

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2018

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

Commission File Number: 001-34632

CRYOPORT, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada

88-0313393

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

17305 Daimler St.

Irvine, CA 92614

(Address of principal executive offices)

(949) 470-2300

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

(unaudited)

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Note 1. Management's Representation and Basis of Presentation

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

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

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

Note 2. Nature of the Business

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

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

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

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Concentrations of Credit Risk

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

Customers

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

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

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

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

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

Inventories

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

Property and Equipment

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

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

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

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

Intangible Assets

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

Long-lived Assets

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

Deferred Financing Costs

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

Income Taxes

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

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

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

Revenue Recognition

See Note 7.

Accounting for Shipping and Handling Revenue, Fees and Costs

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

Engineering and Development Expenses

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

Stock-Based Compensation

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

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

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

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

Basic and Diluted Net Loss Per Share

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

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

Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
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