large sample capacity Cryoport Express™ CryoMax™ Shipper has a holding time of up to 20 days and includes the benefit of our real time SmartPak II™ Condition Monitoring System, which supplies monitoring information to our Cryoport™ Logistic Management Platform, providing Live View information on the client’s transport. Employing our 24/7/365 client support team to actively monitor shipments and mitigate risk ensures safe shipping and relocation of samples.

“powered by Cryoport™,” available to providers of shipping and delivery services who seek to offer a “branded” cryogenic logistics solution as part of their service offerings. “powered by Cryoport™” appears prominently on the offering software interface and packaging. This option for the client to private label its service is available upon committing to certain requirements for private labeling, such as minimum annual shipping volumes.

In addition to these offerings, Cryoport is continuously evaluating expanding and improving its solutions in response to market needs and client demand.

Competitive Advantages

With our first-to-market and technology-driven cryogenic logistics solutions for the life sciences industry, we have established a unique lead over potential competitors. Furthermore, we are not aware of any company that offers comparable solutions and have the same capabilities Cryoport has as a global provider of advanced, validated temperature-controlled logistics solutions. With over a decade as a leading temperature-controlled logistics solutions company serving the life sciences industry, working with our tools in packaging, information technology, and temperature-controlled logistics, we approach our growing market with innovation, creative thinking, and advanced technologies.

Most of our competition utilizes “older technologies” and/or systems. In fact, a portion of the biopharma market and much of the animal health market still uses liquid nitrogen or dry ice with no or little validation processes for their equipment or procedures. In the case of dry ice, the technology simply does not achieve low enough temperatures or deliver stable temperatures, which may have standard deviations up to 14 °C. Consequently, this medium allows cellular activity to continue and cells to degrade, impacting cell line performance and cell viability. Liquid nitrogen, on the other hand, while effective in holding its temperature, is bulky, heavy, expensive and requires special handling to avoid spillage and accommodate weight. Both dry ice and liquid nitrogen are classified “hazardous” by IATA

(International Air Transportation Association) and, therefore, shipping companies and regulatory authorities. Both are also classified as “dangerous goods.” Both these methods are inefficient when compared to Cryoport’s solutions, which are classified as non-hazardous. Cryoport goes beyond traditional ISTA (International Safe Transit Association) packaging validation processes qualification because of the high value and at times irreplaceable commodities that we are counted on to transport. Through our experience, we know logistics distribution can have a large impact on product/ commodity conditions. Our implementation of Quality by Design processes includes the ability to assess in-field events and the impact of logistics on the commodity being shipped and the equipment being used for individual shipments. We think such scrutiny may be included in regulatory requirements in the future.

We have been qualified as a trusted temperature-controlled logistics solutions provider for hundreds of life sciences companies and institutions and, currently, support well over 200 clinical trials in the regenerative medicine space. Cryoport has logged over 250,000 shipments to over 100 countries with hundreds of life sciences materials. This experience and reputation, combined with our over a decade of know-how and technology, provides us with significant competitive advantages. In fact, since our inception, we have experienced minimal client attrition.

While we look at companies such as Fisher BioServices, AmerisourceBergen and other cold-chain logistics providers as potential competitors, most of these companies are also our clients and/or partners.

Our competitive position is further enhanced by our respective “*powered by CryoportSM*” partnership agreements with FedEx, DHL and UPS, who collectively, account for approximately 85% of world’s air freight and who, respectively, have been expanding other parts of their temperature-controlled offerings for the life sciences industry.

We continuously enhance and broaden our solutions offering in order to maintain and extend what we believe to be a significant lead in the marketplace. We believe that it would take a serious potential competitor an extended period of time to build out the tools, solutions, and competencies we possess along with our know-how.

In addition to our intellectual property consisting of multiple issued and pending U.S. patents as well as our lead as the first-to-market mover and leader in market share in the regenerative medicine space, we think our biggest competitive advantage falls into our trade secrets and our speed to market with new solutions, which is powered by our sensitivity to anticipate and reaction to client needs and to market demand. We think that our solutions are innovative and comprehensive. We try to employ the best people in the industry and we foster the development and implementation of new technologies to maintain that lead.

We take pride in being a “green” company; we consider it to be a competitive advantage. All materials used by Cryoport are recyclable and/or reusable. We take our responsibility toward the environment quite seriously.

