

Cryoport, Inc.
Form 10-Q
November 15, 2016

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 September 30, 2016

**..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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

As of November 11, 2016 there were 17,599,028 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 September 30, 2016 (Unaudited) and at March 31, 2016</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2016 and 2015</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2016 and 2015</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>ITEM 4. Controls and Procedures</u>	26
<u>PART II. OTHER INFORMATION</u>	27
<u>ITEM 1. Legal Proceedings</u>	27
<u>ITEM 1A. Risk Factors</u>	27
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>ITEM 3. Defaults Upon Senior Securities</u>	27
<u>ITEM 4. Mine Safety Disclosures</u>	27
<u>ITEM 5. Other Information</u>	27
<u>ITEM 6. Exhibits</u>	27
<u>SIGNATURES</u>	28

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

	September 30, 2016 (unaudited)	March 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$2,558,028	\$2,792,526
Accounts receivable, net of allowance for doubtful accounts of \$30,000 and \$22,100, respectively	1,000,226	1,020,999
Inventories	82,191	69,801
Prepaid expenses and other current assets	606,823	248,729
Total current assets	4,247,268	4,132,055
Property and equipment, net	1,373,207	1,319,741
Intangible assets, net	6,323	8,581
Deposits	363,403	363,403
Total assets	\$5,990,201	\$5,823,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued expenses	\$1,184,330	\$1,271,926
Accrued compensation and related expenses	368,235	508,754
Related-party notes payable and accrued interest, net of discount of \$12,400 and \$24,900, respectively	739,677	392,898
Total current liabilities	2,292,242	2,173,578
Related-party notes payable, net of current portion	—	554,275
Total liabilities	2,292,242	2,727,853
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	—	—
Class B convertible preferred stock — \$0.001 par value; 585,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.001 par value; 50,000,000 shares authorized; 15,128,115 and 12,251,313 issued and outstanding at September 30, 2016 and March 31, 2016, respectively	15,128	12,251
Additional paid-in capital	122,932,859	116,214,522
Accumulated deficit	(119,250,028)	(113,130,846)
Total stockholders' equity	3,697,959	3,095,927
Total liabilities and stockholders' equity	\$5,990,201	\$5,823,780

See accompanying notes to condensed consolidated financial statements.

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

(unaudited)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues	\$1,976,826	\$1,437,028	\$3,894,392	\$2,868,091
Cost of revenues	1,179,991	1,000,715	2,315,607	1,943,866
Gross margin	796,835	436,313	1,578,785	924,225
Operating costs and expenses:				
General and administrative	1,507,634	1,260,500	2,937,402	2,402,248
Sales and marketing	1,235,353	897,271	2,430,991	1,781,880
Research and development	214,680	100,296	350,479	178,020
Total operating costs and expenses	2,957,667	2,258,067	5,718,872	4,362,148
Loss from operations	(2,160,832)	(1,821,754)	(4,140,087)	(3,437,923)
Other expense:				
Interest expense	(19,305)	(601,002)	(40,547)	(904,802)
Warrant repricing expense	—	—	(1,929,818)	—
Other expense, net	(1,453)	(2,707)	(3,368)	(3,682)
Loss before provision for income taxes	(2,181,590)	(2,425,463)	(6,113,820)	(4,346,407)
Provision for income taxes	(2,878)	—	(5,362)	(3,320)
Net loss	(2,184,468)	(2,425,463)	(6,119,182)	(4,349,727)
Preferred stock beneficial conversion charge	—	—	—	(4,474,348)
Undeclared cumulative preferred dividends	—	(239,388)	—	(447,878)
Net loss attributable to common stockholders	\$(2,184,468)	\$(2,664,851)	\$(6,119,182)	\$(9,271,953)
Net loss per share attributable to common stockholders – basic and diluted	\$(0.14)	\$(0.41)	\$(0.42)	\$(1.61)
Weighted average shares outstanding – basic and diluted	15,120,479	6,505,016	14,662,626	5,774,389

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net loss	\$(6,119,182)	\$(4,349,727)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	198,617	94,026
Amortization of debt discounts and deferred financing costs	12,463	351,568
Stock-based compensation expense	1,548,993	1,118,012
Estimated fair value of the beneficial conversion feature on related-party notes payable	—	521,056
Warrant repricing expense	1,929,818	—
Loss on disposal of property and equipment	16,372	32,817
Provision for bad debt	32,790	34,043
Changes in operating assets and liabilities:		
Accounts receivable	(12,017)	(147,252)
Inventories	(12,390)	(41,624)
Other assets	(358,094)	(91,336)
Accounts payable and other accrued expenses	(88,156)	(102,696)
Accrued compensation and related expenses	(140,519)	(341,069)
Accrued interest	7,012	(20,174)
Net cash used in operating activities	(2,984,293)	(2,942,356)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(261,197)	(335,402)
Acquisition of intangible	(5,000)	—
Net cash used in investing activities	(266,197)	(335,402)
Cash Flows From Financing Activities:		
Proceeds from the tender offer, net of offering costs	2,244,247	—
Proceeds from the rights offering, net of offering costs	998,716	—
Proceeds from issuance of common stock and warrants in public offering, net of offering costs	—	5,938,099
Proceeds from the issuance of Class A and Class B convertible preferred stock, net of offering costs	—	3,896,678
Proceeds from exercise of stock options and warrants	—	10,881
Repayment of notes payable	—	(741,377)
Repayment of related-party notes payable	(226,971)	(172,000)
Net cash provided by financing activities	3,015,992	8,932,281
Net change in cash and cash equivalents	(234,498)	5,654,523
Cash and cash equivalents — beginning of period	2,792,526	1,405,186
Cash and cash equivalents — end of period	\$2,558,028	\$7,059,709

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

Supplemental Disclosure of Non-Cash Financing Activities:

Offering costs in connection with the rights offering included in accounts payable and other accrued expenses	\$560	\$—
Issuance of common stock for accrued board of director compensation	\$—	\$54,813
Purchase of fixed assets included in accounts payable and other accrued expenses	\$—	\$200,000
Reclassification of shipper inventory to fixed assets	\$—	\$32,074
Accretion of convertible preferred stock beneficial conversion feature and relative fair value of warrants issued in connection with the convertible preferred stock units to accumulated deficit	\$—	\$4,474,348

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

For the Six Months Ended September 30, 2016 and 2015

(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 8 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 six months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year. 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 fiscal year ended March 31, 2016.

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 Cryoport Express® Shippers, Cryoport™ Logistics Management Platform, SmartPak™ Condition Monitoring System and specialized cold chain logistics expertise. The Company provides leading edge end-to-end logistics solutions for temperature-sensitive life science commodities, 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 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."

Going Concern

The condensed consolidated financial statements have been prepared using the accrual method of accounting in accordance with U.S. GAAP and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. We have sustained operating losses since our inception and have used substantial amounts of working capital in our operations. At September 30, 2016, we had an accumulated deficit of \$119.3 million. During the six months ended September 30, 2016, we used cash in operations of \$3.0 million and had a net loss of \$6.1 million.

