

Cryoport, Inc.  
Form 10-K  
March 08, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2017**

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

**Commission File Number: 001-34632**

**CRYOPORT, INC.**



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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer  (Do not check if a smaller reporting company) 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.

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2017 was \$116,610,411 based on the closing sale price of such common equity on such date (excluding 291,207 shares of

common stock held by directors and officers, and any stockholders whose ownership exceeds five percent of the shares outstanding as of June 30, 2017).

As of March 1, 2018, there were 27,339,977 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

## TABLE OF CONTENTS

	<b>Page</b>
<b><u>PART I</u></b>	
<u>Item 1. Business</u>	<u>3</u>
<u>Item 1A. Risk Factors</u>	<u>22</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>32</u>
<u>Item 2. Properties</u>	<u>33</u>
<u>Item 3. Legal Proceedings</u>	<u>33</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>33</u>
<b><u>PART II</u></b>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>33</u>
<u>Item 6. Selected Financial Data</u>	<u>34</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>40</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>41</u>
<u>Item 9A. Controls and Procedures</u>	<u>41</u>
<u>Item 9B. Other Information</u>	<u>41</u>
<b><u>PART III</u></b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>43</u>
<u>Item 11. Executive Compensation</u>	<u>46</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>51</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>53</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>54</u>
<b><u>PART IV</u></b>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>55</u>
<u>Signatures</u>	<u>56</u>

## FORWARD-LOOKING STATEMENTS

*This Form 10-K contains certain forward-looking statements. These forward-looking statements involve a number of risks and uncertainties. These forward-looking statements can generally be identified as such because the context of the statement will include certain words, including but not limited to, “believes,” “may,” “will,” “expects,” “intends,” “estimates,” “anticipates,” “plans,” “seeks,” “continues,” “predicts,” “potential,” “likely,” or “opportunity,” and also contains predictions, estimates and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on the current beliefs of the Company’s management, as well as assumptions made by and information currently available to the Company’s management. Readers of this Form 10-K should not put undue reliance on these forward-looking statements, which speak only as of the time this Form 10-K was filed with the Securities and Exchange Commission (the “SEC”). Reference is made in particular to forward-looking statements regarding the success of our products, product approvals, product sales, revenues, development timelines, product acquisitions, liquidity and capital resources and trends. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Cryoport Inc.’s actual results may differ materially from the results projected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this Annual Report on Form 10-K, including the “Risk Factors” in “Item 1A — Risk Factors”, and in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II.*

*Past financial or operating performance is not necessarily a reliable indicator of future performance, and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. Except as required by law, we do not undertake to update any such forward-looking statements and expressly disclaim any duty to update the information contained in this Form 10-K.*

## PART I

### Item 1. Business

#### Overview

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

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

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

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

phase change Cryoport Express® Shippers: the C3™. Cryoport Express® C3™ Shippers are reusable and maintain stable temperatures at 2-8° Celsius for up to 96 hours. All Cryoport Express® Shippers are integrated with SmartPak II™ Condition Monitoring Systems for the reasons stated above.



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

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

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

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

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

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

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

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

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

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

### **Competitive Advantages**

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

Most of our competition utilizes “older technologies” and/or systems. In fact, a portion of the biopharma market and much of the animal health market still uses liquid nitrogen or dry ice with no or little validation processes for their equipment or procedures. In the case of dry ice, the technology simply does not achieve low enough temperatures or deliver stable temperatures, which may have standard deviations up to 14 °C. Consequently, this medium allows cellular activity to continue and cells to degrade, impacting cell line performance and cell viability. Liquid nitrogen, on the other hand, while effective in holding its temperature, is bulky, heavy, expensive and requires special handling to avoid spillage and accommodate weight. Both dry ice and liquid nitrogen are classified “hazardous” by IATA (International Air Transportation Association) and, therefore, shipping companies and regulatory authorities. Both are also classified as “dangerous goods.” Both these methods are inefficient when compared to Cryoport’s solutions, which are classified as non-hazardous. Cryoport goes beyond traditional ISTA (International Safe Transit Association) packaging validation processes qualification because of the high value and at times irreplaceable commodities that we are counted on to transport. Through our experience, we know logistics distribution can have a large impact on product/ commodity conditions. Our implementation of Quality by Design processes includes the ability to assess in-field events and the impact of logistics on the commodity being shipped and the equipment being used for individual shipments. We think such scrutiny may be included in regulatory requirements in the future.

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

significant competitive advantages. In fact, since our inception, we have experienced minimal client attrition.

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

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

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

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

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

### **Strategic Logistics Alliances**

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

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

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

Under our FedEx Agreement, we provide frozen shipping logistics services through the combination of our purpose-built proprietary technologies and turnkey management processes. FedEx markets and sells Cryoport's services for frozen temperature-controlled cold chain transportation as its FedEx® Deep Frozen Shipping Solution on a non-exclusive basis and at its sole expense. As part of the solution, Cryoport has developed a FedEx branded version of the Cryoport™ Logistics Management Platform, which is “powered by Cryoport<sup>SM</sup>” 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 Cryoport<sup>SM</sup>”. In addition, DHL's customers have direct access to our cloud-based order entry and tracking portal to order Cryoport Express® Solutions and receive preferred DHL shipping rates and discounts. Our proprietary logistics management platform, the Cryoport™, is integrated with DHL's tracking and billing systems to provide DHL life sciences and healthcare customers with a seamless way of accessing critical information regarding shipments of biological material worldwide.

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

## **Cryoport's Positioning in the Life Sciences Industry**

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

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

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

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

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

## **Life Sciences Agreements**

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

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



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

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

### **Cryoport Express® Solutions**

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

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

Our tailored and complete end-to-end solutions for temperature-controlled logistics include logistics management, transport, monitoring, storage and data collection regarding temperature-controlled biological commodities and/or

biopharmaceutical products shipped primarily through Cryoport's logistics network, which includes specialty couriers, freight forwarders, brokers and other intermediaries or integrators. Certain parts of the intellectual property underlying our Cryoport Express® Solutions have been developed under exclusive and confidential contracts with an outside development companies.

### ***Cryoportal™ Logistics Management Platform***

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

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

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

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

### ***Cryoport Express® Shippers***

Our Cryoport Express® Shippers are a family of shippers engineered specifically to serve the life sciences industry. Engineering of these devices, which are made up of proprietary packaging, dewar vacuum flasks, real time electronic monitoring systems, requires multiple and varied engineering disciplines. Each Cryoport Express® Shipper is ISTA (International Safe Transit Association) validated and IATA, UN, International Civil Aviation Organization (“ICAO”) compliant. Cryoport Express® Shippers are the highest level, most comprehensive logistics shippers serving the life sciences industry.

At the core, Cryoport Express® Shippers cryogenic series, we employ liquid nitrogen vapor shipper vacuum flask tanks capable of maintaining cryogenic temperatures of minus 150° Celsius or below for a dynamic shipping period of 10 days or more. A dry vapor cryogenic shipper is a device that uses liquid nitrogen contained inside a vacuum insulated vessel (vacuum flask tank), which serves as a refrigerant to provide stable storage temperatures below minus 150° Celsius. Our Cryoport Express® Shippers are designed to ensure that there is no pressure build up as the liquid

nitrogen evaporates. We have developed a proprietary retention system to ensure that liquid nitrogen stays inside the vacuum container, which allows the shipper to be designated as a dry vapor shipper meeting IATA requirements. Biological or pharmaceutical specimens are stored in a specimen chamber, referred to as a “well” inside the container and refrigeration is provided by gas evolving from the liquid nitrogen entrapped within the proprietary retention system. Specimens that may be transported using our cryogenic shipper include: live cells, scientific or pharmaceutical commodities such as cancer therapies, vaccines, diagnostic materials, semen, eggs, embryos, infectious substances, and other commodities that require continuous exposure to cryogenic temperatures, i.e., temperatures below minus 150° Celsius.

An important feature of our Cryoport Express® Shippers is their compliance with the stringent packaging requirements of IATA Packing Instructions 602 and 650, respectively. These specifications include meeting internal pressure (hydraulic) and drop performance requirements. Under IATA guidelines, Cryoport Express® Shippers are classified as “Non-hazardous.” Dry ice and liquid nitrogen are classified as “Dangerous Goods.” Our shippers are also in compliance with International Civil Aviation Organization (“ICAO”) regulations that prohibit egress of liquid nitrogen residue from the shipping packages. The ICAO is a United Nations organization that develops regulations for the safe transport of dangerous goods by air.

We currently offer four sizes of dry vapor shippers, the Cryoport Express® Standard Shipper with a storage capacity of up to 75 2.0 ml vials, the Cryoport Express® High Volume Shipper, which has a storage capacity of up to 500 2.0 ml vials, and the Cryoport Express® CXVC1 Shipper, which has a storage capacity of up to 1,500 2.0 ml vials, and the CryoMax™, which has a capacity of 36,400 2.0 ml vials. Our Cryoport Express® Shippers are composed of an aluminum (aircraft-grade) dewar flask, containing a well for holding the high value biological or other materials in its inner chamber and our proprietary retention foam that absorbs the liquid nitrogen placed in the shipper to provide it with its extreme cold temperature. The dewar flask is vacuum insulated to limit the transmission of heat from outside the flask to the liquid nitrogen captured within the absorption foam and the well.

### Cryoport Express® Standard Shippers

Cryoport Express® Standard Shippers are lightweight, low-cost and include re-usable dry vapor liquid nitrogen storage containers (vacuum flask tank) that, we believe, combine the best features of life sciences packaging, cryogenics science and vacuum insulation technology. A Cryoport Express® Standard Shipper is composed of an aluminum metallic dewar flask, with a well for holding the biological material in the inner chamber. The dewar vessel is a device in which the conduction, convection and radiation of heat are reduced as much as possible giving it the capability of maintaining its contents at a near-constant temperature over relatively long periods of time. The inner chamber of the shipper is surrounded by a high surface, low-density material which retains the liquid nitrogen in-situ by absorption, adsorption, and surface tension. Absorption is defined as the taking up of matter in bulk by other matter, as in the dissolving of a gas by a liquid, whereas adsorption is the surface retention of solid, liquid or gas molecules, atoms or ions by a solid or liquid. This material absorbs liquid nitrogen several times faster than currently used materials, while providing the shipper with a hold time and capacity to transport biological materials safely and conveniently. The specimen-holding chamber has a primary cap to enclose the specimens/commodities, and a removable and replaceable secondary cap to further enclose the specimen/commodity-holding container and to contain the liquid nitrogen dry vapor. The entire dewar vessel is then wrapped in a plurality of insulating and cushioning materials and placed in a disposable outer packaging made of recyclable material. The Cryoport Express® Standard Shippers has a storage capacity of up to 75 2.0 ml vials.