Strategic Logistics Alliances

We seek to establish strategic distribution alliances around the world, under our “*powered by CryoportSM*” strategy, as a long-term method of marketing our solutions to the life sciences industry. We have focused our efforts on leading companies in the logistics services industry as well as participants in the life sciences industry. The “*powered by CryoportSM*” strategy with our alliance partners reflects our solutions being integrated into our alliance partner’s services.

Cryoport now serves and supports the three largest integrators in the world, responsible for over 85% of worldwide airfreight, with its advanced cryogenic logistics solutions for the life sciences industry. We operate with each independently and confidentially in support of each company’s respective market and sales strategies.

FedEx. In January 2013, we entered into a master agreement with Federal Express Corporation (“FedEx”) (the “FedEx Agreement” renewing our services and providing FedEx with a non-exclusive license and right to use a customized version of our CryoportTM Logistics Management Platform for the management of shipments made by FedEx customers. The FedEx Agreement became effective on January 1, 2013 and was amended in December 2015 to extend the initial term for an additional three years, expiring on December 31, 2018. FedEx has the right to terminate this agreement at any time, for convenience, upon 180 days’ notice.

Under our FedEx Agreement, we provide frozen shipping logistics services through the combination of our purpose-built proprietary technologies and turnkey management processes. FedEx markets and sells Cryoport's services for frozen temperature-controlled cold chain transportation as its FedEx® Deep Frozen Shipping Solution on a non-exclusive basis and at its sole expense. As part of the solution, Cryoport has developed a FedEx branded version of the Cryoport™ Logistics Management Platform, which is “*powered by CryoportSM*” for use by FedEx and its customers, giving them access to the full capabilities of our cloud-based logistics management software platform.

DHL. In June 2014, we entered into a master agreement with LifeConEx, a part of DHL Global Forwarding (“DHL”). DHL has enhanced its cold chain logistics offerings to its life sciences and healthcare customers with Cryoport's validated cryogenic solutions. DHL offers Cryoport's cryogenic solutions through its worldwide Thermonet network of Certified Life Sciences Stations under the DHL brands as “*powered by CryoportSM*”. In addition, DHL's customers have direct access to our cloud-based order entry and tracking portal to order Cryoport Express® Solutions and receive preferred DHL shipping rates and discounts. Our proprietary logistics management platform, the Cryoport™, is integrated with DHL's tracking and billing systems to provide DHL life sciences and healthcare customers with a seamless way of accessing critical information regarding shipments of biological material worldwide.

UPS. In October 2014, we added United Parcel Services, Inc. (“UPS”) as a major distributor, under our “*powered by CryoportSM*” strategy, by entering into an agreement with UPS Oasis Supply Corporation, a part of UPS, whereby UPS offers our validated and comprehensive cryogenic solutions to its life sciences and healthcare customers on a global basis. Under this agreement, UPS customers have direct access to our proprietary Cryoport™ Logistics Management Platform, which is integrated with UPS's tracking and billing systems, to provide UPS life sciences and healthcare customers with a seamless way to enter orders and access critical information regarding shipments of biological material worldwide.

World Courier. In July 2018, we announced that World Courier, a part of AmerisourceBergen, will integrate Cryoport's full suite of temperature-controlled solutions into its global network. The integrated platform is expected to be offered through World Courier's global network of more than 140 company-owned offices operating across 50 countries, as well as directly through Cryoport's business development team. The agreement between World Courier and Cryoport is for an initial three-year period with an evergreen provision.

Cryoport's Positioning in the Life Sciences Industry

Life sciences technology advancements are expected to have a significant impact on global society over the next 25 years. In the United States alone, the life sciences industry is made up of 6,000 identifiable life science establishments. However, the industry is growing globally, in a way where research and manufacturing pipelines span across the globe. This increases the need to mitigate logistics risk for these cellular based commodities/products.

The total cold chain logistics market for the life sciences industry has historically grown much faster per annum than the total life sciences logistics market. For 2017, global cold chain logistics transportation costs, overall, were reported to be \$13.4 billion; with approximately \$2.7 billion spent within the regenerative medicine space. By 2021, the global life sciences cold chain logistics market is forecast to grow to \$16.6 billion for a 24% increase.