We expect to continue to incur substantial additional operating losses from costs related to the commercialization of our Cryoport Express® Solutions and do not expect that revenues from operations will be sufficient to satisfy our funding requirements in the near term. We believe that our cash and cash equivalents at September 30, 2016, the net proceeds from the October 2016 Tender Offer (See Note 8) and revenues generated from our services will be sufficient to sustain our planned operations into the second quarter of calendar year 2017; however, we must obtain additional capital to fund operations thereafter and for the achievement of sustained profitable operations. These factors raise substantial doubt about our ability to continue as a going concern. We are currently working on funding alternatives in order to secure sufficient operating capital to allow us to continue to operate as a going concern.

Future capital requirements will depend upon many factors, including the success of our commercialization efforts and the level of customer adoption of our Cryoport Express® Solutions as well as our need to expand our operational infrastructure, including the additional acquisition of Cryoport Express® Shippers and other equipment in response to our client's needs. We cannot make any assurances that the sales ramp will lead to achievement of sustained profitable operations or that any additional financing efforts will be successful. Management's inability to achieve significant revenue increases or to complete any future financing will adversely impact our ability to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Cryoport, Inc. and its wholly owned subsidiary, Cryoport Systems, Inc. All intercompany accounts and transactions have been eliminated.

Change in Fiscal Year End

In September 2016, the Company elected to change its fiscal year end from March 31 to a new fiscal year end of December 31. As a result of the change, the Company's quarterly reporting periods will be comprised of the three calendar months ending March 31, June 30, September 30, and December 31. Following the filing of this Quarterly Report on Form 10-Q, the Company's next periodic report will be filed on Form 10-K for the transition period from April 1, 2016 to December 31, 2016.

Reclassification

Certain prior period financial statement amounts have been reclassified to conform to the current period presentation.

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 and conversion features.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, related-party notes payable, accounts payable and accrued expenses. The carrying value for all such instruments, except for related-party notes payable, approximates fair value at September 30, 2016 and March 31, 2016 due to their short-term nature. The difference between the fair value and recorded values of the related-party notes payable is not significant.

Cash and Cash Equivalents

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

Customers

The Company grants credit to many of its customers and does not require collateral. The Company generally requires advance or credit card payments for initial revenues from new customers. The Company's ability to collect receivables is 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 September 30, 2016 and March 31, 2016 are net of reserves for doubtful accounts of \$30,000 and \$22,100, respectively. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

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. At September 30, 2016 and March 31, 2016, there was one customer that accounted for 13.2% and 25.5% of net accounts receivable, respectively. No other single customer owed us more than 10% of net accounts receivable at September 30, 2016 and March 31, 2016.

The Company has revenue from foreign customers primarily in Europe, Japan, Canada, India and Australia. During the six months ended September 30, 2016 and 2015, the Company had revenues from foreign customers of approximately \$583,200 and \$421,100, respectively, which constituted approximately 15.0% and 14.7% of total revenues, respectively.

For the six months ended September 30, 2016, there were no customers that generated over 10% of total revenues. For the six months ended September 30, 2015, there was one customer that accounted for 18.1% of total revenues. No other customer generated over 10% of total revenues during the six months ended September 30, 2015.

Inventories

The Company's inventories consist of packaging materials and accessories that are sold to customers. Inventories are stated at the lower of cost or current estimated market 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, and based on the evaluation, records adjustments to reflect inventories at its 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 engineered 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 shipper 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 used by its clients.

Property and equipment are recorded at cost. Cryogenic shippers and condition monitoring systems, which comprise of 39% and 35% of the Company's net property and equipment balance at September 30, 2016 and March 31, 2016, 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. Equipment acquired under capital leases is amortized over the estimated useful life of the assets or term of the lease, whichever is shorter and included in depreciation and amortization expense.

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 including the valuation of warrants issued to consultants.

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 September 30, 2016.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of notes payable 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. Offering costs of \$269,000 incurred for future financings as of September 30, 2016 are included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet.

Conversion Features

If a conversion feature of convertible debt is not accounted for as a derivative instrument and provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (“BCF”). A BCF is recorded by the Company as a debt discount. The convertible debt is recorded net of the discount related to the BCF. The Company amortizes the discount to interest expense over the life of the debt using the effective interest rate method.

Preferred stock is convertible to common stock at a rate of conversion that is below market value, therefore, this feature is characterized as a BCF. The Company records this BCF as a discount to the preferred stock and accretes the discount to accumulated deficit as a deemed dividend through the earliest conversion date or upon issuance if the preferred stock can be immediately converted

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 September 30, 2016 and March 31, 2016, 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 September 30, 2016 and March 31, 2016 and has not recognized interest and/or penalties in the condensed consolidated statements of operations for the six months ended September 30, 2016 and 2015. The Company is subject to taxation in the U.S. and various state jurisdictions. As of September 30, 2016, the Company is no longer subject to U.S. federal examinations for years before 2012 and for California franchise and income tax examinations for years before 2011. 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

The Company provides shipping containers to its customers and charges a fee in exchange for the use of the container. The Company's arrangements are similar to the accounting standard for leases since they convey the right to use the containers over a period of time. The Company retains title to the containers and provides its customers the use of the container for a specified shipping cycle. At the culmination of the customer's shipping cycle, the container is returned to the Company.

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 reasonably certain. Revenue is based on gross amounts, net of discounts and allowances.

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 and at the time that collectability is reasonably certain.

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.

Research and Development Expenses

Expenditures relating to research 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.

Since stock-based compensation is recognized only for those awards that are ultimately expected to vest, the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised, if necessary, in future periods if actual forfeitures differ from estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs. The estimated forfeiture rates at September 30, 2016 and March 31, 2016 were zero as the Company has not had a significant history of forfeitures and does not expect significant forfeitures in the future.

Cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for options or warrants are classified as financing cash flows. Due to the Company’s loss position, there were no such tax benefits during the six months ended September 30, 2016 and 2015.

The Company's stock-based compensation plans are discussed further in Note 7.

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 Income (Loss) Per Share

We calculate basic and diluted net income (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 income (loss) used in this calculation for deemed preferred stock dividends and cumulative preferred stock dividends, whether they are earned or not during the period. In periods of a net loss position, basic and diluted weighted average 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. As of September 30, 2016 and March 31, 2016, the Company had no cumulative, undeclared, dividends that have not been accrued related to its preferred stock. During the six months ended September 30, 2016 and 2015, undeclared dividends totaling \$0 and \$447,900, respectively, were added to the net loss on the condensed consolidated statements of operations in order to calculate net loss per share attributable to common stockholders.

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

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

	Six Months Ended September 30,	
	2016	2015
Net loss	\$ (6,119,182) \$ (4,349,727
Add:		
Preferred stock beneficial conversion charge	—	(4,474,348
Undeclared cumulative preferred dividends	—	(447,878
Net loss attributable to common stockholders	\$ (6,119,182) \$ (9,271,953
Weighted average common shares issued and outstanding - basic and diluted	14,662,626	5,774,389
Basic and diluted net loss per share attributable to common stockholders	\$ (0.42) \$ (1.61
	Three Months Ended September 30,	
	2016	2015
Net loss	\$ (2,184,468) \$ (2,425,463
Add:		
Undeclared cumulative preferred dividends	—	(239,388
Net loss attributable to common stockholders	\$ (2,184,468) \$ (2,664,851
Weighted average common shares issued and outstanding - basic and diluted	15,120,479	6,505,016
Basic and diluted net loss per share attributable to common stockholders	\$ (0.14) \$ (0.41

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:

	Six Months Ended September 30,	
	2016	2015
Class A convertible preferred stock	—	1,136,875
Class B convertible preferred stock	—	1,336,428
Stock options	102,163	456,061
Warrants	1,305	1,257,635
	103,468	4,186,999

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 September 30, 2016 and March 31, 2016.