### Cryoport Express® High Volume Shippers

Cryoport Express® High Volume Shipper also uses a dry vapor liquid nitrogen (LN2) technology to maintain minus 150° Celsius temperatures with a dynamic shipping endurance of 10 days or more. The Cryoport Express® High Volume Shipper is based on the same dry vapor technology as Cryoport's original standard dry shipper and utilizes an absorbent material to hold LN2, thus providing the extended endurance time and IATA validation as a non-hazardous shipping container. The high volume dry shipper is reusable and recyclable, making it a highly sustainable and cost-effective method of transporting life science materials. The Cryoport Express® High Volume Shipper has a storage capacity of up to 500 2.0 ml vials.

Cryoport Express® CXVC1 Shippers

Cryoport Express® CXVC1 Shipper can be used either as a dry vapor shipper or a liquid shipper. It is designed to focus on vaccine ampoules or cryovial shipments in canisters. In the case of dry vapor liquid nitrogen (LN2), it maintains minus 150°C temperatures with a dynamic shipping endurance of 20 days. In the case of liquid nitrogen (LN2), it maintains minus 150°C temperatures with a shipping endurance of 72 days. The Cryoport Express® CXVC1 Shipper, in dry vapor form, is based on the same technology as Cryoport's original standard dry shipper and utilizes an absorbent material to hold LN2, thus providing the extended endurance time and IATA validation as a non-hazardous shipping container. The Cryoport Express® CXVC1 Shipper, in liquid form, is a 'wet' dewar with all the characteristics attendant to a wet dewar and with a holding time of 72 days. The Cryoport Express® CXVC1 Shipper is reusable and recyclable, making it a highly sustainable and cost-effective method of transporting life science materials. As a point of reference, the Cryoport Express® CXVC1 Shipper has a storage capacity of up to 1,500 2.0 ml vials.

*Cryoport Express® CryoMax™ Shippers*

The recently introduced Cryoport Express® CryoMax™ Shippers are our largest palletized dry shipper with large sample capacity for lab moves and other high-volume transfers. This solution includes Cryoport's state-of-the art SmartPak II™ Condition Monitoring System to track and record the critical attributes of the shipment. The Cryoport Express® CryoMax™ Shipper can be easily moved with a pallet jack or forklift, can be transported by air, and has a storage capacity of up to 36,400 2.0 ml vials.

*Cryoport Express™ C3™ Shippers*

Cryoport Express® C3™ Shippers are designed to maintain a controlled temperature range of 2°-8°C for up to 96 hours under dynamic shipping conditions. These reusable shippers are offered as part of our *Cryoport. Certified. Cool.* or *C3™* Solution. It includes our Cryoport's SmartPak II™ Condition Monitoring System and the Cryoport™ Logistics Management Platform. This solution was introduced to support the growing need in the regenerative therapy market and to enable our clients to utilize our solutions for both, the transportation of leukapheresis and apheresis blood products as well as the manufactured autologous cellular-based immunotherapies.

*Cryoport Shipper Summary*

We believe Cryoport Express® Solutions are the most advanced and most cost-effective logistics solutions available in the life sciences industry and satisfy client needs and scientific and regulatory requirements relating to the shipment of time- and temperature-critical, frozen and refrigerated transport of biological materials, such as stem cells, cell lines, pharmaceutical clinical trial samples, gene biotechnology, infectious materials handling, animal and human reproduction markets. Due to our proprietary technology, innovative design and systems, our shippers are less prone to losing critical functional hold time than the competing products.

*Cryoport Express® SmartPak II™ Condition Monitoring System*

Condition monitoring is a high-value feature from our clients' perspective as it is an effective and reliable method to determine that the shipment materials were not damaged and did not experience degradation during shipment due to temperature fluctuations. Our SmartPak II™ Condition Monitoring System is designed to track the key aspects of each shipment that could affect the quality and/or timing of delivery of the commodity/product to its intended destination. This includes real-time tracking using GPS, cellular and Wi-Fi technologies, monitoring of internal and external

temperatures, humidity, pressure, shock, orientation of the shipper, as well as light, as a measure of security breaches, compromised packaging or shipper openings during transit. Our temperature sensors are positioned within our Cryoport Express® Shippers to record the most accurate readings. The resultant temperature mapping includes both the temperature inside the chamber (which is closest to the actual biomaterial) and the external temperature. Our advanced SmartPak II™ Condition Monitoring System is engineered to work in tandem with our Cryoport™ Logistics Management Platform, enabling predictive and proactive monitoring of materials shipped. The data collected and resulting analytics, combined with the mapping of shipment check-in points, provide a holistic view of the complete shipping process. At the client's election, shipments can have a full chain-of-custody and chain-of- condition with data monitoring, analysis, archival storage available for every shipment.

### ***Chain-of-Condition and Chain-of-Custody***

Chain-of-Condition information is essential for many life sciences customers. Our monitoring services are provided by our SmartPak II™ Condition Monitoring System, which provides data on the condition of our Cryoport Express® Shipper and the conditions in which commodities/products are being shipped, which is critical for temperature-sensitive biologics. The Cryoport™ Logistics Management Platform acts as the data repository for all shipment and condition information. Our customers can access their information via the Cryoport™ Logistics Management Platform through an Internet connection. Chain-of-condition service provided via Cryoport Express® SmartPak Condition Monitoring Systems is available at the client's election. With the assistance of an overlay on carrier check-ins and our algorithms, our SmartPak II™ Condition Monitoring System supplies a data monitor that reports chain-of-custody information, which is another essential information element required for temperature-sensitive biologics.

### ***Cryoport Express® Analytics***

Cryoport Express® Analytics information is captured by the Cryoport™ Logistics Management Platform to provide us and our clients access to important information from the shipments, which and assist in the management of our clients' shipping. We use anonymized information to support planning for future features of our solutions offering. Analytics is a term used by IT professionals to refer to performance benchmarks or KPI's that management utilizes to measure performance against desired standards. Examples for analytics tracked through the Cryoport™ include time-based metrics for order processing time and on-time deliveries by our shipping partners, as well as profiling shipping lanes to determine average transit times and predicting potential shipping exceptions based on historical metrics. Our analytics are utilized internally to proactively improve our client services and develop new offerings. Cryoport Express® Analytics information is also used by Cryoport Consulting to support some of its work.



### ***Quality by Design Logistics***

Quality by Design (“QbD”) is a concept that has become mainstream in the pharmaceutical manufacturing space in recent years. QbD is a science and risk-based approach to quality that identifies, measures, and defines the critical processes that impact quality and provides a pathway to introduce quality and risk management into the design process. The process begins with a Target Product Profile (“TPP”) that describes the intended use, safety, and efficacy parameters of the product. Critical Quality Attributes (“CQA’s”) such as equipment hold time, nitrogen evaporation rate (for dry vapor liquid nitrogen shippers), and orientation for example are then identified based on the TPP. By understanding the design space (the sum total of all variability) and control space (the sum total of all acceptable variability) CQA’s can then be utilized to produce a process supporting the TPP providing enhanced process controls. As our Quality Assurance Program continues to evolve, key elements of QbD will be incorporated throughout company processes, making Cryoport unique in the logistics space in its support of its clinical and commercial distribution clients and partners.

### ***SafePak and SafePak XL***

Cryoport provides proprietary biological material holders called SafePak and SafePak XL, which are made up of a containment bag used in connection with the shipment of goods using Cryoport Express® Shippers. For example, up to 75 cryovials (polypropylene vials with high-density polyethylene closures), set on aluminum canes, are placed into the SafePak, which is designed to contain the entire contents of all the vials in the event of leakage or breakage of a vial. . This SafePak is then placed, securely and safely, into the well of the Cryoport Express® Shipper. Both the SafePak and SafePak XL are made of Tyvek and provide a leak proof microbial barrier and reduce risk of any cross contamination.

### ***Logistics Expertise, Consulting and Support***

Cryoport’s client services professionals provide 24/7/365 live logistics and monitoring services with specialized knowledge in the domestic and global logistics of life sciences material requiring controlled temperatures. Cryoport logistics professionals have validated shipping lanes in and out of well over 100 countries to date to ensure shipments maintain temperatures and arrive securely and on time.

The Cryoport Consulting Division provides consulting services 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 Cryoport 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 driving broad shifts and challenges for the life sciences industry, including how to obtain, properly store and carefully 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.

### ***Other Development Activities***

We are continuing our research, engineering and development efforts to further refine our current technology and development of new technology applications as well as explore opportunities with partners to offer complementary packaging solutions for temperature-controlled logistics. We also continue to further expand the functionality of our Cryoport<sup>TM</sup> Logistics Management Platform to ensure a highest level of effectiveness and efficiency in the temperature-controlled logistics process and to allow for intelligent and easy data monitoring and analysis.

### **Government Regulation**

We are subject to numerous federal, state and local laws and laws of global jurisdictions relating to matters regarding shipments, customs, import, safe working conditions, manufacturing practices, environmental protection and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with such laws and regulations now or in the future.

The shipping of biologic products, biologic commodities, diagnostic specimens, infectious substances and dangerous goods, whether via air or ground, falls under the jurisdiction of many state, federal and international agencies. The quality of the packaging that protects a product or biologic commodity determines whether or not it will arrive at its destination in a satisfactory condition. Currently the most stringent regulations we are subject to are the dangerous goods regulations. Many of the regulations for transporting dangerous goods in the United States are determined by international rules formulated under the auspices of the United Nations. Dangerous goods are usually one-time shipments and are not a part of our regular recyclable Cryoport Express™ service. When we ship dangerous goods, we follow strict and stringent guidelines.