Contributing drivers to this growth are the recent advancements in the development of biologics and cell-based therapies. As a result, scientists, intermediaries, and manufacturers require means for cryogenically transporting their work and products, such as CAR T-cell therapies, where temperatures must be maintained below the "glass point" (generally, below minus 136° Celsius). At temperatures below the glass point all metabolic activity is halted, which prevents cells changing or degrading while in storage or in transit. Any cell change or degradation could impact the efficacy or safety of a sample or product.

In late 2017, we launched our Cryoport Express® Cryoport Certified Cool™, or "C3™" logistics solution to support the 2-8° Celsius space. Our Cryoport Express® C3™ solution was specifically developed for the front end of autologous therapies, so it is much more robust, exacting and reliable and, thereby, more expensive than traditional 2° to 8° Celsius shipping solutions. It is supported by the Cryoport™ Logistics Management Platform and the SmartPak II™ Condition Monitoring System giving our clients a seamless logistics record of vital information for each therapy shipped, where applicable.

Cryoport's clients include companies and institutions that require reliable temperature-controlled logistics solutions such as therapy developers for personalized medicine, bio-pharmaceuticals, research, contract research organizations, diagnostic laboratories, contract manufacturers, cord blood repositories, vaccine manufacturers, animal husbandry

related companies, and in-vitro fertilization clinics.

Life Sciences Agreements

We serve the life sciences industry with cold chain logistics solutions that are advanced, comprehensive, reliable, validated, and efficient. Our clients include those companies and institutions that have logistics requirements for personalized medicine, immunotherapies, CAR-T cells, stem cells, cell lines, tissue, vaccines, in-vitro fertilization, cord blood and other temperature sensitive commodities of life sciences. Significant agreements are as follows:

Zoetis. In December 2012, we signed an agreement with Pfizer Inc. relating to Zoetis Inc. (formerly the animal health business unit of Pfizer Inc.) pursuant to which we are now managing all cryogenic shipments of Zoetis' key poultry vaccines. Under this arrangement, we provide on-site logistics personnel and our CryoportTM Logistics Management Platform to manage shipments from the Zoetis manufacturing site in the United States to domestic customers as well as various international distribution centers. The Company manages Zoetis' total fleet of shippers used for this purpose, including liquid nitrogen shippers. In July 2013, the Agreement was amended to expand Cryoport's scope to manage all logistics of Zoetis' key frozen poultry vaccine to all Zoetis' international distribution centers as well as all domestic shipments. In October 2013, the Agreement was further amended to further expand Cryoport's role to include the logistics management for a second poultry vaccine. In September 2015, the Agreement was further amended and extended through September 2018, subject to certain termination and extension provisions.

Novartis. In May 2017, we signed an agreement with Novartis Inc. to manage the clinical and commercial shipments of its CAR T-cell therapies, including the recently commercial launch of CAR T-cell therapy, KymriahTM (CTL019), for children and young adults with B-cell ALL that is refractory or has relapsed at least twice. Under this arrangement, Cryoport provides cryogenic packaging and shipping using its Cryoport Express[®] Shippers, monitoring using its SmartPak IITM Condition Monitoring System technology and communications and information recording using its CryoportTM Logistics Management Platform to manage shipments from the Novartis manufacturing sites to their clinical and commercial sites for patient administration globally.

Kite/Gilead. In July 2017, we signed an agreement with Kite Pharmaceuticals Inc. (a Gilead company) to manage the clinical and commercial shipments of its CAR-T therapies, including its recent commercial launch of CAR T-cell therapy, Yescarta™ (Axicabtagene Ciloleucel), the first CAR-T therapy approved by the FDA for the treatment of adult patients with relapsed or refractory large B-cell lymphoma. Under this arrangement, Cryoport provides cryogenic packaging and shipping using its Cryoport Express® Shippers, monitoring using its SmartPak II™ Condition Monitoring System technology and communications and information recording using its Cryoport™ Logistics Management Platform to manage shipments from the Novartis manufacturing sites to their clinical and commercial sites of patient administration globally.

Cryoport Express® Solutions

Our Cryoport Express® Solutions are currently comprised primarily of our: Cryoport Express® Shippers, SmartPak II™ Condition Monitoring System, Cryoport™ Logistics Management Platform and extensive and specialized life sciences temperature-controlled logistics expertise. Cryoport Express® Solutions are, foremost, focused on improving the reliability of temperature-controlled logistics and, secondly, reducing our clients' overall logistics costs. We accomplish this by providing complete end-to-end solutions for the transport and monitoring of biological or other materials requiring temperature-controlled logistics whether services are provided directly by Cryoport and/or through distribution partners, such as FedEx, UPS, DHL, World Courier or other specialty couriers.