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.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”. ASU 2014-09 supersedes the revenue recognition requirements in FASB Topic 605, “Revenue Recognition”. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. In August 2015, the FASB issued ASU No. 2015-14 which deferred the effective date by one year for public entities and others. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2017 for public business entities, certain not-for-profit entities, and certain employee benefit plans. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management has not selected a transition method and is currently assessing the impact the adoption of ASU 2014-09 will have on our condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern”. Currently, there is no guidance in U.S. GAAP about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the reporting periods ending after December 15, 2016 and early application is permitted. The Company will apply the

guidance and disclosure provisions of the new standard upon adoption in its December 31, 2016 consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory". The amendments in this update apply to inventory that is measured using first-in, first-out (FIFO) or average cost. They do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of this update, there are no other substantive changes to the guidance on measurement of inventory. The amendments in this update more closely align the measurement of inventory in International Financial Reporting Standards (IFRS) and are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is currently assessing the impact the adoption of ASU 2015-11 will have on our condensed consolidated financial statements.

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 condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in this ASU are effective for the reporting periods beginning after December 15, 2016 and early application is permitted. Management is currently evaluating the impact this standard will have on our condensed consolidated financial statements.

Note 4. Related-Party Transactions

As of September 30, 2016 and March 31, 2016, the Company had aggregate principal balances of \$739,000 and \$966,000, respectively, in outstanding unsecured indebtedness owed to five related parties, including four former members of the Board of Directors, representing working capital advances made to the Company from February 2001 through March 2005.

Related-Party Notes Payable

On March 1, 2016, we entered into definitive agreements with Patrick Mullens, M.D., Maryl Petreccia and Jeffrey Dell, M.D. to amend and restate the outstanding notes pursuant to certain Second Amended and Restated Promissory Notes dated as of February 29, 2016 (the "Amended and Restated Notes"). As of September 30, 2016, the three note holders had outstanding principal balances of \$358,500, \$213,300 and \$167,200, respectively. The Amended and Restated Notes increased the interest rate to 7% per annum, extended the term to April 1, 2017, and modified the repayment provisions to provide for (i) repayment on March 1, 2016 of the outstanding amount of interest accrued through February 29, 2016, (ii) repayment of 10% of the original principal balance and accrued interest of such notes on a quarterly basis commencing April 1, 2016, and (iii) payment of the remaining outstanding balance on April 1, 2017. In addition, we issued such note holders warrants for the purchase of 11,910, 7,088, and 5,553 shares, respectively, of our common stock at an exercise price of \$1.88 per share, immediately exercisable and expiring on April 1, 2019. The Company also agreed to reimburse up to \$5,000 of legal fees incurred by the note holders. The relative fair value of the warrants issued in March 2016 of \$26,900 was recorded as a debt discount and is being amortized to interest expense using the straight-line method which approximates the effective interest method over the term of the related-party notes. During the six months ended September 30, 2016, \$12,500 of the debt discount was amortized to interest expense.

One note issued to Raymond Takahashi, M.D., was exchanged for (i) a new promissory note with an original principal amount equal to the outstanding principal and interest of the original note, and (ii) a warrant to purchase 1,490 shares of the Company's common stock at an exercise price of \$6.00 per share, exercisable on February 20, 2015 and expiring on February 19, 2018. The new note, which as of September 30, 2016 had an outstanding principal balance of \$35,800, required interest payments on a calendar quarterly basis and payment of all outstanding principal and accrued interest on the maturity date, which was March 1, 2016. On March 1, 2016, we entered into a verbal agreement to extend the term of the related-party note to April 1, 2016. On April 1, 2016, we entered into a definitive agreement to amend and extend the term of the note to July 1, 2016. The note was repaid on July 1, 2016.

Related-party interest expense under these notes was \$28,100 and \$28,900 for the six months ended September 30, 2016 and 2015, respectively. Accrued interest, which is included in related-party notes payable in the accompanying condensed consolidated balance sheets, amounted to \$13,000 and \$6,100 as of September 30, 2016 and March 31,

2016, respectively.

One note issued to Marc Grossman, M.D., as amended, was repaid in monthly installments of \$20,000, except for the month of June 2015, where the monthly payment was \$72,000. The note was repaid in full in April 2016.

Note 5. Commitments and Contingencies

Facility and Equipment Leases

We lease 27,600 square feet of corporate, research and development, and warehouse facilities in Irvine, California under an operating lease expiring February 28, 2023, subject to our option to extend the lease for two additional five-year periods. The base rent is approximately \$24,700 per month. This lease agreement contains certain scheduled annual rent increases which are accounted for on a straight-line basis. We also lease certain office equipment which expires in March 2018.

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.

Consulting and Engineering Services

On September 16, 2015, the Company entered into the Purchase and Sale Agreement (the "Purchase and Sale Agreement"), by and between KLATU Networks, LLC ("KLATU") and the Company. Pursuant to the Purchase and Sale Agreement, the Company purchased from KLATU certain intellectual property and intellectual property rights related to the Company's CryoportTM logistics management platform (the "Developed Technology"), which KLATU previously developed for and licensed to the Company pursuant to the Master Consulting and Engineering Services Agreement, by and between KLATU and the Company, dated October 9, 2007 (as amended, the "Master Consulting and Engineering Services Agreement"). As full compensation for the sale and assignment of the Developed Technology from KLATU to the Company, the Company paid KLATU an aggregate amount of \$400,000 in two equal installments of \$200,000.

Concurrently with entering into the Purchase and Sale Agreement, on September 16, 2015, the Company and KLATU entered into the Amended and Restated Master Consulting and Engineering Services Agreement (the “Amended and Restated Master Consulting and Engineering Services Agreement”) to amend and restate the Master Consulting and Engineering Services Agreement. The Amended and Restated Master Consulting and Engineering Services Agreement provides a framework for KLATU to perform certain consulting, software and hardware engineering development services as mutually agreed upon and further set forth in one or more Statements of Work (as defined in the Amended and Restated Master Consulting and Engineering Services Agreement). To ensure the availability of KLATU personnel to perform services pursuant to the Amended and Restated Master Consulting and Engineering Services Agreement, the Company agreed to pay KLATU a minimum of \$25,000 per month for services fees, which may be carried forward as advance payment for future services under certain conditions. The initial term of the agreement is until December 31, 2017 and will thereafter automatically renew for subsequent one year terms, unless notice of termination is given.

Consulting fees for services provided by KLATU were \$141,700 and \$66,200 for the three months ended September 30, 2016 and 2015, respectively and \$224,400 and \$140,500 for the six months ended September 30, 2016 and 2015, respectively.

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 6. Stockholders' Equity

Authorized Stock

The Company has 50,000,000 authorized shares of common stock with a par value of \$0.001 per share which were increased in November 2015 from 20,833,333 authorized shares upon approval from the Company's stockholders.

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.

Common Stock Issued for Services

During the six months ended September 30, 2016, 14,332 shares of common stock with a fair value of \$30,300 were issued to two members of the board of directors as compensation for services.