The International Civil Aviation Organization (“ICAO”) is the United Nations organization that develops regulations (Technical Instructions) for the safe transport of dangerous goods by air. If shipment is by air, compliance with the rules established by International Air Transport Association (“IATA”) is required. IATA is a trade association made up of airlines and air cargo couriers that publishes annual editions of the IATA Dangerous Goods Regulations. These regulations interpret and add to the ICAO Technical Instructions to reflect industry practices. Additionally, the Centers for Disease Control (“CDC”) has regulations (published in the Code of Federal Regulations) for interstate shipping of specimens.

Our Cryoport Express® Shippers meet Packing Instructions 602 and/or 650 and are certified for the shipment of Class 6.2 Dangerous Goods per the requirements of the ICAO Technical Instructions for the Safe Transport of Dangerous Goods by Air and IATA. Our present and planned future versions of the Cryoport SmartPak Condition Monitoring Systems will likely be subject to regulation by the Federal Aviation Administration (“FAA”), Federal Communications Commission (“FCC”), Food and Drug Administration (“FDA”), IATA and possibly other agencies which may be difficult to determine on a global basis.

## **Manufacturing and Raw Materials**

*Manufacturing.* We source components for our Cryoport Express® Shippers from multiple suppliers that are manufactured to our engineering and specifications using our proprietary technology and know-how to mitigate supply chain risks. We also use “of the shelf” products, which we may modify to meet our requirements. For some components, however, there are relatively few alternate sources of supply and the establishment of additional or replacement suppliers may or may not be accomplished immediately. Should this occur, we endeavor to mitigate risk by an increase in our inventory level to cover our total forecasted demand giving us time to further mitigate service risk as we secure additional qualified suppliers. Some of our Cryoport Express® Shippers also use components that were formerly manufactured in-house and that are now outsourced. The central electronic device used in our condition monitoring systems, the Smart Pak II™, have been acquired from single sources with calibration done by an independent third party.

Our vendor/partner relationships allow us to concentrate on further advancing and expanding our cold chain logistics solutions to meet the growing and varied demands for validated temperature-controlled logistics solutions in the life sciences industry market. We think our current supply structure provides us the opportunity to rapidly scale to support our client's commercialization activities; however, we continue to work to improve our current supply chain and to continue to mitigate risks therein.

*Raw Materials.* Various common raw materials are used in the manufacture of our shippers and in the development of our technologies. These raw materials are generally available from several alternate distributors and manufacturers. We have not experienced any significant difficulty in obtaining these raw materials and, generally, we do not consider raw material availability to be a significant factor in our business.

## Patents and Proprietary Rights

In order to remain competitive, we must develop and maintain protection on the proprietary aspects of our technologies. We rely on a combination of patents, copyrights, trademarks, trade secret laws and confidentiality agreements to protect our intellectual property rights. We currently own four registered U.S. trademarks and have twenty-two additional trademark applications pending in the U.S. and foreign countries. Five of the pending trademarks are filed under the Madrid Protocol and designate Japan, Australia, Singapore, and the European Union. Our trademarks generally protect the names of our company, products, and key service brands.

We currently own four issued U.S. and foreign patents and three pending U.S. patent applications as described in the table below. These patents and patent applications are generally directed at our shipping containers, parts related thereto, and systems and methods for cryogenic shipping. These issued and pending patents include:

<b>Country</b>	<b>Patent/Application No.</b>	<b>Issued</b>
U.S.	6,467,642	October 22, 2002
U.S.	6,119,465	September 19, 2000
U.S.	6,539,726	April 1, 2003
Japan	JP2002 0554433	May 18, 2007
U.S.	14/589,768	January 15, 2015
U.S.	15/841,170	December 13, 2017
U.S.	15/865,589	January 9, 2018

Our success depends in part upon our ability to develop proprietary products and technologies and to obtain patent coverage for these products and technologies. We intend to file trademark and patent applications covering any newly developed products, methods and technologies. However, there can be no guarantee that any of our pending or future filed applications will be issued as patents or register as trademarks. There can be no guarantee that the U.S. Patent and Trademark Office or some third party will not initiate an interference proceeding involving any of our pending applications or issued patents. Finally, there can be no guarantee that our issued patents or future issued patents, if any, will provide adequate protection from competition.

Patents provide some degree of protection for our proprietary technology. However, the pursuit and assertion of patent rights involve complex legal and factual determinations and, therefore, are characterized by significant uncertainty. In addition, the laws governing patent issuance and the scope of patent coverage continue to evolve. Moreover, the patent rights we possess or are pursuing generally cover our technologies to varying degrees. As a result, we cannot ensure that patents will issue from any of our patent applications, or that any of its issued patents will offer meaningful protection. In addition, our issued patents may be successfully challenged, invalidated, circumvented or rendered unenforceable so that our patent rights may not create an effective barrier to competition. We must also pay maintenance fees at set intervals in order for our patents to not expire prematurely. The laws of some foreign countries

may not protect our proprietary rights to the same extent as the laws of the United States. There can be no assurance that any patents issued to us will provide a legal basis for establishing an exclusive market for our products or provide us with any competitive advantages, or that patents of others will not have an adverse effect on our ability to do business or to continue to use our technologies freely.

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

With respect to our trademarks, we file and pursue trademark registrations on words, symbols, logos, and other source identifiers that consumers use to associate our products and services with us. Although our registered trademarks carry a presumption of validity, they can be challenged and invalidated and as such, we cannot guarantee that any trademark registration is infallible.

We also rely on trade secret protection of our intellectual property. We attempt to protect trade secrets by entering into confidentiality agreements with employees, consultants and third parties, although, in the past, we have not always obtained such agreements. It is possible that these agreements may be breached, invalidated or rendered unenforceable, and if so, our trade secrets could be disclosed to our competitors. Despite the measures we have taken to protect our intellectual property, parties to such agreements may breach confidentiality provisions in our contracts or infringe or misappropriate our patents, copyrights, trademarks, trade secrets and other proprietary rights. In addition, third parties may independently discover or invent competitive technologies, or reverse engineer our trade secrets or other technology. Therefore, the measures we are taking to protect our proprietary technology may not be adequate.

## **Customers and Distribution**

As a result of growing globalization, including such areas as biologics, biopharma, biotechnology, clinical trials, distribution of biopharmaceutical products and reproductive medicine, the requirement for effective and reliable solutions for keeping clinical samples, pharmaceutical products and other specimen at controlled temperatures takes on added significance due to more complex shipping routes, extended shipping times, custom delays and general logistics challenges. Today, many such specimens are traditionally shipped in Styrofoam, cardboard insulated containers packed with dry ice, gel/freezer packs or a combination thereof. The current dry ice solutions have limitations that severely limit their effective use for both short and long-distances (e.g., international). Conventional dry ice shipments often require labor-intensive “re-icing” operations resulting in higher labor and shipping costs.

We believe our Cryoport Express® Shippers, our SmartPak II™ Condition Monitoring Systems, the Cryoport™ Logistics Management Platform and our logistics expertise enable us to be well positioned to take advantage of the growing demand for effective and efficient international transport of temperature sensitive life sciences commodities/materials resulting from continued globalization, which is a notable trend within the life sciences and biotechnology industries.

We provide domestic shipping solutions in situations where specimens must be kept at controlled temperatures and in regions where there is a high priority placed on maintaining the integrity of materials shipped at these temperatures. This is especially the case for the new therapies being developed in the regenerative medicine market, such as CAR-T cell therapies, that require cryogenic temperatures in order to maintain efficacy.

No single customer generated over 10% of net revenues during the year ended December 31, 2017 and nine months ended December 31, 2016.

Our geographical revenues, by origin, for the year ended December 31, 2017 were as follows:

Americas	89.0%
Europe, Middle East and Africa (EMEA)	8.1 %
Asia Pacific (APAC)	3.0 %

*Pharmaceutical Clinical Trials.* Every United States based pharmaceutical company developing a new drug must seek drug development protocol approval by the Food and Drug Administration (“FDA”). These clinical trials are to test the safety and efficacy of the potential new drug/therapy among other things. A significant amount of clinical trial activity is managed by a number of large Clinical Research Organizations (“CROs”).



In connection with the clinical trials, due to globalization, companies can enroll patients from all over the world and may need to regularly submit a blood or other specimen at the local hospital, doctor's office or laboratory. These samples are then sent to specified testing laboratories, which may be local or in another country. The testing laboratories will typically set the requirements for the storage and shipment of blood specimens. In addition, drugs used by the patients may require frozen shipping to the sites of the clinical trials. While both domestic and international shipping of these specimens may be accomplished using dry ice today, international shipments especially present several problems, as dry ice, under the best of circumstances, can only provide freezing for one to two days in the absence of re-icing (which is quite costly). Because shipments of packages internationally can take longer than one to two days or be delayed due to flight cancellations, incorrect destinations, labor problems, ground logistics, customs delays and safety reasons, dry ice is not always a reliable and/or cost-effective option. Clinical trial specimens are often irreplaceable because each one represents clinical data at a prescribed point in time, in a series of specimens on a given patient, who may be participating in a trial for years. Sample integrity during the shipping process is vital to retaining the maximum number of patients in each trial. Our shippers are ideally suited for this market, as our longer hold time ensures that specimens can be sent over long distances with minimal concern that they will arrive in a condition that will cause their exclusion from the trial. There are also many instances in domestic shipments where Cryoport Express® Shippers will provide higher reliability and be cost effective.

Furthermore, the IATA requires that all airborne shipments of laboratory specimens be transmitted in either IATA Instruction 650 or 602 certified packaging. We have developed and obtained IATA certification of our Cryoport Express® System, which is ideally suited for this market, in particular due to the elimination of the cost to return the reusable shipper.

*Biotechnology and Diagnostic Companies.* The biotechnology market includes basic and applied research and development in diverse areas such as stem cells, cloning, gene therapy, DNA tumor vaccines, tissue engineering, genomics, and blood products. Companies participating in the foregoing fields rely on the frozen transport of specimens in connection with their research and development efforts, for which our Cryoport Express® Shippers are ideally suited.