Our information technology includes what we believe to be the most advanced cold-chain logistics operating platform serving the life sciences industry, the Cryoport™ Logistics Management Platform. The Cryoport™ Logistics Management Platform is a cloud-based and programmatically assists in the management of all aspects of our logistics operations, including: order entry, documentation generation, monitoring in near real time via our SmartPak II™ Condition Monitoring System, logging data such as vital "chain-of-condition" and "chain-of-custody" information, and the archiving of information for scientific purposes and regulatory compliance. The Cryoport™ can produce a variety of Cryoport Express® Analytics which report shipper, courier and shipment performance.

Our tailored and complete end-to-end solutions for temperature-controlled logistics include logistics management, transport, monitoring, storage and data collection regarding temperature-controlled biological commodities and/or biopharmaceutical products shipped primarily through Cryoport's logistics network, which includes specialty couriers, freight forwarders, brokers and other intermediaries or integrators. Certain parts of the intellectual property underlying our Cryoport Express® Solutions have been developed under exclusive and confidential contracts with outside development companies.

Cryoportal™ Logistics Management Platform

The CryoportTM Logistics Management Platform records and retains a fully documented history of all equipment as well as “chain-of-condition” and “chain-of-custody” for every shipment, helping ensure that quality, safety, efficacy, and stability of shipped commodities are maintained throughout the process. Additionally, the CryoportTM is used by Cryoport, our clients and business partners to automate the entry of orders, documentation preparation, to assist in managing logistics operations and to reduce administrative costs typically provisioned through manual labor relating to order-entry, order processing, preparation of shipping documents and back-office accounting. It is also used to support the high level of customer service expected by the life sciences industry. Certain features of the CryoportTM are designed to reduce operating costs and facilitate the scaling of Cryoport’s business. Examples of these features include automation of order entry, development of key performance indicators (“KPI’s”) to support efforts for continuous process improvements in our business, and programmatic exception monitoring to detect and sometimes anticipate delays in the shipping process, often before the customer or the shipping company becomes aware of them. These features offer significant value to our customers in terms of cost avoidance and risk mitigation

The CryoportTM Logistics Management Platform also serves as the communications center for the management, collection and analysis of SmartPak IITM Condition Monitoring System data collected in near real time in the field. Collected data is converted into pre-designed reports containing valuable and often actionable information that becomes the quality control standard or “pedigree” of the shipment. This information can be utilized by Cryoport to provide valuable feedback in near real time to our clients relating to their shipments. Additionally, our SmartPak IITM Condition Monitoring System provides the ability to apply Quality by Design fundamentals to our logistics solutions enabling intervention and risk mitigation capabilities to be employed.

The CryoportTM Logistics Management Platform software platform has been developed as a “carrier-agnostic” system, allowing clients and the Cryoport Logistics Management team to work with any combination of integrators, freight forwarders, couriers and/or brokers depending on the specific requirements and/or client preferences. To increase operational efficiencies, the CryoportTM Logistics Management Platform is integrated with the tracking systems of FedEx, DHL and UPS and other key logistics providers. We anticipate further CryoportTM integrations with World Courier and other parties in 2018.

The CryoportTM was developed for time-and temperature-sensitive shipments that are required to be maintained at specific temperatures, beginning with the most demanding cryogenic temperatures (minus 150° Celsius) and moving upward to ambient (between 20° and 25° Celsius) to ensure that the shipped samples/commodities/products are not subject to degradation or out of designated “safe” range temperatures. While our current focus is on cryogenic (minus 150) as well as 2-8 logistics within the life sciences industry, the use of the CryoportTM Logistics Management Platform can and may be extended into other temperature-controlled ranges for the life sciences. To our knowledge, the CryoportTM Logistics Management Platform is unique to temperature-controlled logistics in the life sciences industry. It is robust and has considerable capabilities. We frequently receive favorable feedback about the CryoportTM.