Common Stock Reserved for Future Issuance

As of September 30, 2016, approximately 13.9 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	4,612,119
Exercise of warrants	9,303,402
Total shares of common stock reserved for future issuances	13,915,521

April 2016 Tender Offer

On April 7, 2016, we completed a tender offer with respect to certain warrants to purchase up to 2,448,000 shares of common stock of the Company (the “April 2016 Tender Offer”).

Pursuant to the April 2016 Tender Offer, warrants to purchase 2,020,597 shares of the Company’s common stock were tendered by holders of warrants and were amended (the “Amended Warrants”) and exercised in connection therewith, resulting in the issuance by the Company of an aggregate of 2,020,597 shares of its common stock (the “Exercise Shares”) for aggregate gross proceeds of \$2.5 million.

The warrants of holders who elected to participate in the April 2016 Tender Offer were amended to: (i) reduce the exercise price to \$1.25 per share; and (ii) shorten the exercise period to expire concurrently with the expiration date of April 7, 2016 (the “Expiration Date”). In addition, such holders also agreed: (A) to not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of the Exercise Shares without the prior written consent of the Company for a period of sixty (60) days after the Expiration Date (the “Lock-Up Period”); and (B) acting alone or with others, to not effect any purchases or sales of any securities of the Company in any “short sales” as defined in Rule 200 promulgated under Regulation SHO under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any type of direct and indirect stock pledges, forward sale contracts, options, puts, calls, short sales, swaps, “put

equivalent positions” (as defined in Rule 16a-1(h) under the Exchange Act) or similar arrangements, or sales or other transactions through non-U.S. broker dealers or foreign regulated brokers through the expiration of the Lock-Up Period.

The Amended Warrants also provide that, on or prior to June 30, 2016, the Company was required to prepare and file with the SEC a registration statement on Form S-1 covering resales of the Exercise Shares. In addition, the Company was required to use commercially reasonable efforts to cause such registration statement to be declared effective by the SEC. The Company filed the Form S-1 on June 30, 2016, which was declared effective on August 10, 2016. In connection with this offering, the Company incurred \$279,000 in offering costs that have been offset against the proceeds from this offering.

As a result of reducing the exercise price of certain warrants in connection with the April 2016 Tender Offer, a warrant repricing expense of \$1.9 million was incurred which was determined using the Black-Scholes method 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 the accompanying condensed consolidated statement of operations for the six months ended September 30, 2016.

Rights Offering

On June 20, 2016, we completed a rights offering for gross proceeds of \$1.3 million in subscriptions (including both basic and oversubscriptions) for 841,873 shares of common stock.

The rights offering was made through a distribution of non-transferable subscription rights to purchase one share of common stock for \$1.55, which was 85% of the volume weighted average price per share of our common stock on NASDAQ for the five consecutive trading days immediately preceding and including May 31, 2016. The subscription rights were distributed to holders of our common stock and holders of our warrants as of the record date, May 31, 2016.

Under the terms of the offering, rights holders had the ability to oversubscribe, which entitled each rights holder that exercised their basic subscription privilege in full the right to purchase additional shares of common stock that remained unsubscribed at the expiration of the rights offering. In connection with this offering, the Company incurred \$306,600 in offering costs that have been offset against the proceeds from this offering.

Note 7. 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 — March 31, 2016	11,153,868	\$ 3.76		
Issued	—	—		
Granted	178,232	2.04		
Exercised	(2,020,597)	1.25		
Forfeited	—	—		
Expired	(8,101)	106.46		
Outstanding — September 30, 2016	9,303,402	\$ 4.19	3.4	\$ 2,200
Vested (exercisable) — September 30, 2016	9,303,402	\$ 4.19	3.4	\$ 2,200

(1) Aggregate intrinsic value represents the difference between the exercise price of the warrant and the closing market price of our common stock on September 30, 2016, which was \$1.97 per share.

During the six months ended September 30, 2016, the fair value of each warrant grant was estimated on the date of grant using Black-Scholes with the following assumptions:

Expected life (years)	5.0
Risk-free interest rate	1.14 %
Volatility	116.3 %
Dividend yield	0 %

The intrinsic value of the warrants repriced and exercised during the six months ended September 30, 2016 was \$1.9 million.

Stock Options

We have four 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”) and the 2015 Omnibus Equity Incentive Plan (the “2015 Plan”), (collectively, the “Plans”). The 2002 Plan, the 2009 Plan, and the 2011 Plan (the “Prior Plans”) have been superseded by the 2015 Plan. In October 2015, the stockholders approved the 2015 Plan for 5,000,000 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 2015 Plan. As of September 30, 2016, the Company had 2,263,191 shares available for future awards under the 2015 Plan.

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)	6.0	
Risk-free interest rate	1.2 – 1.4	%
Volatility	113.7 – 117.8	%
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 cost over the vesting period using the straight-line single option method. Stock-based compensation expense is recognized only for those awards that are ultimately expected to vest. An estimated forfeiture rate has been applied to unvested awards for the purpose of calculating compensation cost. The estimated forfeiture rate of 0% per year is based on the historical forfeiture activity of unvested stock options. These estimates are revised, if necessary, in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

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 — March 31, 2016	3,999,325	\$ 4.44		
Granted (weighted-average fair value of \$1.62 per share)	890,674	1.89		
Exercised	—	—		
Forfeited	(195,364)	3.96		
Expired	(82,516)	4.50		
Outstanding — September 30, 2016	4,612,119	\$ 3.97	8.4	\$ 188,800
Vested (exercisable) — September 30, 2016	1,693,717	\$ 4.28	7.5	\$ 20,300
Expected to vest after September 30, 2016 (unexercisable)	2,918,402	\$ 3.78	2.7	\$ 168,500

- (1) Aggregate intrinsic value represents the difference between the exercise price of the option and the closing market price of our common stock on September 30, 2016, which was \$1.97 per share.

As of September 30, 2016, there was unrecognized compensation expense of \$7.5 million related to unvested stock options, which we expect to recognize over a weighted average period of 2.7 years.

Note 8. Subsequent Event

October 2016 Tender Offer

On October 28, 2016, we completed a tender offer (the “October 2016 Tender Offer”) to holders of the Company’s outstanding warrants to purchase one share of common stock at an exercise price of \$3.57 per share (“Original

Warrants”) to exchange up to 5,000,000 of such Original Warrants for (1) an equal number of warrants to purchase one share of common stock at an exercise price of \$1.50 per share (“New Warrants”), conditioned upon the immediate exercise of such New Warrants, and (2) one warrant to purchase one share of common stock at an exercise price of \$3.00 per share for every four New Warrants exercised (“Supplemental Warrants”).

The Supplemental Warrants are exercisable upon issuance and expire on the earlier of (i) October 28, 2019 and (ii) the thirtieth (30th) day after the date that the closing price of the Company’s common stock equals or exceeds \$4.50 for ten consecutive trading days. The Supplemental Warrants will have a cashless exercise right in the event that the Supplemental Warrant Shares are not covered by an effective registration statement at the time of such exercise.

Pursuant to the October 2016 Tender Offer, warrants to purchase 2,470,913 Original Warrants were tendered, resulting in the issuance by the Company of an aggregate of 2,470,913 shares of its common stock and 617,695 Supplemental Warrants to the Original Warrant holders for aggregate gross proceeds to the Company of approximately \$3.7 million.