*Cell Therapy Companies.* Rapid advancements are underway in the research and development of cell based therapies, which involve cellular material being injected into a patient. In allogeneic cell therapy, the donor is a different person to the recipient of the cells. Autologous cell therapy is a therapeutic intervention that uses an individual's cells, which are cultured and expanded outside the body, and reintroduced into the donor. Once cells are processed, in either case, they must be shipped cryogenically for which our Cryoport Express® Shippers are ideally suited.

*Central Laboratories.* With the increase and globalization of clinical studies and trials, logistics has become more complex and ensuring sample integrity has become more challenging. International courier costs are now consuming a significant portion of global protocol budgets. We believe laboratories performing the testing of samples collected during the conduct of these global multi-site studies are looking for reliable state-of-the-art logistics solutions.

*Pharmaceutical Distribution.* The current focus for the Cryoport Express® System also includes the area of pharmaceutical distribution. There are a significant number of therapeutic drugs and vaccines currently or anticipated soon to be undergoing clinical trials. After the FDA approves them for commercial marketing, it will be necessary for the manufacturers to have a reliable and economical method of distribution to the physician who will administer the product to the patient. It is likely that the most efficient and reliable method of distribution will be to ship a single dosage to the administering physician. These drugs are typically identified to individual patients and therefore will require a complete tracking history from the manufacturer to the patient. The most reliable method of doing this is to ship a unit dosage specifically for each patient. If such drugs require maintenance at frozen or cryogenic temperatures, each such shipment will require a frozen or cryogenic shipping package. Cryoport can provide the technology to meet this anticipated need.

*Distribution of Vaccines and Biologic Therapies.* There are a variety of vaccines and other drugs or therapies that require distribution at frozen or cryogenic temperatures. We anticipate significant growth in this area, in particular therapies based upon stem cells. It is likely that the most efficient and reliable method of distribution will be to ship a single dosage or a limited supply to the physician for administration to a patient.

In February 2013, we began providing comprehensive logistics management services for the lead poultry vaccine distribution of Zoetis, Inc. In October 2013, Zoetis engaged us to manage distribution of an additional vaccine.

*Fertility Clinics and In Vitro Fertilization (“IVF”).* Maintaining cryogenic temperatures during shipping and transfer of in vitro fertilization specimens like eggs, sperm, or embryos is critical for cell integrity in order to retain viability, stabilize the cells, and ensure reproducible results and successful IVF treatment. There are approximately 3,300 fertility clinics worldwide. Cryoport anticipates that this market will continue to grow; in the United States alone, in 2016, the total fertility market is reported to have grown to more than \$4.0 billion with over 1.3 million women seeking treatment each year. In the worldwide market, it is reported that there are more than one billion IVF cycles per year, growing slightly faster than the total overall population.

## **Sales and Marketing**

We currently have a sales and marketing team of fourteen employees led by our Chief Commercial Officer that drive our business development, program management, consulting and marketing activities. Given the global nature of our business, we plan to continue to broaden our sales and marketing reach in the all corners of the world with emphasis on the Americas, Europe and Asia Pacific. We plan to hire additional sales and marketing personnel globally and implement marketing initiatives intended to increase awareness of the Cryoport and its advanced temperature-controlled solutions serving the life sciences industry.

## **Industry and Competition**

Our products and services are sold into a rapidly growing segment of the logistics industry focused on the temperature sensitive packaging and shipping of biological materials. Expenditures for “value added” packaging for frozen transport have been increasing for the past several years and, due in part to the advancements in biology and continued globalization, are expected to continue to increase even more in the future as more domestic and international biotechnology firms introduce pharmaceutical products that require continuous refrigeration at cryogenic temperatures. This principle also applies to the animal health and reproductive medicine markets. We believe these advances will require a greater dependence on passively controlled temperature transport systems (i.e., systems having no external power source). In addition, we expect that industry standards and regulations will be introduced globally, requiring more comprehensive tracking and validation of shipping temperatures.

We believe that advancements and growth in the following markets has resulted in the need for increased reliability, efficiencies and greater flexibility in the temperature sensitive segment of the life sciences logistics market:

- biopharmaceuticals

- cell-based therapies

- gene therapy

- stem cell technology

- cell lines

- vaccines

- biopharmaceutical product distribution

- clinical trials, including transport of tissue culture samples

- diagnostic specimens

infectious sample materials

inter/intra-laboratory diagnostic testing

temperature-sensitive specimens

biological samples, in general

environmental sampling

IVF

animal health and husbandry

***Cryoport Express™ Shippers (Liquid Nitrogen Dry Vapor) compared to Dry Ice Shipments***

One problem faced by many companies operating in these specialized markets is the limited number of cryogenic shipping systems serving their needs. The currently adopted protocol and the most common method for packaging frozen transport in these industries is the use of solid-state carbon dioxide (dry ice). Dry ice is and has been used extensively in shipping to maintain a frozen state for a period of one to four days. Although dry ice is used in the transport of many biological products, such as pharmaceuticals, laboratory specimens and certain infectious materials, it does not provide sufficient temperature to stop metabolic activity. The common approach to shipping these items via ground freight is to pack the product in a container, such as an expanded polystyrene (Styrofoam) box or a molded polyurethane box, with a variable quantity of dry ice. The box is taped or strapped shut and shipped to its destination with freight charges based on its initial dimensional shipping weight. All dry ice shipping is considered “dangerous goods” shipping, requiring extra packaging steps and adding costs. It also gives off carbon dioxide and sublimates unevenly and in short duration; thereby, creating other environmental problems.

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

Two manufacturers of the polystyrene and polyurethane containers frequently used in the shipping and courier transport of dry ice frozen specimens are Insulated Shipping Containers, Inc. and Tegrant (formerly SCA Thermosafe). When these containers are used with dry ice, the average sublimation rate (e.g., the rate at which dry ice turns from a solid to a gaseous state) in a container with a 1 1/2 inch wall thickness is slightly less than three pounds per 24 hours. Other existing refrigerant systems employ the use of gel packs and ice substitutes for temperature maintenance. Gels and eutectic solutions (phase changing materials) with a wide range of phasing temperatures have been developed in recent years to meet the needs of products with varying specific temperature control requirements.

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

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

- availability of a dry ice source
- handling and storage of the dry ice
- cost of the dry ice
- compliance with local, state and federal regulations relating to the storage and use of dry ice
- dangerous goods shipping regulations
- weight of containers when packed with dry ice
- impact of dry ice sublimation on PH levels of the materials being shipped
- securing a shipping container with a high enough R-value (which is a measure of thermal resistance) to hold the dry ice and product for the required time period
- securing a shipping container that meets the requirements of IATA, the Department of Transportation (“DOT”), the CDC, and other regulatory agencies
- emission of greenhouse gases (primarily carbon dioxide) into the environment, and
- release of carbonic acid that may affect commodities being shipped

Due to the limitations of dry ice, specimens that require frozen shipping are more securely shipped at true cryogenic temperatures using a service such as liquid nitrogen dry vapor shippers (such as Cryoport Express™ Shippers), or liquid nitrogen dewars where the specimen is kept over actual liquid nitrogen. However, liquid nitrogen is classified as “hazardous” by the International Air Transport Association (“IATA”), must be secured to a pallet and has many other pitfalls, primarily in safety and expense.

***Cryoport Express™ Shippers (Liquid Nitrogen Dry Vapor) compared to Liquid Nitrogen Dewars/Tanks***

There are distinct disadvantages when using liquid nitrogen for shipping compared to the dry vapor liquid nitrogen used in Cryoport Express™ Shippers. Liquid nitrogen dewars/tanks are classified as dangerous goods by IATA and cannot be shipped as parcel. In addition, if the dewar used for shipment is returned, the liquid nitrogen must be disposed of prior to returning the dewar/tank to its origin. These issues add additional procedural steps and costs to the shipment. In addition, there is a risk of liquid nitrogen leakage if the dewar/tank tips to the side during transport, which can cause damage, bodily injury and could compromise the specimen being shipped. Due to the use of our proprietary technology, our Cryoport Express™ Shippers are not prone to leakage when on their side or inverted, thereby protecting the integrity of our Cryoport Express™ Shipper's hold time and being safe for handling and shipping as a parcel or regular freight.

While both liquid nitrogen dry vapor and liquid nitrogen shippers provide solutions to the issues encountered when shipping with dry ice, liquid nitrogen shippers have additional draw backs. For example, a liquid nitrogen shipper typically can cost up to \$4,000 per unit, which can substantially limit their use for the transport of many common biologics, particularly with respect to small quantities such as is the case when shipments are point of care drug deliveries. Because of the initial cost and limited production of these containers, they are designed to be reusable. However, the cost of returning these containers can be significant, particularly in international markets, because most applications require only one-way shipping. The logistics support of cryogenic shippers requires more sophisticated logistics management and discipline to ensure shippers are returned and recycled, especially for international shipments, which many companies do not have in place.



Cryoport's solutions are comprehensive and integrated for maximum reliability, economy and total effectiveness. Cryoport's total logistics solution enables life sciences companies to utilize the superior liquid nitrogen dry vapor technology without having to make capital investments or developing in-house logistics expertise and systems by offering a complete solution, which includes the cloud-based Cryoport™ logistics management platform, the SmartPak Condition Monitoring systems and our 24/7/365 logistics support. Cryoport allows the clients to outsource logistics and focus on its core competencies while maintaining visibility of all logistics related information.

Within our intended biotechnology and life sciences markets for Cryoport Express® Shippers, there is limited known direct competition. We compete with liquid nitrogen and dry ice solutions effectively by use of the improved and integrated hardware and software technology in our products including our comprehensive logistics management software and through the use of our service enabled business model. The Cryoport Express® Solution provides a simple and cost-effective solution for the frozen or cryogenic transport of biotech and life sciences materials. The Cryoport™ assists with the management, scheduling and shipping of the Cryoport Express® Shippers, removing the burdens associated with other methods.

Traditional dry ice shippers and liquid nitrogen tank suppliers, such as MVE/Chart Industries, Worthington Industries' CryoScience by Taylor Wharton, and Air Liquide, offer various models of dry vapor liquid nitrogen shippers that are not as cost efficient for multi-use and multi-shipment purposes due to their significantly greater unit costs and unit weight (which may substantially increase the shipping cost). On the other hand, they are more established and have larger organizations and have greater financial, operational, sales and marketing resources, have a broader manufactured product offering of other liquid nitrogen products and more experience in research and development than we do.