Recent Developments

February 2018 Tender Offer

On February 8, 2018, we completed an exchange offer with respect to the Company's outstanding warrants to purchase one share of common stock at an exercise price of \$3.57 per share (the "Original Warrants"). Through February 2, 2018, we offered holders of the Original Warrants the opportunity to exchange such Original Warrants for an equal number of warrants to purchase one share of common stock at an exercise price of \$3.00 per share (the "New Warrants"), conditioned upon the immediate exercise of such New Warrants.

Pursuant to the February 2018 Tender Offer, warrants to purchase 1,580,388 shares of the Company's common stock were tendered by holders of warrants and were amended and exercised in connection therewith, resulting in the issuance by the Company of an aggregate of 1,580,388 shares of its common stock for aggregate gross proceeds of \$4.7 million.

The Original Warrants were issued (i) in July 2015 in connection with the Company's registered public offering of 2,090,750 units (each unit consisting of one share of the Company's common stock and one Original Warrant), and (ii) in January 2016 in connection with the mandatory exchange of all of the Company's outstanding Class A Convertible Preferred Stock and Class B Convertible Preferred Stock into 4,977,038 units (each unit consisting of one share of the Company's common stock and one Original Warrant).

The terms of the New Warrants included (i) an exercise price of \$3.00 per share and (ii) an exercise period that expired concurrently with the expiration of the Offer at 5:00 p.m. (Eastern Time) on February 2, 2018 (the "Expiration Date"). In addition, the shares issuable upon exercise of the New Warrants (the "New Warrant Shares") were subject to a 60-day lock-up period.

The purpose of the Offer was to raise funds to support the Company's growth plans by providing the holders of the Original Warrants an incentive to exchange their Original Warrants for New Warrants and exercise the New Warrants to purchase shares of the Company's common stock at a reduced exercise price as compared to the Original Warrants. The Company received all of the proceeds from the immediate exercise of the New Warrants, which will be used by the Company for business growth, including as working capital and for other general corporate purposes.

As a result of reducing the exercise price of certain warrants in connection with the February 2018 Tender Offer, a warrant repricing expense of \$899,400 was incurred which was determined using the Black-Scholes option pricing model and was calculated as the difference between the fair value of the warrants prior to, and immediately after, the reduction in the exercise price on the date of repricing. Such amount is included in warrant inducement and repricing expense in the consolidated statement of operations for the six months ended June 30, 2018. In connection with this offering, the Company incurred \$99,400 in offering costs that were offset against the proceeds from this offering.

Results of Operations

Three months ended June 30, 2018 compared to three months ended June 30, 2017:

The following table summarizes certain information derived from our condensed consolidated statements of operations:

	Three Months Ended June 30,		\$ Change	% Change	
	2018	2017			
	(\$ in 000's)				
Revenues	\$ 4,627	\$ 2,917	\$ 1,710	58.6	%
Cost of revenues	(2,123)	(1,524)	(599)	39.3	%
Gross margin	2,504	1,393	1,111	79.7	%
General and administrative	(2,669)	(1,789)	(880)	49.1	%
Sales and marketing	(1,851)	(1,237)	(614)	49.7	%
Engineering and development	(449)	(231)	(218)	94.4	%
Other income, net	7	4	3	105.6	%
Provision for income taxes	(13)	—	(13)	100	%
Net loss	\$ (2,471)	\$ (1,860)	\$ (611)	32.8	%

Total revenues

	Three Months Ended June 30,		\$ Change	% Change	
	2018	2017			
	(\$ in 000's)				
Biopharmaceutical	\$ 3,849	\$ 2,229	\$ 1,620	72.6	%
Reproductive medicine	499	426	73	17.2	%
Animal health	279	262	17	6.5	%
Total revenues	\$ 4,627	\$ 2,917	\$ 1,710	58.6	%