The New Warrants, which have a lower exercise price than the Original Warrants, and the Supplemental Warrants are treated as an inducement to enter into the October 2016 Tender Offer. As such, the difference between the actual fair value of the Original Warrants as of the date of their exchange and the actual fair value of the New Warrants and the fair value of the Supplemental Warrants will be recorded as an incentive expense in the quarter ending December 31, 2016, with an offsetting entry to additional paid-in-capital. The fair value of the Original Warrants exchanged, the New warrants and the Supplemental Warrants will be determined using the Black-Scholes pricing model as of the closing date of October 28, 2016. This offer does not modify the current accounting treatment for the Original Warrants that were not tendered in the October 2016 Tender Offer.

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 Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the SEC on June 28, 2016 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 September 30, 2016 (unaudited) and the consolidated balance sheet as of March 31, 2016 (audited) and the related unaudited condensed consolidated statements of operations for the three and six months ended September 30, 2016 and 2015, and cash flows for the three and six months ended September 30, 2016 and 2015 and the related notes thereto (see Item 1. Financial Statements), as well as the audited consolidated financial statements of the Company as of March 31, 2016 and 2015 and for the years then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

General Overview

Overview

We provide cryogenic logistics solutions to the life sciences industry through a combination of proprietary packaging, information technology and specialized cold chain logistics knowhow. We view our solutions as disruptive to the “older technologies” of dry ice and liquid nitrogen, in that our solutions are comprehensive and combine our competencies in configurations that are customized to our client’s requirements. We provide comprehensive, reliable, economic alternatives to all existing logistics solutions and services utilized for frozen shipping in the life sciences industry (e.g., personalized medicine, cell therapies, stem cells, cell lines, vaccines, diagnostic materials, semen, eggs, embryos, cord blood, bio-pharmaceuticals, infectious substances, and other commodities that require continuous exposure to cryogenic or frozen temperatures). As part of our services we provide the ability to monitor, record and archive crucial information for each shipment that can be used for scientific and regulatory purposes.

Our Cryoport Express® Solutions include a sophisticated cloud-based logistics operating platform, which is branded as the Cryoport™. The Cryoport™ supports the management of the entire shipment and logistics process through a single interface, including initial order input, document preparation, customs clearance, courier management, shipment tracking, issue resolution, and delivery. In addition, it provides unique and incisive information dashboards and validation documentation for every shipment. The Cryoport™ records and retains a fully documented “chain-of-custody” and, at the client’s option, “chain-of-condition” for every shipment, helping ensure that quality, safety, efficacy, and stability of shipped commodities are maintained throughout the process. This recorded and archived information allows our clients to meet exacting requirements necessary for scientific work and for proof of regulatory compliance during the logistics phase.

The branded packaging for our Cryoport Express® Solutions includes our liquid nitrogen dry vapor shippers, the Cryoport Express® Shippers. The Cryoport Express® Shippers are engineered shippers that can consist of cost-effective and reusable cryogenic transport shippers, which utilizes an innovative application of “dry vapor” liquid nitrogen (“LN2”) technology and SmartPak condition Monitoring Systems. Cryoport Express® Shippers are International Air Transport Association (“IATA”) certified and validated to maintain stable temperatures of minus 150° C and below for a 10-day dynamic shipment period. The Company currently features three 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) and Cryoport Express® CXVC1 Shipper (holding up to 1,500 2.0 ml vials). In addition, we assist clients with internal secondary packaging (e.g., vials, canes, straws and plates).

Our most used solution is the “turnkey” solution, which can be accessed directly through our cloud-based Cryoport™ or by contacting Cryoport Client Care for order entry. Once an order is placed and cleared, we ship a fully charged Cryoport Express® Shipper to the client who conveniently loads its frozen commodity into the inner chamber of the Cryoport Express® Shipper. The customer then closes the shipper package and reseals the shipping box displaying the next recipient’s address (“Flap A”) for pre-arranged carrier pick up. Cryoport arranges for the pick-up of the parcel by a shipping service provider, which is designated by the client or chosen by Cryoport, for delivery to the client’s intended recipient. The recipient simply opens the shipper package and removes the frozen commodity that has been shipped. The recipient then reseals the package, displaying the nearest Cryoport Staging Center address, making it ready for pre-arranged carrier pick-up. When the Cryoport Staging Center receives the Cryoport Express® Shipper, it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

In late 2012, we shifted our focus to become a comprehensive cryogenic logistics solutions provider. Recognizing that clients in the life sciences industry have varying requirements, we unbundled our technologies, established customer facing solutions and took a consultative approach to the market. Today, in addition to our standard “Turn-key Solution,” described above, we also provide the following customer facing, value-added solutions to address our various clients’ needs:

“Customer Staged Solution,” designed for clients making 50 or more shipments per month. Under this solution, we supply an inventory of our Cryoport Express® Shippers to our customer, in an uncharged state, enabling our customer (after training/certification) to charge them with liquid nitrogen and use our Cryoport™ to enter orders with shipping and delivery service providers for the transportation of the package.

“Customer Managed Solution,” a limited customer implemented solution, whereby we supply our Cryoport Express® Shippers to clients in a fully charged state, but leaving it to the client to manage the shipping, including the selection of the shipping and delivery service provider and the return of the shipper to us.

“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, with “powered by Cryoport™” appearing prominently on the offering software interface and packaging. This solution can also be private labeled upon meeting certain

requirements, such as minimum required shipping volumes.

“Integrated 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, including Cryoport employees at the client’s site to manage the client’s cryogenic logistics function in total.

“Regenerative Medicine Point-of-Care Repository Solution,” designed for allogeneic therapies. In this solution we supply our Cryoport Express® Shipper to ship and store cryogenically preserved life science products for up to six days (or longer periods with supplementary shippers) at a point-of-care site, with the Cryoport Express® Shipper serving as a temporary freezer/repository enabling the efficient and effective distribution of temperature sensitive allogeneic cell-based therapies without the expense, inconvenience, and potential costly failure of an on-sight, cryopreservation device.

“Personalized Medicine and Cell-based Immunotherapy Solution,” designed for autologous therapies. In this solution our Cryoport Express® Shipper serves as an enabling technology for the safe transportation of manufactured autologous cellular-based immunotherapy market by providing a comprehensive logistics solution for the verified chain of custody and condition transport from, (a) the collection of the patient’s cells in a hospital setting, to (b) a central processing facility where they are manufactured into a personalized medicine, to (c) the safe, cryogenically preserved return 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 this personalized medicine to the patient when and where the medical provider needs it most without the expense, inconvenience, and potential costly failure of an on-sight, cryopreservation device.

Cryoport is continuously expanding its solutions offerings in response to its customers’ needs.

In April 2016, Cryoport launched its Temperature Controlled Logistics Consulting Division to assist life sciences companies in developing strategies for global cold chain logistics management and contingency options to protect their valuable, and often irreplaceable, biological commodities. The launch of Cryoport's Temperature Controlled Logistics Consulting Division addresses the demand created by the worldwide advances in cellular based therapies, including immunotherapies, stem cells and CAR T-cells. Cell-based immunotherapies are causing broad shifts and challenges for the life sciences industry, including how to obtain, properly store and transport the growing number of new, individualized, temperature sensitive therapies. Improper temperature maintenance or temperature excursions during any portion of a logistics cycle can adversely affect the viability of these biologically based commodities. Consequently, strategic, global logistics planning for cryogenic cold chain solutions has taken on a strategic importance to the life sciences industry and a rapidly growing demand for consulting expertise.