Factors that we believe give us a competitive advantage are attributable to our management systems, software and shipping containers, which allow our shipper to retain liquid nitrogen when placed in non-upright positions, the overall "leak-proofness" of our package which determines compliance with shipping regulations, the overall weight and volume of the package which determines shipping costs, and our business model represented by the merged integration of our shipper with Cryoport™ and SmartPak™ II Condition Monitoring System into a seamless shipping, tracking and monitoring solution.

Other companies that offer potentially competitive products include Industrial Insulation Systems, which offers cryogenic transport units and has partnered with Marathon Products Inc., a manufacturer and global supplier of wireless temperature data collecting devices used for documenting environmentally sensitive products through the cold chain, and Kodiak Thermal Technologies, Inc. which offers, among other containers, a repeat use active-cool container that uses free piston stirling cycle technology. While not having their own shipping devices, BioStorage Technologies is potentially a competitive company through their management services offered for cold-chain logistics and long-term biomaterial storage. Cryogenia offers a single use disposable LN2 shipper with better performance than dry ice, but it does not perform as well and is not as cost-effective as the Cryoport solution when all costs are considered. In addition, BioMatrica, Inc. is developing and offering technology that stabilizes biological samples and

research materials at room temperature. They presently offer these technologies primarily to research and academic institutions; however, their technology may eventually enter the broader cold-chain market. Fisher BioServices, part of Thermo Fisher Scientific, provides cell therapy logistics services, maintaining cold chain from manufacturer to patient bedside. They provide customized solutions in bio specimen collection kits, bio specimen shipping, lab processing, biobanking and clinical trial support services.

## **Engineering and Development**

Our research, development and engineering efforts are focused on continually investigating new technologies that can improve our services and improving the features of our Cryoport Express® Solutions, which includes our cloud-based Cryoport™, Cryoport Express® Shippers, secondary packaging solutions and our SmartPak II™ Condition Monitoring System. These efforts are expected to lead to the introduction of additional features, including shippers of varying sizes and for various temperature ranges, based on market requirements, further advanced informatics and improved monitoring systems. We are continuously researching alternative and new technologies, lower cost materials, utilization of higher volume assembly methods, enabling technologies, etc. that will make it practical to provide a wider range of Cryoport Express™ Solutions.

Alternative technologies to liquid nitrogen in dry vapor form, alternative materials and/or new information and communication technologies may be used to expand our potential market for our Cryoport Express™ Solutions. Our engineering and development expenditures for the years ended December 31, 2017 and 2016 were \$1.2 million and \$598,100, respectively, with a large portion being spent on software.

### **Cryoport's Quality Assurance Program**

Cryoport's Quality System was established using ISO 9001:2008 (Quality management systems – Requirements) as a foundation, along with a structure of procedures and instructions based upon strong operational practices of checks and balances. This system ensures proper controls from the initial contract, through processing and shipping, to proper monitoring and data collection, to successful completion of the order.

As Cryoport continues to grow, the overall Quality Management System is being transitioned to ISO 9001:2015. In addition, the Quality Management System will be enhanced and integrated with GxP elements (i.e. Good Distribution Practices) that are applicable to Cold Chain Logistics, to meet and/or exceed customer requirements.

This revised system will further integrate additional elements of Cryoport's Business Processes, Risk Management, Design Controls, and Leadership Commitment to the quality management system.

### **Employees**

The efforts of our employees are critical to our success. We believe that we have assembled a strong management team with the experience and expertise needed to execute our business strategy. We anticipate hiring additional personnel as needs dictate to implement our growth strategy. As of March 1, 2018, we had fifty-seven employees and consultants: forty-six full-time, one part-time, seven temporary and three consultants.

### **Corporate History and Structure**

We are a Nevada corporation originally incorporated under the name G.T.5-Limited ("GT5") on May 25, 1990. In connection with a Share Exchange Agreement, on March 15, 2005 we changed our name to Cryoport, Inc. and acquired all of the issued and outstanding shares of common stock of Cryoport Systems, Inc., a California corporation, in exchange for 200,901 shares of our common stock (which represented approximately 81% of the total issued and outstanding shares of common stock following the close of the transaction). Cryoport Systems, Inc., which was originally formed in 1999 as a California limited liability company, and subsequently reorganized into a California corporation on December 11, 2000, remains the operating company under Cryoport, Inc. Our principal executive offices are located at 17305 Daimler Street, Irvine, CA 92614. The telephone number of our principal executive offices is (949) 470-2300, and our main corporate website is [www.cryoport.com](http://www.cryoport.com). The information on or that can be accessed through our website is not part of this Form 10-K.

The Company became public by a reverse merger with a shell company in May 2005. Over time the Company has transitioned from being a development company to a fully operational public company, providing temperature-controlled logistics solutions to the life sciences industry globally.

## ITEM 1A. RISK FACTORS

### Risks Related to Our Financial Condition

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

We have incurred net losses in each fiscal year since we commenced operations. The following table represents net losses incurred for each of our last two reporting periods:

	Net Loss
Year Ended December 31, 2017	\$7,899,000
Nine Months Ended December 31, 2016	\$10,403,000

As of December 31, 2017, we had an accumulated deficit of \$131.4 million. In order to achieve and sustain revenue growth in the future, we must significantly expand our market presence and revenues from existing and new customers. We may continue to incur losses in the future and may never generate revenues sufficient to become profitable or to sustain profitability. Continuing losses may impair our ability to raise the additional capital required to continue and expand our operations.

*We could need to raise additional capital in the future, and if we are unable to secure adequate funds on terms acceptable to us, we could be unable to execute our business plan.*

To remain competitive, we must continue to make significant investments in the development of our solutions, the expansion of our sales and marketing activities, and the expansion of our global logistics operations infrastructure as we increase sales domestically and internationally. If cash generated from our operations is insufficient to fund such growth, we could be required to raise additional funds through the issuance of equity or debt securities in the public or private markets, or through a collaborative arrangement. Additional financing opportunities may not be available to us, or if available, may not be on favorable terms. The availability of financing opportunities will depend, in part, on market conditions, and the outlook for our business. Any future issuance of equity securities or securities convertible into equity securities could result in substantial dilution to our stockholders, and the securities issued in such a financing could have rights, preferences or privileges senior to those of our common stock. In addition, if we raise additional funds through debt financing, we could be subject to debt covenants that place limitations on our operations. We could not be able to raise additional capital on reasonable terms, or at all, or we could use capital more rapidly than anticipated. If we cannot raise the required capital when needed, we may not be able to satisfy the demands of existing and prospective customers, we could lose revenue and market share and we may have to curtail

our capital expenditures. The following factors, among others, could affect our ability to obtain additional financing on favorable terms, or at all:

our results of operations;

general economic conditions and conditions in the markets we serve;

the perception of our business in the capital markets;

our financial condition; and

our business prospects.

If we are unable to obtain sufficient capital in the future, we could have to curtail our capital expenditures. Any curtailment of our capital expenditures could result in a reduction in net revenue, reduced quality of our products, increased manufacturing costs for our products, harm to our reputation, or reduced manufacturing efficiencies and could have a material adverse effect on our business, financial condition, and results of operations.

## **Risks Related to Our Business**

***Our agreements with global providers of shipping services may not result in a significant increase in our revenues or cash flow, soon or in the future.***

We believe that establishing strategic alliances with global providers (integrators) of logistics and of shipping services, such as our agreements with FedEx, DHL, and UPS can drive growth in our revenues, but there is no certainty to this view. See “—Strategic Logistics Alliances” in Part I, Item 1 of this Form 10-K for additional information about our agreements with FedEx, DHL, and UPS. We are seeking to establish similar arrangements with other providers of international shipping services. We anticipate all such alliances will enable us to provide seamless, end-to-end shipping solutions to customers of our respective alliance partners and allow us to leverage the established relationships with those customers, but there is no guarantee this will happen.

Because our agreements with FedEx, DHL, and UPS do not contain any requirement that they use a minimum level of our services, there can be no assurance of any significant increase in our revenues or cash flows as a result of these strategic alliances.

***Our agreements with providers of vaccines may not result in a significant increase in our revenues or cash flow.***

We believe that establishing strategic relationships with manufacturers and distributors of treatments for animals and humans, such as our agreements with Zoetis, Inc. can drive growth in our revenues.

In December 2012, we entered an agreement with what became Zoetis, Inc. (in January 2013, Pfizer spun off its animal health business into Zoetis, Inc., a public company) pursuant to which we were engaged to manage frozen shipments of a key poultry vaccine from Zoetis’ production site in the United States. Over time, Zoetis has further expanded our role in providing them assistance in managing their cryogenic distribution of their vaccines and has become our largest customer.

While we anticipate growth in shipments by Zoetis under our management, there can be no assurance of any significant increase in our revenues or cash flows as a result of these important alliances.

***We will have difficulty increasing our revenues if we experience delays, difficulties or unanticipated costs in establishing the sales, distribution and marketing capabilities necessary to successfully commercialize our solutions.***

We plan to improve our sales, distribution, and marketing capabilities in the Americas, Europe, and Asia. It will be expensive and time-consuming for us to develop our global marketing and sales network and thus we intend to rely on our strategic alliances with FedEx, DHL, and UPS. We further intend to seek to enter into additional strategic alliances with international providers of shipping services to incorporate use of our solutions in their service offerings. We may not be able to provide adequate incentive to our sales force or to establish and maintain favorable distribution and marketing collaborations with others to promote our solutions. In addition, any third party with whom we have established a marketing and distribution relationship may not devote sufficient time to the marketing and sales of our solutions, thereby exposing us to potential expenses in exiting such distribution agreements. We, and any of our alliance partners, must also market our services in compliance with federal, state, local and international laws relating to the provision of incentives and inducements. Violation of these laws can result in substantial penalties. Therefore, if we are unable to successfully motivate and expand our marketing and sales force and further develop our sales and marketing capabilities, or if our alliance partners fail to promote our solutions, we will have difficulty increasing our revenues and the revenue may not off-set the additional expense of expansion.

