Cryoport, Inc.
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2018

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

Commission File Number: 001-34632

CRYOPORT, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada	**88-0313393**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	x
Emerging growth company	¨		

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

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

As of October 31, 2018 there were 29,239,629 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

2

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$13,849,644	$15,042,189
Short-term investments	9,884,918	—
Accounts receivable, net of allowance for doubtful accounts of $130,000 and $70,000, respectively	3,197,224	1,625,476
Inventories	130,299	114,796
Prepaid expenses and other current assets	882,141	516,427
Total current assets	27,944,226	17,298,888
Property and equipment, net	3,578,494	2,511,174
Intangible assets, net	124,822	90,646
Deposits	351,844	363,403
Total assets	$31,999,386	$20,264,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued expenses	$1,885,003	$1,232,975
Accrued compensation and related expenses	884,893	925,514
Deferred revenue	15,387	26,654
Total current liabilities	2,785,283	2,185,143
Deferred rent liability	179,707	192,202
Total liabilities	2,964,990	2,377,345
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.001 par value; 2,500,000 shares authorized:		
Class A convertible preferred stock — $0.001 par value; 800,000 shares authorized; none issued and outstanding	—	—
Class B convertible preferred stock — $0.001 par value; 585,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 29,213,105 and 25,701,924 issued and outstanding at September 30, 2018 and December 31, 2017, respectively	29,213	25,702
Additional paid-in capital	167,778,827	149,293,947

Accumulated other comprehensive loss	(43,424)	—
Accumulated deficit	(138,730,220)	(131,432,883)
Total stockholders' equity	29,034,396	17,886,766
Total liabilities and stockholders' equity	$31,999,386	$20,264,111

See accompanying notes to condensed consolidated financial statements.

3

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$5,285,355	$3,002,655	$13,935,555	$8,632,267
Cost of revenues	2,549,348	1,396,158	6,511,478	4,379,084
Gross margin	2,736,007	1,606,497	7,424,077	4,253,183
Operating costs and expenses:				
General and administrative	2,613,476	1,896,845	7,350,831	5,389,391
Sales and marketing	1,820,430	1,352,974	5,256,314	3,659,742
Engineering and development	463,361	344,798	1,241,682	825,377
Total operating costs and expenses	4,897,267	3,594,617	13,848,827	9,874,510
Loss from operations	(2,161,260)	(1,988,120)	(6,424,750)	(5,621,327)
Other income (expense):				
Interest expense	—	—	—	(15,693)
Warrant inducement and repricing expense	—	—	(899,410)	—
Other income, net	19,675	8,456	42,563	11,919
Loss before provision for income taxes	(2,141,585)	(1,979,664)	(7,281,597)	(5,625,101)
Provision for income taxes	(2,102)	—	(15,740)	(4,231)
Net loss	$(2,143,687)	(1,979,664)	$(7,297,337)	(5,629,332)
Net loss per share – basic and diluted	$(0.07)	$(0.08)	$(0.26)	$(0.25)
Weighted average shares outstanding – basic and diluted	28,769,867	24,632,169	27,791,616	22,093,169

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(2,143,687)	$(1,979,664)	$(7,297,337)	$(5,629,332)
Other comprehensive loss, net of income tax:				
Unrealized loss on available for sale securities	(30,473)	—	(30,473)	—
Foreign currency translation adjustments	(12,951)	—	(12,951)	—
Other comprehensive loss	(43,424)	—	(43,424)	—
Total comprehensive loss	$(2,187,111)	$(1,979,664)	$(7,340,761)	$(5,629,332)

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the Nine Months Ended September 30, 2018	2017
Cash Flows From Operating Activities:		
Net loss	$(7,297,337)	$(5,629,332)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	593,193	491,980
Amortization of debt discounts and deferred financing costs	—	6,130
Stock-based compensation expense	3,993,902	2,529,858
Warrant inducement and repricing expense	899,410	—
Loss on disposal of property and equipment	171,619	76,222
Provision for bad debt	67,750	11,636
Changes in operating assets and liabilities:		
Accounts receivable	(1,639,498)	(280,293)
Inventories	(15,503)	(755)
Prepaid expenses and other assets	(354,155)	22,576
Accounts payable and other accrued expenses	628,266	200,952
Accrued compensation and related expenses	(40,621)	209,759
Accrued interest	—	(1,843)
Net cash used in operating activities	(2,992,974)	(2,363,110)
Cash Flows From Investing Activities:		
Purchases of short-term investments	(9,915,391)	—
Purchases of property and equipment	(1,832,132)	(1,229,671)
Patent and trademark costs	(34,176)	(51,533)
Net cash used in investing activities	(11,781,699)	(1,281,204)
Cash Flows From Financing Activities:		
Proceeds from the public offering, net of offering costs	—	11,405,924
Proceeds from February 2018 tender offer, net of offering costs	4,641,807	—
Proceeds from exercise of stock options and warrants	5,602,967	3,767,594
Proceeds from ATM, net of offering costs	3,350,305	—
Repayment of related-party notes payable	—	(656,221)
Net cash provided by financing activities	13,595,079	14,517,297
Effect of exchange rate changes on cash and cash equivalents	(12,951)	—
Net change in cash and cash equivalents	(1,192,545)	10,872,983
Cash and cash equivalents — beginning of period	15,042,189	4,524,529
Cash and cash equivalents — end of period	$13,849,644	$15,397,512