Revenues. We generated revenues from customers in all of our target life sciences markets, such as biopharma, animal health and reproductive medicine. Revenues increased \$1.7 million or 58.6% to \$4.6 million for the three months ended June 30, 2018, as compared to \$2.9 million for the three months ended June 30, 2017. This increase was primarily driven by the continuing increase in the number of biopharmaceutical customers utilizing our services and increase in clinical trials supported for these customers. Biopharmaceutical revenue increased \$1.6 million or 72.6%, to \$3.8 million for the three months ended June 30, 2018 compared to \$2.2 million in the same period last year. During the three months ended June 30, 2018, we added approximately 30 new biopharma clients and supported 258 clinical trials compared to 172 clinical trials supported during the same period in 2017. The number of Phase III clinical trials supported increased to 34 trials during the three months ended June 30, 2018 as compared to 17 trials during the same period in 2017. This increased activity in the clinical trial space is expected to drive future revenue growth as these clinical trials advance and resulting therapies are commercialized. Revenues in the reproductive medicine market increased by 17.2% for the three months ended June 30, 2018, as compared to the same period in 2017. This increase was driven by a 22.9% increase in revenues in the U.S. market through continued success of our targeted marketing campaigns, including the launch of a new website supporting the CryoStork^(SM) cryogenic logistics solutions offering and a 1.8% increase in revenues in the international markets. Our revenues from animal health increased 6.5% for the three months ended June 30, 2018, as compared to the same period in 2017.

Gross margin and cost of revenues. Gross margin for the three months ended June 30, 2018 was 54.1% of revenues, as compared to 47.8% of revenues for the three months ended June 30, 2017. The increase in gross margin by approximately six percentage points is primarily due to economies of scale resulting from the increased business volume and pricing adjustments combined with a reduction in freight as a percentage of revenues. Our cost of revenues are primarily comprised of freight charges, payroll and related expenses related to our operations center in California, third-party charges for our European and Asian staging centers in Holland and Singapore, depreciation expenses of our Cryoport Express[®] Shippers and supplies and consumables used for our solutions. Cost of revenues increased \$599,100, or 39.3%, to \$2.1 million for the three months ended June 30, 2018, as compared to \$1.5 million in the same period in 2017. The increase in cost of revenues was primarily due to freight charges from the increased volume of shipments.

General and administrative expenses. General and administrative expenses increased \$879,300 for the three months ended June 30, 2018 or 49.1% as compared to the same period in 2017. This increase is primarily due to an increase of stock-based compensation of \$394,200, an increase of \$289,800 for start-up costs for the new logistics centers in Livingston, New Jersey and Hoofddorp, The Netherlands, an increase in salaries and associated employee costs of \$151,700, an increase in public company related expenses of \$147,300 including legal fees, an increase in the allowance for bad debt of \$33,800, an increase in insurance premiums of \$23,600 and an increase in facility costs of \$13,600. These increases were partially offset by a decrease of \$122,700 for legal settlements incurred in 2017.

Sales and marketing. Sales and marketing expenses increased \$614,600 or 49.7% which is primarily due to an increase in salaries and associated employee costs of \$362,500 which includes recruiting fees of \$19,200 for the expansion of our European sales force and domestic logistics force, an increase in stock-based compensation of \$135,800, an increase in inter department and facility allocations of \$69,200, and an increase in travel and lodging expense of \$39,100.

Engineering and development expenses. Engineering and development expenses increased \$217,900 or 94.4% for the three months ended June 30, 2018, as compared to the same period in 2017. The increase is primarily due to \$123,200 in wages and associated employee costs to add a software development product manager, senior engineer and Chief Technology Officer, an increase in stock-based compensation of \$71,100, and an increase in inter department and facility costs of \$48,500. These increases were partially offset by a reduction of \$42,900 in testing expenses. We continually strive to improve and expand the features of our Cryoport Express® Solutions. Our primary developments are directed towards facilitating the safe, reliable and efficient shipment of life science commodities through innovative and technology-based solutions. We supplement our internal engineering and development resources with subject matter experts and consultants.

Other income, net. The other income, net for the three months ended June 30, 2018 is primarily due to interest income on our cash balance.

Six months ended June 30, 2018 compared to six months ended June 30, 2017:

The following table summarizes certain information derived from our condensed consolidated statements of operations:

	Six Months Ended June 30,		\$ Change	% Change	
	2018	2017			
	(\$ in 000's)				
Revenues	\$ 8,650	\$ 5,630	\$ 3,020	53.7	%
Cost of revenues	(3,962)	(2,983)	(979)	32.8	%
Gross margin	4,688	2,647	2,041	77.1	%
General and administrative	(4,738)	(3,493)	(1,245)	35.6	%
Sales and marketing	(3,436)	(2,307)	(1,129)	48.9	%
Engineering and development	(778)	(481)	(297)	62.0	%
Interest expense	—	(16)	16	(100)	%
Warrant inducement and repricing expense	(899)	—	(899)	100	%
Other income, net	23	4	19	560.9	%
Provision for income taxes	(14)	(4)	(10)	(22.3)	%
Net loss	\$ (5,154)	\$ (3,650)	\$ (1,504)	41.2	%