***Our ability to grow and compete in our industry will be hampered if we are unable to retain the continued service of our key professionals or to identify, hire and retain additional qualified professionals.***

Our success in implementing our business strategy depends largely on the skills, experience and performance of key members of our executive management team and others in key management positions. The collective efforts of each of these persons working as a team will be critical to us as we continue to develop our technologies, tests and engineering and development and sales programs. As a result of the difficulty in locating qualified new management, the loss or incapacity of existing members of our executive management team could adversely affect our operations. If we were to lose one or more of these key employees, we could experience difficulties in finding qualified successors, competing effectively, developing our technologies and implementing our business strategy. We do not maintain “key person” insurance on any of our employees.

In addition, a critical factor to our business is our ability to attract and retain qualified professionals including key employees and consultants. We are continually at risk of losing current professionals or being unable to hire additional professionals as needed. If we are unable to attract new qualified employees, our ability to grow will be adversely affected. If we are unable to retain current employees or strategic consultants, our financial condition and ability to maintain operations may be adversely affected.



***Sustainable future revenue growth is dependent on new solutions and services.***

Our future revenue stream depends to a large degree on our ability to bring new solutions and services to market on a timely basis. We must continue to make significant investments in engineering and development in order to continue to develop new solutions and services, enhance existing solutions and services, and achieve market acceptance of such solutions and services. We may incur problems in introducing new solutions and services.

***The adoption cycle of our target customers tends to be very lengthy, which continues to adversely affect our ability to increase revenues quickly.***

We offer our solutions primarily to companies in the life sciences industry. These companies operate within a heavily regulated environment and as such, changing vendors and distribution practices typically require a number of steps, which may include the audit of our facilities, review of our procedures, qualifying us as a vendor, and performing test shipments. This process can take several months or longer to complete, involving multiple levels of approval, prior to a company fully adopting our Cryoport Express® Solutions. The logistics management of many companies is decentralized adding to the time need to effect adaptation of our solutions. In addition, any such adoption may be on a gradual basis such that the customer progressively ramps up use of our Cryoport Express® Solutions following adoption. The slow adoption process continues to adversely affect our ability to increase revenues.

***Our solutions and services may contain errors or defects, which could result in damage to our reputation, lost revenues, diverted development resources and increased service costs and litigation.***

Our solutions and services must meet stringent requirements and we must develop our services and solutions quickly to keep pace with the rapidly changing market. Solutions as sophisticated as ours could contain undetected errors or defects, especially when first introduced or when new equipment or versions of our software are released. If our solutions are not free from errors or defects, we may incur an injury to our reputation, lost revenues, diverted development resources, increased customer service and support costs, and litigation. The costs incurred in correcting any product errors or defects may be substantial and could adversely affect our business, results of operations and financial condition.

***If we were sued for product liability, we could face substantial liabilities that exceed our resources.***

The marketing, sale and use of our products could lead to the filing of product liability claims were someone to allege that our products failed to perform as designed. A product liability claim could result in substantial damages and be costly and time-consuming for us to defend.

Although we believe that our existing insurance is adequate, our insurers may fail to defend us or our insurance may not fully protect us from the financial impact of defending against product liability claims. Any product liability claim brought against us, with or without merit, could increase our insurance rates or prevent us from securing insurance coverage in the future. Additionally, any product liability lawsuit could damage our reputation, or cause current clinical partners and collaborators to terminate existing agreements and potential clinical partners to seek other partners, cause customers to terminate their relationship with us and potential customers to seek alternative solutions, any of which could impact our results of operations.

***If we experience manufacturing delays, interruptions in production, or delays in procurement of shippers manufactured by third parties, then we may experience customer dissatisfaction and our reputation could suffer.***

If we fail to produce enough shippers at our own manufacturing facility or at a third-party manufacturing facility, or if we fail to complete our shipper recycling processes as planned, we may be unable to deliver shippers to our customers on a timely basis, which could lead to customer dissatisfaction and could harm our reputation and ability to compete. We currently acquire various component parts for our shippers from various independent manufacturers in the United States. We would likely experience significant delays or cessation in producing our shippers if a labor strike, natural disaster or other supply disruption were to occur at any of our main suppliers. If we are unable to procure a component from one of our manufacturers, we may be required to enter into arrangements with one or more alternative manufacturing companies, which may cause delays in producing our shippers. In addition, because we depend (in part) on third party manufacturers, our profit margins may be lower, which will make it more difficult for us to achieve profitability. To date, we have not experienced any material delay that has adversely impacted our operations. As our business develops it becomes more likely that such problems could arise.

***We expect to base our equipment and inventory purchasing decisions on our forecasts of customers' demand, and if our forecasts are inaccurate, our operating results could be materially harmed.***

As our customer base increases, we expect to need to purchase additional equipment and inventory. Our forecasts will be based on multiple assumptions, each of which may cause our estimates to be inaccurate, affecting our ability to provide products to our customers. When demand for our products increases significantly, we may not be able to meet demand on a timely basis, and we may need to expend a significant amount of time working with our customers to allocate limited supply and maintain positive customer relations, or we may incur additional costs in order to rush the manufacture and delivery of additional products. If we underestimate customers' demand, we may forego revenue opportunities, lose market share and damage our customer relationships. Conversely, if we overestimate customer demand, we may purchase more equipment and inventory than we are able to use or sell at any given time or at all. As a result of our failure properly to estimate demand for our products, we could have excess or obsolete equipment and/or inventory, resulting in a decline in the value of our equipment and/or inventory, which would increase our costs of revenues and reduce our liquidity. Our failure to accurately manage our equipment purchases and inventory relative to demand would adversely affect our operating results.

***If we experience delays or interruption in shipping due to factors outside of our control, such disruption could lead to customer dissatisfaction and harm our reputation.***

We rely on third party shipment and carrier services to transport our shippers containing biological material. These third party operations could be subject to natural disasters, adverse weather conditions, other business disruptions, and carrier error, which could cause delays in the delivery of our shippers, which in turn could cause serious harm to the biological material being shipped. As a result, any prolonged delay in shipment, whether due to technical difficulties, power failures, break-ins, destruction or damage to carrier facilities as a result of a natural disaster, fire, or any other reason, could result in damage to the contents of the shipper. If we are unable to cause the delivery of our shippers in a timely matter and without damage, this could also harm our operating results and our reputation, even if we are not at fault.

***Our solutions and services may expose us to liability in excess of our current insurance coverage.***

Our solutions and services involve significant risks of liability, which may substantially exceed the revenues we derive from them. We cannot predict the magnitude of these potential liabilities. We currently maintain general liability insurance, with coverage in the amount of \$1 million per occurrence, subject to a \$2 million annual limitation, and product liability insurance with a \$1 million annual coverage limitation. Claims may be made against us that exceed these limits.

Our liability policy is an “occurrence” based policy. Thus, our policy is complete when we purchased it and following cancellation of the policy it continues to provide coverage for future claims based on conduct that took place during the policy term. Our insurance coverage, however, may not protect us against all liability because our policies typically have various exceptions to the claims covered and also require us to assume some costs of the claim even though a portion of the claim may be covered. In addition, if we expand into new markets, we may not be aware of the need for, or be able to obtain insurance coverage for such activities or, if insurance is obtained, the dollar amount of any liabilities incurred could exceed our insurance coverage. A partially or completely uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our business, financial condition and results of operations.

*If we use biological and hazardous materials in a manner that causes injury, we could be liable for damages.*

Our customers may ship potentially harmful biological materials in our dewars. We cannot eliminate the risk of accidental contamination or injury to employees or third parties from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could exceed our resources or any applicable insurance coverage we may have. Additionally, we are subject to, on an ongoing basis, federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. In the event of an accident, we could be held liable for damages.

*If we cannot compete effectively, we will lose business.*

Our services and solutions are positioned to be competitive in the life sciences cold-chain logistics market. While there are technological and marketing barriers to entry, we cannot guarantee that the barriers we are capable of producing will be sufficient to defend the market share we wish to gain against current and future competitors. Our principal competitive considerations in our market include:

- financial resources to allocate to proper marketing and an appropriate sales effort

- acceptance of our solutions model
- acceptance of our solutions including per use fee structures and other charges for services
- keeping up technologically with ongoing development of enhanced features and benefits
- reductions in the delivery costs of competitors' solutions
- the ability to develop and maintain and expand strategic alliances
- establishing our brand name
- our ability to deliver our solutions to our customers when requested
- our timing of introductions of new solutions, and services
- financial resources to support working capital needs and required capital investments in infrastructure

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

***We may acquire other businesses, products or technologies in order to remain competitive in our market and our business could be adversely affected as a result of any of these future acquisitions.***

We may make acquisitions of complementary businesses, products or technologies. If we identify any appropriate acquisition candidates, we may not be successful in negotiating acceptable terms of the acquisition, financing the acquisition, or integrating the acquired business, products or technologies into our existing business and operations. Further, completing an acquisition and integrating an acquired business will significantly divert management time and resources. The diversion of management attention and any difficulties encountered in the transition and integration process could harm our business. If we consummate any significant acquisitions using stock or other securities as

consideration, our shareholders' equity could be significantly diluted. If we make any significant acquisitions using cash consideration, we may be required to use a substantial portion of our available cash. Acquisition financing may not be available on favorable terms, if at all. In addition, we may be required to amortize significant amounts of other intangible assets in connection with future acquisitions, which would harm our operating results and financial condition.

***If we successfully develop products and/or services, but those products and/or services do not achieve and maintain market acceptance, our business will not be profitable.***

The degree of acceptance of our Cryoport Express® Solutions or any future products or services by our current target markets, and any other markets to which we attempt to sell our products and services, and our profitability and growth will depend on a number of factors including, among others:

• our shippers' ability to perform and preserve the integrity of the materials shipped

• relative convenience and ease of use of our shipper and/or Cryoport™

• availability of alternative products

• pricing and cost effectiveness

• effectiveness of our or our collaborators' sales and marketing strategy

• the adoption cycles of our targeted customers

***If any products or services we may develop do not achieve market acceptance, then we may not generate sufficient revenue to achieve or maintain profitability.***

In addition, even if our products and services achieve market acceptance, we may not be able to maintain that market acceptance over time if new products or services are introduced that are more favorably received than our products and services, are more cost effective, or render our products obsolete. Although we are not aware of any other treatments or methods currently being developed that would directly compete with the methods we employ, there can be no assurance that future developments in technology will not make our technology non-competitive or obsolete, or significantly reduce our operating margins or the demand for our offerings, or otherwise negatively impact our ability to be profitable.