In June 2016, Cryoport further broadened its capabilities and solutions offerings beyond cryogenic logistics and transportation services to include temperature-controlled storage solutions that include cGMP compliant biorepositories at controlled temperatures and climatized systems. Cryoport Biostorage services feature extensive management and monitoring, including controlled access to commodities, periodic temperature and activity reports, as well as 21 CFR, Part II compliant monitoring with 24/7/365 alarm response.

Also in June 2016, Cryoport announced a new Laboratory Relocation Service, for transport of complete laboratories. The Laboratory Relocation Service manages the safe, secure and proper transportation of materials that are stored in labs as well as lab equipment and instruments. Relocation projects can range in size from the relocation of a fully equipped lab to the move of a single freezer.

Strategic Logistics Alliances

We have sought to establish strategic alliances as a long-term method of marketing our solutions providing minus 150° Celsius shipping condition 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. In connection with our alliances with providers of shipping services, we refer to their offerings as “powered by CryoportSM” to reflect 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 life sciences. We operate with each independently and confidentially in support of their respective market and sales strategies. We maintain our independent partnerships with strict confidentiality guidelines within the Company. These agreements represent a significant validation of our solutions and the way we conduct our business.

FedEx. In January 2013, we entered into a master agreement with Federal Express Corporation (“FedEx”) (the “FedEx Agreement”) renewing these services and providing FedEx with a non-exclusive license and right to use a customized version of our Cryoport™ 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™ software 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 operating 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 our third major distributor 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. Over the course of rolling out our new relationship with UPS, UPS customers will have direct access to our cloud-based order entry and tracking portal to order Cryoport Express® Solutions and gain access to UPS’s broad array of domestic and international shipping and logistics solutions at competitive prices. Our proprietary logistics management operating platform, the Cryoport™, is integrated with UPS’s tracking and billing systems to provide UPS life sciences and healthcare customers with a seamless way of accessing critical information regarding shipments of biological material worldwide.

Worthington Industries. In April 2016, we signed a strategic partnership with Worthington Industries, a maker of cryogenic storage vessels and equipment. Through this partnership, Worthington's CryoScience by Taylor Wharton business will design and manufacture biostorage and logistics equipment for use in Cryoport's life sciences cryogenic logistics solutions. With the added competencies Worthington's CryoScience by Taylor Wharton brings to Cryoport, we can concentrate on further advancing and expanding our cold chain solutions to meet the growing and varied demands for validated cryogenic logistics solutions in the life sciences market. Working in tandem with Worthington allows Cryoport to meet the demands of a more diverse clientele through a broader offering, which in turn increases our revenue opportunity as well as provides us the opportunity to rapidly scale to support our clients commercialization activities.

Pacific Bio-Material Management. Through a strategic partnership with Pacific Bio-Material Management, Inc. ("PBMMI") entered into in May 2016, Cryoport now offers storage solutions that include cGMP compliant biorepositories at controlled temperatures and climatized systems with effective redundancies such as back-up freezers and power. Cryoport Biostorage services features extensive management and monitoring, including controlled access to commodities, periodic temperature and activity reports, as well as 21 CFR, Part 11 compliant monitoring with 24/7/365 alarm response.

Cryoport's Positioning in the Life Sciences Industry

Life sciences technologies 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 establishments. However, the industry is growing globally in a way where research and manufacturing pipelines span across the globe, which increases the need to mitigate logistics risk.

The total cold chain logistics market has historically grown 70% faster per annum than the total logistics market. For 2011, global cold chain logistics transportation costs were reported to be \$7.2 billion; about \$1.5 billion within the cryogenic range of requirements. By 2017, transportation cost alone, for global life sciences cold chain logistics, is forecasted to grow to \$9.3 billion, a 41% increase, and twice the growth of the overall market.

In addition, with the recent advancements in the development of biologics and cell-based therapies, scientists, intermediaries, and manufacturers require the means for cryogenically transporting their work. Temperatures must be maintained below the "glass point" (generally, minus 136°C) while shipping these therapies to ensure that the shipped specimens are not subject to degradation that could impact the characteristics and efficacy of those specimens.

While we estimate that our solutions currently offer comprehensive and technology-based monitoring and tracking for a potential of six to seven million deep frozen shipments globally on an annual basis, we also believe that with investment in our services, adaptations of our solutions can be applied to a large portion of an additional fifty-five to sixty million annual shipments requiring ambient (between 20° and 25°C), chilled (between 2° and 8°C) or frozen (minus 10°C or less) temperatures.

Cryoport's clients include companies and institutions that require reliable cryogenic 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

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 were engaged to manage frozen shipments of a key poultry vaccine. Under this arrangement, Cryoport provides on-site logistics personnel and its logistics management operating platform, the CryoportTM to manage shipments from the Zoetis manufacturing site in the United States to domestic customers as well as various international distribution centers. As part of our logistics management services, Cryoport is constantly analyzing logistics data and processes to further introduce economies and reliability throughout the network, ensuring products arrive at their destinations in specified conditions, on-time and with the optimum utilization of resources. The Company manages Zoetis' total fleet of dewar flask 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.

In summary, we serve the life sciences industry with cryogenic 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, stem cells, cell lines, tissue, vaccines, in-vitro fertilization, cord blood and other temperature sensitive commodities of life sciences.

Recent Developments

April 2016 Tender Offer

On April 7, 2016, we completed our tender offer with respect to certain warrants to purchase up to 2,448,000 shares of common stock of the Company (the “April 2016 Tender Offer”).

Pursuant to the April 2016 Tender Offer, warrants to purchase 2,020,597 shares of the Company’s common stock were tendered by holders of warrants and were amended (the “Amended Warrants”) and exercised in connection therewith, resulting in the issuance by the Company of an aggregate of 2,020,597 shares of its common stock (the “Exercise Shares”) for aggregate gross proceeds of \$2.5 million.

The warrants of holders who elected to participate in the April 2016 Tender Offer were amended to: (i) reduce the exercise price to \$1.25 per share; and (ii) shorten the exercise period to expire concurrently with the expiration date of April 7, 2016 (the “Expiration Date”). In addition, such holders also agreed: (A) to not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of the Exercise Shares without the prior written consent of the Company for a period of sixty (60) days after the Expiration Date (the “Lock-Up Period”); and (B) acting alone or with others, to not effect any purchases or sales of any securities of the Company in any “short sales” as defined in Rule 200 promulgated under Regulation SHO under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any type of direct and indirect stock pledges, forward sale contracts, options, puts, calls, short sales, swaps, “put equivalent positions” (as defined in Rule 16a-1(h) under the Exchange Act) or similar arrangements, or sales or other transactions through non-U.S. broker dealers or foreign regulated brokers through the expiration of the Lock-Up Period.

The Amended Warrants also provide that, on or prior to June 30, 2016, the Company was required to prepare and file with the SEC a registration statement on Form S-1 covering resales of the Exercise Shares. In addition, the Company was required to use commercially reasonable efforts to cause such registration statement to be declared effective by the SEC. The Company filed the Form S-1 on June 30, 2016. In connection with this offering, the Company incurred \$279,000 in offering costs that have been offset against the proceeds from this offering.

As a result of reducing the exercise price of certain warrants in connection with the April 2016 Tender Offer, a warrant repricing expense of \$1.9 million was incurred which was determined using Black-Scholes and was calculated as the difference between the fair value of the warrant prior to, and immediately after, the reduction in the exercise price on the date of repricing. Such amount is included in the condensed consolidated statement of operations for the six months ended September 30, 2016.