Total revenues

	Six Months Ended June 30,			
	2018	2017	\$ Change	% Change
	(\$ in 000's)			
Biopharmaceutical	\$ 7,131	\$ 4,252	\$ 2,879	67.7 %
Reproductive medicine	1,001	844	157	18.6 %
Animal health	518	534	(16)	(3.0)%
Total revenues	\$ 8,650	\$ 5,630	\$ 3,020	53.7 %

Revenues. We generated revenues from customers in all of our target life sciences markets, such as biopharma, animal health and reproductive medicine. Revenues increased \$3.0 million or 53.7% to \$8.7 million for the six months ended June 30, 2018, as compared to \$5.6 million for the six months ended June 30, 2017. This increase was primarily driven by the continuing increase in the number of biopharmaceutical customers utilizing our services and increase in clinical trials supported for these customers. Biopharmaceutical revenue increased \$2.9 million or 67.7%, to \$7.1 million for the six months ended June 30, 2018 compared to \$4.3 million in the same period last year. During the six months ended June 30, 2018, we added approximately 54 new biopharma clients and added 44 clinical trials, net of completed or terminated trials. We now support 258 clinical trials compared to 172 clinical trials supported during the same period in 2017. The number of Phase III clinical trials supported increased to 34 trials during the six months ended June 30, 2018 as compared to 17 trials during the same period in 2017. This increased activity in the clinical trial space is expected to drive future revenue growth as these clinical trials advance and resulting therapies are commercialized. Revenues in the reproductive medicine market increased by 18.6% for the six months ended June 30, 2018, as compared to the same period in 2017. This increase was driven by a 26.0% increase in revenues in the U.S. market through continued success of our targeted marketing campaigns, including the launch of a new website supporting the CryoStork^(SM) cryogenic logistics solutions offering and was partially offset by a 1.0% decrease in revenues in the international markets. Our revenues from animal health decreased 3.0% for the six months ended June 30, 2018, as compared to the same period in 2017, primarily as a result of a temporary pause of a trial from one of our animal health customers.

Gross margin and cost of revenues. Gross margin for the six months ended June 30, 2018 was 54.2% of revenues, as compared to 47.0% of revenues for the six months ended June 30, 2017. The increase in gross margin by approximately seven percentage points is primarily due to economies of scale resulting from the increased business volume and pricing adjustments combined with a reduction in freight as a percentage of revenues. Our cost of revenues are primarily comprised of freight charges, payroll and related expenses related to our operations center in California, third-party charges for our European and Asian staging centers in Holland and Singapore, depreciation expenses of our Cryoport Express® Shippers and supplies and consumables used for our solutions. Cost of revenues increased \$979,200, or 32.8%, to \$4.0 million for the six months ended June 30, 2018, as compared to \$3.0 million in the same period in 2017. The increase in cost of revenues was primarily due to freight charges from the increased volume of shipments.

General and administrative expenses. General and administrative expenses increased \$1.2 million for the six months ended June 30, 2018 or 35.6% as compared to the same period in 2017. This increase is primarily due to an increase of stock-based compensation of \$518,900, an increase of \$348,500 for start-up costs for the new logistics centers in Livingston, New Jersey and Hoofddorp, The Netherlands, an increase in public company related expenses of \$250,500 including legal, audit and Sox audit fees, an increase in facility costs of \$131,100, an increase in salaries and associated employee costs of \$120,900, an increase in insurance premiums of \$41,300, and an increase in the allowance for bad debt of \$34,000. These increases were partially offset by a decrease of \$122,000 for legal settlements incurred in 2017.

Sales and marketing. Sales and marketing expenses increased \$1.1 million or 48.9% is primarily due to an increase in salaries and associated employee costs of \$649,700 which includes an increase in recruiting fees of \$48,116 for the expansion of our European sales force and domestic logistics force, an increase in stock-based compensation of \$212,500, an increase in marketing and advertising promotions of \$185,100, an increase in travel and lodging expense of \$73,500 and an increase in trade shows of \$37,300.