***We may not be able to compete with our competitors in the industry because many of them have greater resources than we do.***

We expect to continue to experience significant and increasing levels of competition in the future. In addition, there may be other companies which are currently developing competitive products and services or which may in the future develop technologies and products that are comparable, superior or less costly than our own. For example, some cryogenic equipment manufacturers with greater resources currently have solutions for storing and transporting cryogenic liquid and gasses and may develop storage solutions that compete with our products. Additionally, some specialty couriers with greater resources currently provide dry ice transportation and may develop other products in the future, both of which compete with our products. A competitor that has greater resources than us may be able to bring its product to market faster than we can and offer its product at a lower price than us to establish market share. We may not be able to successfully compete with a competitor that has greater resources and such competition may adversely affect our business.

### **Intellectual Property Risks Associated with Our Business**

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

Our policy is to seek to protect our proprietary position by, among other methods, filing United States patent applications related to our technology, inventions and improvements that are important to the development of our business. We have four issued U.S. patents and three pending U.S. patent application all relating to various aspects of our solutions and services. Our patents or patent application may be challenged, invalidated or circumvented in the future or the rights granted may not provide a competitive advantage. We intend to vigorously protect and defend our

intellectual property. Costly and time-consuming litigation brought by us may be necessary to enforce our patents and to protect our trade secrets and know-how, or to determine the enforceability, scope and validity of the proprietary rights of others.

We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. In the past our employees, consultants, advisors and suppliers have not always executed confidentiality agreements and inventions assignment and work for hire agreements in connection with their employment, consulting, or advisory relationships. Consequently, we may not have adequate remedies available to us to protect our intellectual property should one of these parties attempt to use our trade secrets or refuse to assign any rights he or she may have in any intellectual property he or she developed for us. Additionally, our competitors may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our proprietary technology, or we may not be able to meaningfully protect our rights in unpatented proprietary technology.

While we are not aware of any third party that is infringing any of our patents or trademarks nor do we believe that we are infringing on the patents or trademarks of any other person or organization, we cannot guarantee that our current and potential competitors and other third parties have not filed (or in the future will not file) patent applications for (or have not received or in the future will not receive) patents or obtain additional proprietary rights that will prevent, limit or interfere with our ability to make, use or sell our solutions either in the United States or internationally. Additionally, we may face assertions of claims by holders of patents alleging that we are infringing upon their patent rights, which claims may be without merit, but may nonetheless result in our incurring substantial costs of defense.

***We are dependent on a third party for the continued development and maintenance of our Cryoport™ software.***

Our proprietary Cryoport™ is a logistics platform software used by our customers, business partners and client care team to automate the entry of orders, prepare customs documentation and facilitate status and location monitoring of shipped orders while in transit. The continued development of the Cryoport™ platform is contracted with an outside software development company. If this developer becomes unable or unwilling to continue work on scheduled projects, and an alternative software development company cannot be secured, we may not be able to implement needed enhancements to the system. Furthermore, if we terminate our agreement with our current software developer and cannot reach an agreement or fail to fulfill an agreement for the termination, it is possible we could lose our license to use this software. Failure to proceed with enhancements or the loss of our license for the system would adversely affect our ability to generate new business and serve existing customers, resulting in a reduction in revenue.



***Our customers could also become the target of litigation relating to the patent and other intellectual property rights of others.***

Any litigation relating to the intellectual property rights of others could trigger technical support and indemnification obligations in licenses or customer agreements that we may enter into. These obligations could result in substantial expenses, including the payment by us of costs and damages relating to claims of intellectual property infringement. In addition to the time and expense required for us to provide support or indemnification to our customers, any such litigation could disrupt the businesses of our customers, which in turn could hurt our relationships with such customers and cause the sale of our products to decrease. No assurance can be given that claims for indemnification will not be made, or that if made, such claims would not have a material adverse effect on our business, operating results or financial conditions.

***Our Cryoport™ software platform may be subject to intentional disruption that could adversely impact our reputation and future revenues and we may be required to increase our spending on data and system security.***

We have implemented our Cryoport™ software platform which is used by our customers and business partners to automate the entry of orders, prepare customs documentation and facilitate status and location monitoring of shipped orders while in transit. In addition, the provision of service to our customers and the operation of our networks and systems involve the storage and transmission of significant amounts of proprietary information and sensitive or confidential data, including personal information of customers, employees and others. Although we believe we have sufficient controls in place to prevent intentional disruptions, we could be a target of cyber-attacks specifically designed to impede the performance of the Cryoport™ software platform. Similarly, experienced computer programmers may attempt to penetrate our Cryoport™ software platform in an effort to search for and misappropriate proprietary or confidential information or cause interruptions of our services. Because the techniques used by such computer programmers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. We do not have cyber security insurance and we may incur significant costs in the event of a successful cyber-attack against us. Our activities could be adversely affected and our reputation, brand and future sales could be harmed if such intentionally disruptive efforts were successful. Additionally, an actual or alleged failure to comply with applicable United States or foreign data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties. The cost and operational consequences of implementing, maintaining and enhancing further data or system protection measures could increase significantly to overcome increasingly intense, complex and sophisticated global cyber threats. Despite our best efforts, we are not fully insulated from data breaches and system disruptions.

## **Regulatory Risks Relating to Our Business**

***Complying with certain regulations that apply to shipments using our solutions can limit our activities and increase our cost of operations.***

Shipments using our solutions and services are subject to various regulations in the various countries in which we operate. For example, shipments using our solutions may be required to comply with the shipping requirements promulgated by the Centers for Disease Control (“CDC”), the Occupational Safety and Health Organization (“OSHA”), the DOT as well as rules established by the IATA and the ICAO. Additionally, our data logger may be subject to regulation and certification by the FDA, the FCC, and the FAA. Department of Transportation (“DOT”) as well as rules established by the IATA and the ICAO. Additionally, our data logger may be subject to regulation and certification by the Food and Drug Administration (“FDA”), Federal Communications Commission (“FCC”), and the Federal Aviation Administration (“FAA”). We will need to ensure that our solutions and services comply with relevant rules and regulations to make our solutions and services marketable, and in some cases compliance is difficult to determine. Significant changes in such regulations could require costly changes to our solutions and services or prevent use of our shippers for an extended period of time while we seek to comply with changed regulations. If we are unable to comply with any of these rules or regulations or fail to obtain any required approvals, our ability to market our solutions and services may be adversely affected. In addition, even if we are able to comply with these rules and regulations, compliance can result in increased costs. In either event, our financial results and condition may be adversely affected. We depend on our business partners and unrelated and frequently unknown third party agents in foreign countries to act on our behalf to complete the importation process and to make delivery of our shippers to the final user. The failure of these third parties to perform their duties could result in damage to the contents of the shipper resulting in customer dissatisfaction or liability to us, even if we are not at fault.

## **Risks Relating to Ownership of Our Common Stock and Other Securities**

*Certain of our existing stockholders own and have the right to acquire a substantial number of shares of common stock.*

As of March 1, 2018, our directors, executive officers and beneficial owners of 5% or more of our outstanding common stock beneficially owned 2,864,139 shares of common stock (without regard to beneficial ownership limitations contained in certain warrants) assuming their exercise of all outstanding warrants and options that are exercisable within 60 days of March 1, 2018 or approximately 9.6% of our outstanding common stock. As such, the concentration of beneficial ownership of our common stock may have the effect of delaying or preventing a change in control of Cryoport and may adversely affect the voting or other rights of other holders of our common stock.

*The sale of substantial shares of our common stock may depress our stock price.*

As of March 1, 2018, there were 27,339,977 shares of our common stock outstanding. Substantially all of these shares of common stock are eligible for trading in the public market. The market price of our common stock may decline if our stockholders sell a large number of shares of our common stock in the public market, or the market perceives that such sales may occur. We could also issue up to an additional 10,095,649 shares of our common stock including 3,433,632 shares to be issued upon the exercise of outstanding warrants and 6,662,017 shares upon exercise of outstanding options or reserved for future issuance under our stock incentive plans, as of March 1, 2018.

*Our stock price has been and will likely continue to be volatile.*

The market price of our common stock has been highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including, but not limited to:

- technological innovations or new solutions and services by us or our competitors
- additions or departures of key personnel
- sales of our common stock
- our ability to execute our business plan

- our operating results being below expectations
- loss of any strategic relationship
- industry developments
- economic and other external factors
- period-to-period fluctuations in our financial results

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock and warrants.

***We are at risk of securities class action litigation.***

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because our stock price and those of other biotechnology and life sciences companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business. We do maintain insurance, but the coverage may not be sufficient and may not be available in all instances.

***If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock and warrants, the price of our common stock and warrants could decline.***

The trading market for our common stock and warrants relies in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts. The price of our common stock and warrants could decline if one or more equity analyst downgrades our stock or if analysts downgrade our stock or issue other unfavorable commentary or cease publishing reports about us or our business.

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

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

***We may need additional capital, and the sale of additional shares of common stock or other equity securities could result in additional dilution to our stockholders.***

Our current cash and cash equivalents and anticipated cash flow from operations may be insufficient to meet our cash needs. We may require additional cash resources to fund our operations and may require additional funds in the future due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. The sale of additional equity securities, or debt securities convertible into equity securities, could result in additional dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations.

***While warrants to purchase our common stock are outstanding, it may be more difficult to raise additional equity capital.***

As of March 1, 2018, we have outstanding options and warrants for the purchase of up to 10,095,649 shares of our common stock, including 3,433,632 shares to be issued upon the exercise of outstanding warrants and 6,662,017 shares upon exercise of outstanding options or reserved for future issuance under our stock incentive plans. We may find it more difficult to raise additional equity capital while some or all of these warrants are outstanding. At any time during which these warrants are likely to be exercised, we may not be able to obtain financing on favorable terms, or at all. If we are unable to obtain financing, our business, results of operations, or financial condition could be materially and adversely affected, and we could be forced to curtail or cease operations.