Rights Offering

On June 20, 2016, we completed our rights offering for gross proceeds of \$1.3 million in subscriptions (including both basic and oversubscriptions) for 841,873 shares of common stock.

The rights offering was made through a distribution of non-transferable subscription rights to purchase one share of common stock for \$1.55, which was 85% of the volume weighted average price per share of our common stock on NASDAQ for the five consecutive trading days immediately preceding and including May 31, 2016. The subscription rights were distributed to holders of our common stock and holders of our warrants as of the record date, May 31, 2016.

Under the terms of the offering, rights holders had the ability to oversubscribe, which entitled each rights holder that exercised their basic subscription privilege in full the right to purchase additional shares of common stock that remained unsubscribed at the expiration of the rights offering. In connection with this offering, the Company incurred \$306,600 in offering costs that have been offset against the proceeds from this offering.

October 2016 Tender Offer

On October 28, 2016, we completed a tender offer (the “October 2016 Tender Offer”) to holders of the Company’s outstanding warrants to purchase one share of common stock at an exercise price of \$3.57 per share (“Original Warrants”) to exchange up to 5,000,000 of such Original Warrants for (1) an equal number of warrants to purchase one share of common stock at an exercise price of \$1.50 per share (“New Warrants”), conditioned upon the immediate exercise of such New Warrants, and (2) one warrant to purchase one share of common stock at an exercise price of \$3.00 per share for every four New Warrants exercised (“Supplemental Warrants”).

The Supplemental Warrants are exercisable upon issuance and expire on the earlier of (i) October 28, 2019 and (ii) the thirtieth (30th) day after the date that the closing price of the Company's common stock equals or exceeds \$4.50 for ten consecutive trading days. The Supplemental Warrants will have a cashless exercise right in the event that the Supplemental Warrant Shares are not covered by an effective registration statement at the time of such exercise.

Pursuant to the October 2016 Tender Offer, warrants to purchase 2,470,913 Original Warrants were tendered, resulting in the issuance by the Company of an aggregate of 2,470,913 shares of its common stock and 617,695 Supplemental Warrants to the Original Warrant holders for aggregate gross proceeds to the Company of approximately \$3.7 million.

Results of Operations

Three months ended September 30, 2016 compared to three months ended September 30, 2015:

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

	Three Months Ended September 30,		\$ Change	% Change	
	2016	2015			
	(\$ in 000's)				
Revenues	\$ 1,977	\$ 1,437	\$ 540	37.6	%
Cost of revenues	(1,180)	(1,001)	(179)	17.9	%
Gross margin	797	436	361	82.6	%
General and administrative	(1,508)	(1,260)	(248)	19.6	%
Sales and marketing	(1,235)	(897)	(338)	37.7	%
Research and development	(215)	(100)	(115)	114.0	%
Interest expense	(19)	(601)	582	(96.8)	%
Other expense, net	(1)	(3)	2	46.3	%
Provision for income taxes	(3)	—	(3)	100.0	%
Net loss	\$ (2,184)	\$ (2,425)	\$ (241)	9.9	%

Total revenues

	Three Months Ended September 30,			
	2016	2015	\$ Change	% Change
	(\$ in 000's)			
Biopharmaceutical	\$ 1,424	\$ 871	\$ 553	63.5 %
Reproductive medicine	366	356	10	2.6 %
Animal health	187	210	(23)	(10.7)%
Total revenues	\$ 1,977	\$ 1,437	\$ 540	37.6 %

Revenues. During the second quarter of fiscal year 2017, we generated revenues from customers in all of our target life sciences markets, such as biopharma, animal health and reproductive medicine. Revenues increased \$539,800 or 37.6% to \$2.0 million for the three months ended September 30, 2016, as compared to \$1.4 million for the three months ended September 30, 2015. This increase is primarily driven by the continuing increase in the number of biopharmaceutical customers utilizing our services and frequency of shipments compared to the prior year. Biopharmaceutical revenue continues to grow and increased by \$553,100 or 63.5%, to \$1.4 million for the quarter compared to \$871,000 in the same quarter last year. During the second quarter of fiscal year 2017, we added approximately 30 new biopharmaceutical clients and are now supporting approximately 100 clinical trials. This 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 2.6% over the prior year. This increase was driven by a 27.7% increase in revenues in the U.S. market through continued success of our targeted marketing campaigns and was partially offset by a 18.7% decrease in revenues in the international markets as a result of regulatory uncertainties. Our revenues from animal health decreased 10.7% over the prior year due to reduced shipping volumes and third-party freight charges being directly billed to one of our clients compared to the prior year quarter.

Gross margin and cost of revenues. Gross margin for the three months ended September 30, 2016 was 40.3% of revenues, as compared to 30.4% of revenues for the three months ended September 30, 2015. The increase in gross margin by almost ten percentage points is primarily due to the increased business volume and pricing adjustments combined with a reduction in freight as a percentage of revenues and a decrease of fixed manufacturing costs. 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. The increase in cost of revenues is primarily due to freight charges from the growth in shipments.

General and administrative expenses. Selling, general and administrative expenses increased \$247,100 for the three months ended September 30, 2016 or 19.6% as compared to the three months ended September 30, 2015. This increase is primarily due to increases in stock-based compensation expense of \$217,300, facility expenses of \$50,300 related to our new headquarters in Irvine, California and an increase in salaries and associated employee costs of \$34,700 which was partially offset by a decrease in travel of \$29,300 and a reduction in public company and legal expenses of \$25,700.

Sales and marketing. Sales and marketing expenses increased \$338,100 or 37.7% for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. This increase is primarily due to increases in salaries and associated employee costs in the aggregate amount of \$142,800 incurred to expand our sales and logistics force, targeted marketing initiatives to support our sales efforts in the amount of \$107,900, stock-based compensation expense of \$31,600, facility expenses of \$24,300 related to our new headquarters in Irvine, California and increased travel expenses and trade shows in the amount of \$30,700.

Research and development expenses. Research and development expenses increased \$114,400 or 114.0% for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015. The increase is primarily due to an increase of \$75,500 for development efforts that are focused on further enhancing our cloud-based Cryoport™ Logistics Management Platform. In addition, salaries and associated employee costs increased by \$32,800 related to the addition of a research and development engineer. We continually improve and expand the features of our Cryoport Express® Solutions and our efforts are directed towards facilitating the safe, reliable and efficient shipment of life science commodities through innovative and technology-based solutions. We use an outside software development company and other third parties to supplement our internal resources.

Interest expense. Interest expense decreased \$581,700 for the three months ended September 30, 2016, as compared to the three months ended September 30, 2015. Interest expense for the three months ended September 30, 2016 included amortization of the debt discount on the related-party notes of \$6,300 and the stated interest expense of \$13,000. Interest expense for the three months ended September 30, 2015 included amortization of the debt discount on the related-party notes payable of \$65,400, the related interest expense of \$14,500 and the fair value of the beneficial conversion feature of the related-party notes payable of \$521,100.

Other expense, net. The other expense, net for the three months ended September 30, 2016 is primarily due to administrative charges and foreign exchange losses on accounts receivable and payable invoices.