Engineering and development expenses. Engineering and development expenses increased \$297,700 or 62.0% for the six months ended June 30, 2018, as compared to the same period in 2017. The increase is primarily due to \$262,000 in wages and associated employee costs to add a software development product manager, senior engineer and Chief Technology Officer, an increase in stock-based compensation of \$124,500, an increase in inter department and facility costs of \$72,500 and an increase in travel and lodging of \$14,900. These increases were partially offset by a reduction of \$151,300 in testing expenses, and \$37,100 in software maintenance expenses. We continually strive to improve and expand the features of our Cryoport Express® Solutions. Our primary developments are directed towards facilitating the safe, reliable and efficient shipment of life science commodities through innovative and technology-based solutions. We supplement our internal engineering and development resources with subject matter experts and consultants.

Warrant inducement and repricing expense. Warrant inducement and repricing expense increased \$899,400 for the six months ended June 30, 2018 which was due to the repricing of certain warrants for the tender offer that was

completed in February 2018.

Interest expense. Interest expense decreased \$15,700 for the six months ended June 30, 2018, as compared to six months ended June 30, 2017. Interest expense for the six months ended June 30, 2017 included amortization of the debt discount on the related-party notes of \$6,100 and the stated interest expense of \$9,600.

Other income, net. The other income, net for the six months ended June 30, 2018 is primarily due to interest income on our cash balance.

Liquidity and Capital Resources

As of June 30, 2018, the Company had cash and cash equivalents of \$20.0 million and working capital of \$21.1 million. Historically, we have financed our operations primarily through sales of our equity securities.

For the six months ended June 30, 2018, we used \$2.3 million of cash for operations primarily as a result of the net loss of \$5.2 million offset by non-cash expenses of \$3.9 million primarily comprised of depreciation and amortization, stock-based compensation expense, warrant inducement and repricing expense and loss on disposal of fixed assets. Also contributing to the cash impact of our net operating loss (excluding non-cash items) was an increase in accounts receivable of \$2.0 million as a result of the increase in revenue and the impact of a high volume of shipments for two larger clients that have 60 day payment terms offset by an increase in accounts payable and other accrued expenses and accrued compensation of \$939,200.

Net cash used in investing activities of \$996,300 during the six months ended June 30, 2018 was primarily due to the capitalization of software development costs for our CryoportTM Logistics Management Platform, additional purchases of Cryoport Express[®] Shippers, Smart Pak IITM Condition Monitoring Systems and computer equipment as well as legal expenses incurred for trademark applications.

Net cash provided by financing activities totaled \$8.3 million during the six months ended June 30, 2018, which resulted from net proceeds of \$4.6 million from the February 2018 warrant tender offer and proceeds from the exercise of stock options and warrants of \$3.7 million.

The Company's management believes that, based on its current plans and assumptions, the current cash on hand, together with projected cash flows, will satisfy its operational plans for at least the next twelve months. The Company's management recognizes that the Company may need to obtain additional capital to fund its operations until sustained profitable operations are achieved. Additional funding plans may include obtaining additional capital through equity and/or debt funding sources. No assurance can be given that additional capital, if needed, will be available when required or upon terms acceptable to the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business and by the nature of our global operations, we are exposed to risks associated with foreign currency exchange rate fluctuations relating to payments we make to vendors and employees based in Europe.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the timelines specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and

procedures.

As required by Securities and Exchange Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018 at the reasonable assurance level.

Changes in internal control over financial reporting.

There were no changes in our internal controls over financial reporting during the fiscal quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

The risks described in *Part I, Item 1A, Risk Factors*, in our Annual report on Form 10-K for the year ended December 31, 2017, could materially and adversely affect our business, financial condition and results of operations. These risk factors do not identify all of the risks that we face. Our business, financial condition and results of operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial. There have been no material changes to the “Risk Factors” section included in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

**Exhibit
Index**

31.1+ Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2+ Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1+ Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS+ XBRL Instance Document.

101.SCH+ XBRL Taxonomy Extension Schema Document.

101.CAL+ XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF+ XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB+ XBRL Taxonomy Extension Label Linkbase Document.

101.PRE+ XBRL Taxonomy Extension Presentation Linkbase Document.

+ Filed herewith.

29

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Cryoport, Inc.

Dated: August 9, 2018

By: */s/ Jerrell W. Shelton*

Jerrell W. Shelton
Chief Executive Officer

Dated: August 9, 2018

By: */s/ Robert S. Stefanovich*

Robert S. Stefanovich
Chief Financial Officer