Supplemental Disclosure of Non-Cash Investing Activities:		
Unrealized loss on available-for-sale securities	$30,473	$—
Reduction of accounts payable for returned fixed assets	$—	$225,106

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

(Unaudited)

Note 1. Management's Representation and Basis of Presentation

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

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

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

Note 2. Nature of the Business

Cryoport is the premier provider of cryogenic logistics solutions to the life sciences industry through its purpose-built proprietary packaging, information technology and specialized cold chain logistics expertise. The Company provides leading edge logistics solutions for biologic materials, such as immunotherapies, stem cells, CAR-T cells and reproductive cells for clients worldwide. Leading global companies, such as FedEx, UPS and DHL have each separately selected Cryoport as the preferred cryogenic logistics provider for time- and temperature-sensitive biological material. Cryoport actively supports points-of-care, contract research organizations, central laboratories, pharmaceutical and biotechnology companies, contract manufacturers and university researchers.

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

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Cryoport, Inc. and its wholly owned subsidiaries, Cryoport Systems, Inc., Cryoport Netherlands B.V. and Cryoport UK Limited (collectively, the “Company”). All intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Fair Value of Financial Instruments

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

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents and short-term investments. From time to time, we maintain cash, cash equivalent and short-term investment balances in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC"). Primarily all of our cash, cash equivalents and short-term investments at September 30, 2018 were in excess of amounts insured by the FDIC and SIPC. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure. We manage such risks in our portfolio by investing in highly liquid, highly-rated instruments, and limit investing in long-term maturity instruments.

Our investment policy requires that purchased instruments in marketable securities may only be in highly-rated instruments, which are primarily U.S. Treasury bills or treasury-backed securities, and also limits our investment in securities of any single issuer.

Customers

The Company grants credit to customers within the U.S. and to a limited number of international customers and does not require collateral. Revenues from international customers are generally secured by advance payments except for established foreign customers. The Company generally requires advance or credit card payments for initial revenues from new customers. The Company's ability to collect receivables can be affected by economic fluctuations in the geographic areas and industries served by the Company. Reserves for uncollectible amounts are provided based on past experience and a specific analysis of the accounts, which management believes is sufficient. Accounts receivable at September 30, 2018 and December 31, 2017 are net of reserves for doubtful accounts of $130,000 and $70,000, respectively. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. The Company maintains reserves for bad debt and such losses, in the aggregate, historically have not exceeded its estimates.

The Company’s customers are in the biotechnology, pharmaceutical and life science industries. Consequently, there is a concentration of accounts receivable within these industries, which is subject to normal credit risk. As of September 30, 2018, there was one customer that accounted for 25.9% of net accounts receivable. There was no other single customer that owed us more than 10% of net accounts receivable at September 30, 2018 and December 31, 2017.

The Company has revenue from foreign customers primarily in Europe, Japan, Canada, India and Australia. During the nine months ended September 30, 2018 and 2017, the Company had revenues from foreign customers of approximately $1.3 million and $893,600, respectively, which constituted approximately 9.4% and 10.4%, respectively, of total revenues. For the nine months ended September 30, 2018, there was one customer that accounted for 17.2% of total revenues. No other single customer generated over 10% of total revenues during the nine months ended September 30, 2018 and 2017.

During the three months ended September 30, 2018 and 2017, the Company had revenues from foreign customers of approximately $410,800 and $319,000, respectively, which constituted approximately 7.8% and 10.6%, respectively, of total revenues. For the three months ended September 30, 2018, there was one customer that accounted for 20.6% of total revenues. No other single customer generated over 10% of total revenues during the three months ended September 30, 2018 and 2017.

Inventories

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

Property and Equipment

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

Property and equipment are recorded at cost. Shippers and data loggers, which comprise 34% and 47% of the Company’s net property and equipment balance at September 30, 2018 and December 31, 2017, respectively, are depreciated using the straight-line method over their estimated useful lives of three years. Equipment and furniture are depreciated using the straight-line method over their estimated useful lives (generally three to seven years) and leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the lease term, whichever is shorter.

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

Intangible Assets

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

Long-lived Assets

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

Deferred Financing Costs

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

Income Taxes

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

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