Six months ended September 30, 2016 compared to six months ended September 30, 2015:

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

	Six Months Ended September 30,				
	2016	2015	\$ Change	% Change	
	(\$ in 000's)				
Revenues	\$3,894	\$2,868	\$ 1,026	35.8	%
Cost of revenues	(2,316)	(1,944)	(372)	19.1	%
Gross margin	1,578	924	654	70.8	%
General and administrative	(2,937)	(2,402)	(535)	22.3	%
Sales and marketing	(2,431)	(1,782)	(649)	36.4	%
Research and development	(350)	(178)	(172)	96.9	%
Interest expense	(41)	(905)	864	(95.5)	%
Warrant repricing expense	(1,930)	—	(1,930)	100.0	%
Other expense, net	(3)	(4)	1	(8.5)	%
Provision for income taxes	(5)	(3)	(2)	61.5	%
Net loss	\$(6,119)	\$(4,350)	\$(1,769)	40.7	%

Total revenues

	Six Months Ended September 30,		\$ Change	% Change	
	2016	2015			
	(\$ in 000's)				
Biopharmaceutical	\$ 2,743	\$ 1,698	\$ 1,045	61.5	%
Reproductive medicine	736	692	44	6.4	%
Animal health	415	478	(63)	(13.1))%
Total revenues	\$ 3,894	\$ 2,868	\$ 1,026	35.8	%

Revenues. We generated revenues from customers in all of our target life sciences markets, such as biopharma, animal health and reproductive medicine. Revenues increased \$1.0 million or 35.8% to \$3.9 million for the six months ended September 30, 2016, as compared to \$2.9 million for the six months ended September 30, 2015. This increase is primarily driven by the continuing increase in the number of biopharmaceutical customers utilizing our services and frequency of shipments compared to the prior year. Biopharmaceutical revenue increased \$1.0 million or 61.5%, to \$2.7 million for the quarter compared to \$1.7 million in the same quarter last year. During the first six months of fiscal year 2017, we added approximately 58 new biopharmaceutical clients and supported approximately 100 clinical trials, of which 14 trials were in Phase III. 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 6.4% over the prior year period. This increase was driven by a 34.6% increase in revenues in the U.S. market through continued success of our targeted marketing campaigns and was partially offset by a 15.5% decrease in revenues in the international markets as a result of regulatory uncertainties. Our revenues from animal health decreased 13.1% over the prior year due to reduced shipping volumes and third-party freight charges being directly billed to one of our clients compared to the prior year quarter.

Gross margin and cost of revenues. Gross margin for the six months ended September 30, 2016 was 40.5% of revenues, as compared to 32.2% of revenues for the six months ended September 30, 2015. The increase in gross margin by almost seven percentage points is primarily due to the increased business volume and pricing adjustments combined with a reduction in freight as a percentage of revenues and a decrease of fixed manufacturing costs. 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. The increase in cost of revenues is primarily due to freight charges from the growth in shipments.

General and administrative expenses. Selling, general and administrative expenses increased \$535,200 for the six months ended September 30, 2016 or 22.3% as compared to the six months ended September 30, 2015. This increase is primarily due to increases in stock-based compensation expense of \$439,200, facility expenses of \$93,000 related to our new headquarters in Irvine, California and an increase in salaries and associated employee costs of \$42,900, which

was partially offset by a decrease in travel of \$22,200 and a reduction in public company and legal expenses of \$27,200.

Sales and marketing. Sales and marketing expenses increased \$649,100 or 36.4% for the six months ended September 30, 2016 as compared to the six months ended September 30, 2015. This increase is primarily due to increases in salaries and associated employee costs in the aggregate amount of \$276,100 incurred to expand our sales and logistics force, targeted marketing initiatives to support our sales efforts in the amount of \$228,000, stock-based compensation expense of \$58,400, facility expenses of \$50,700 related to our new headquarters in Irvine, California and increased travel expenses and trade shows in the amount of \$30,382.

Research and development expenses. Research and development expenses increased \$172,500 or 96.9% for the six months ended September 30, 2016, as compared to the six months ended September 30, 2015. The increase is primarily due to an increase of \$83,900 for development efforts that are focused on further enhancing our cloud-based Cryoport™ Logistics Management Platform. In addition, salaries and associated employee costs increased by \$75,600 related to the addition of a research and development engineer. We continually improve and expand the features of our Cryoport Express® Solutions, such as the recent development of our SmartPak II™ advanced integrated monitoring and communications system that tracks the key aspects of each shipment that could affect the quality and/or timing of delivery of the commodity to its intended destination. Our efforts are directed towards facilitating the safe, reliable and efficient shipment of life science commodities through innovative and technology-based solutions. We use an outside software development company and other third parties to supplement our internal resources.

Interest expense. Interest expense decreased \$864,300 for the six months ended September 30, 2016, as compared to the six months ended September 30, 2015. Interest expense for the six months ended September 30, 2016 included amortization of the debt discount on the related-party notes of \$12,500 and the stated interest expense of \$28,100. Interest expense for the six months ended September 30, 2015 included amortization of the debt discount on the related-party notes payable of \$130,200, the related interest expense of \$28,900, the amortization of the debt discount on the notes payable of \$221,400, related interest expense of \$3,300 as well as the fair value of the beneficial conversion feature of the related-party notes payable of \$521,100.

Warrant repricing expense. The warrant repricing expense of \$1.9 million for the six months ended September 30, 2016 resulted from the repricing of certain warrants in the April 2016 Tender Offer completed in April 2016.

Other expense, net. The other expense, net for the six months ended September 30, 2016 is primarily due to administrative charges and foreign exchange losses on accounts receivable and payable invoices.

Liquidity and Capital Resources

As of September 30, 2016, the Company had cash and cash equivalents of \$2.6 million and working capital of \$2.0 million. Historically, we have financed our operations primarily through sales of our debt and equity securities.

For the six months ended September 30, 2016, we used \$3.0 million of cash for operations primarily as a result of the net loss of \$6.1 million offset by non-cash expenses of \$3.7 million primarily comprised of warrant repricing expense of \$1.9 million, amortization of debt discounts, stock-based compensation expense, and depreciation and amortization. Also contributing to the cash impact of our net operating loss, excluding non-cash items, was an increase in prepaids and other current assets of \$358,100 and a reduction in accounts payable and other accrued expenses and accrued compensation of \$228,700.

Net cash used in investing activities of \$266,200 during the six months ended September 30, 2016 was primarily due to the purchase of Cryoport Express® CXVC1 Shippers, SmartPak II™ monitoring systems and computer equipment.

Net cash provided by financing activities totaled \$3.0 million during the six months ended September 30, 2016, and resulted from net proceeds from the April 2016 Tender Offer of \$2.2 million and net proceeds from the rights offering of \$998,700 completed in June 2016, partially offset by the repayment of related party notes of \$227,000.

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 our operational and capital requirements into the second quarter of calendar year 2017. 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. The Company currently anticipates that it will continue to raise additional capital to fund its short term operating expenses pursuant to private placements similar to private placements the Company has conducted in the past. 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

Not applicable

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 September 30, 2016 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 September 30, 2016 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 fiscal year ended March 31, 2016, 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 fiscal year ended March 31, 2016.

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.

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: November 14, 2016

By: */s/ Jerrell W. Shelton*

Jerrell W. Shelton
Chief Executive Officer

Dated: November 14, 2016

By: */s/ Robert S. Stefanovich*

Robert S. Stefanovich
Chief Financial Officer