***Our Articles of Incorporation allows our Board of Directors to issue up to 2,500,000 shares of “blank check” preferred stock.***

Our Articles of Incorporation allows our board of directors to issue up to 2,500,000 shares of “blank check” preferred stock, without action by our stockholders. We have designated 800,000 shares as Class A Preferred Stock and 585,000 shares as Class B Preferred Stock, none of which are currently issued and outstanding. Accordingly, our board of directors will have discretion to issue up to 1,115,000 shares on terms determined by them. Without limiting the foregoing, (i) such shares of preferred stock could have liquidation rights that are senior to the liquidation preference applicable to our common stock and Preferred Stock, (ii) such shares of preferred stock could have voting or conversion rights, which could adversely affect the voting power of the holders of our common stock and Preferred Stock and (iii) the ownership interest of holders of our common stock will be diluted following the issuance of any such shares of preferred stock. In addition, the issuance of such shares of blank check preferred stock could have the effect of discouraging, delaying or preventing a change of control of our Company.

***Provisions in our bylaws and Nevada law might discourage, delay or prevent a change of control of our Company or changes in our management and, as a result, may depress the trading price of our common stock.***

Provisions of our bylaws and Nevada law may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. The relevant bylaw provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include advance notice requirements for stockholder proposals and nominations, and the ability of our Board of Directors to make, alter or repeal our bylaws.

***Absent approval of our Board of Directors, our bylaws may only be amended or repealed by the affirmative vote of the holders of at least a majority of our outstanding shares of capital stock entitled to vote.***

In addition, Section 78.438 of the Nevada Revised Statutes prohibits a publicly-held Nevada corporation from engaging in a business combination with an interested stockholder (generally defined as a person which together with its affiliates owns, or within the last three years has owned, 10% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder) unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and other potential anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our Company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

*Even though we are not incorporated in California, we may become subject to a number of provisions of the California General Corporation Law.*

Section 2115(b) of the California Corporations Code imposes certain requirements of California corporate law on corporations organized outside California that, in general, are doing more than 50% of their business in California and have more than 50% of their outstanding voting securities held of record by persons residing in California. While we are not currently subject to Section 2115(b), we may become subject to it in the future.

The following summarizes some of the principal differences which would apply if we become subject to Section 2115(b).

Under both Nevada and California law, cumulative voting for the election of directors is permitted. However, under Nevada law cumulative voting must be expressly authorized in the Articles of Incorporation and our Amended and Restated Articles of Incorporation do not authorize cumulative voting. If we become subject to Section 2115(b), we may be required to permit cumulative voting if any stockholder properly requests to cumulate his or her votes.

Under Nevada law, directors may be removed by the stockholders only by the vote of two-thirds of the voting power of the issued and outstanding stock entitled to vote. However, California law permits the removal of directors by the vote of only a majority of the outstanding shares entitled to vote. If we become subject to Section 2115(b), the removal of a director may be accomplished by a majority vote, rather than a vote of two-thirds, of the stockholders entitled to vote.

Under California law, the corporation must take certain steps to be allowed to provide for greater indemnification of its officers and directors than is provided in the California Corporation Code. If we become subject to Section 2115(b), our ability to indemnify our officers and directors, to the extent permitted in our Articles of Incorporation, Bylaws and under Nevada law, may be limited by California law.

Nevada law permits distributions to stockholders as long as, after the distribution, (i) the corporation would be able to pay its debts as they become due and (ii) the corporation's total assets are at least equal to its liabilities and preferential dissolution obligations. Under California law, distributions may be made to stockholders as long as the corporation would be able to pay its debts as they mature and either (i) the corporation's retained earnings equal or exceed the amount of the proposed distributions, or (ii) after the distributions, the corporation's tangible assets are at least 125% of its liabilities and the corporation's current assets are at least equal to its current liabilities (or, 125% of its current liabilities if the corporation's average operating income for the two most recently completed fiscal years was less than the average of the interest expense of the corporation for those fiscal years). If we become subject to Section 2115(b),

we will have to satisfy more stringent financial requirements to be able to pay dividends to our stockholders. Additionally, stockholders may be liable to the corporation if we pay dividends in violation of California law.

California law permits a corporation to provide “supermajority vote” provisions in its Articles of Incorporation, which would require specific actions to obtain greater than a majority of the votes, but not more than  $66\frac{2}{3}$  percent. Nevada law does not permit supermajority vote provisions. If we become subject to Section 2115(b), it is possible that our stockholders would vote to amend our Articles of Incorporation and require a supermajority vote for us to take specific actions.

Under California law, in a disposition of substantially of all the corporation’s assets, if the acquiring party is in control of or under common control with the disposing corporation, the principal terms of the sale must be approved by 90 percent of the stockholders. Although Nevada law does contain certain rules governing interested stockholder business combinations, it does not require similar stockholder approval. If we become subject to Section 2115(b), we may have to obtain the vote of a greater percentage of the stockholders to approve a sale of our assets to a party that is in control of, or under common control with, us.

California law places certain additional approval rights in connection with a merger if all of the shares of each class or series of a corporation are not treated equally or if the surviving or parent party to a merger represents more than 50 percent of the voting power of the other corporation prior to the merger. Nevada law does not require such approval. If we become subject to Section 2115(b), we may have to obtain the vote of a greater percentage of the stockholders to approve a merger that treats shares of a class or series differently or where a surviving or parent party to the merger represents more than 50% of the voting power of the other corporation prior to the merger.

California law requires the vote of each class to approve a reorganization or a conversion of a corporation into another entity. Nevada law does not require a separate vote for each class. If we become subject to Section 2115(b), we may have to obtain the approval of each class if we desire to reorganize or convert into another type of entity.

California law provides greater dissenters’ rights to stockholders than Nevada law. If we become subject to Section 2115(b), more stockholders may be entitled to dissenters’ rights, which may limit our ability to merge with another entity or reorganize.



***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential stockholders may lose confidence in our financial reporting.***

We are required by the SEC to establish and maintain adequate internal control over financial reporting that provides reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are likewise required, on a quarterly basis, to evaluate the effectiveness of our internal controls and to disclose any changes and material weaknesses in those internal controls. In addition, our independent registered public accounting firm is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of the year. In future years, if we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest, there may be a loss of public confidence in our internal controls, the market price of our stock could decline, and we could be subject to regulatory sanctions or investigations by the Nasdaq Global Select Market, the SEC or other regulatory authorities, which would require additional financial and management resources. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

As described in Item 9A of this Form 10-K, no material weaknesses were identified and we determined that our internal control over financial reporting was effective as of December 31, 2017.

However, any failure to maintain such internal controls, to timely complete our evaluation of our internal controls, assessment, or to obtain our independent registered public accounting firm's timely attestation on the effectiveness of our internal controls in the future could adversely impact our ability to report our financial results on a timely and accurate basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations. Likewise, if our financial statements are not filed on a timely basis as required by the SEC and NASDAQ, we could face severe consequences from those authorities. In either case, there could result a material adverse effect on our business. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

***Our publicly-filed SEC reports are reviewed by the SEC from time to time and any significant changes required as a result of any such review may result in material liability to us and have a material adverse impact on the trading price of our common stock.***

The reports of publicly-traded companies are subject to review by the SEC from time to time for the purpose of assisting companies in complying with applicable disclosure requirements and to enhance the overall effectiveness of companies' public filings, and reviews of such reports are now required at least every three years under the

Sarbanes-Oxley Act of 2002. SEC reviews may be initiated at any time, and we could be required to modify or reformulate information contained in prior filings as a result of an SEC review. Any modification or reformulation of information contained in such reports could be significant and could result in material liability to us and have a material adverse impact on the trading price of our common stock.

*The requirements of being a U.S. public company may strain our resources and divert management's attention.*

As a U.S. public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, certain listing requirements, and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual and current reports with respect to our business and operating results. As a result of disclosure of information in this prospectus and in filings required of a public company, our business and financial condition is more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert resources of our management and harm our business and operating results.

#### **ITEM 1B. Unresolved Staff Comments**

Not applicable.

## **ITEM 2. Properties**

We do not own real property. We currently lease a facility, with approximately 27,600 square feet of corporate, engineering and development, and warehouse facilities, located 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 initial base rent is approximately \$24,700 per month. We also lease 8,100 square feet of warehouse facilities in Livingston, New Jersey under an operating lease expiring December 31, 2024, subject to our option to extend the lease for an additional five-year period. The initial base rent is approximately \$7,600 per month. The lease agreements contain certain scheduled rent increases, which are accounted for on a straight-line basis.

In addition to the services provided through our facility in Irvine, California, we have contracted with a third party to run our European Staging Center (located in Rotterdam, Holland) and Asian Staging Center (located in Singapore). The staging centers provide warehousing, shipping, receiving, refurbishing and recycling services for our shipping containers. This approach is a cost-effective way to initiate operations outside of the United States and allows us to scale up as our business grows globally.

We believe that these facilities are adequate, suitable and of sufficient capacity to support our immediate needs.

## **ITEM 3. Legal Proceedings**

In the ordinary course of business, we are at times subject to various legal proceedings and disputes, including product liability claims. We currently are not aware of any such legal proceedings or claim that we believe will have, individually or in the aggregate, a material adverse effect on our business, operating results or cash flows. It is our practice to accrue for open claims based on our historical experience and available insurance coverage.

## **ITEM 4. Mine Safety Disclosures**

Not applicable

## **PART II**

## ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### Common Stock

As of March 1, 2018 there were 27,339,977 shares of common stock outstanding and 335 stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these stockholders of record.

### Market Information

The Company’s common stock is currently listed on the NASDAQ Capital Market and is traded under the symbol “CYRX.” The quarterly high and low reported closing sale prices for our common stock as quoted on the OTCQB or the high and low closing sales prices on the NASDAQ Capital Market, as applicable, for the periods indicated are as follows:

	High	Low
Year Ended December 31, 2017:		
Fourth Quarter Ended December 31, 2017	\$8.59	\$6.07
Third Quarter Ended September 31, 2017	\$10.21	\$4.78
Second Quarter Ended June 30, 2017	\$4.92	\$2.11
First Quarter Ended March 31, 2017	\$3.91	\$2.01
Transition Period ended December 31, 2016:		
Third Quarter Ended December 31, 2016	\$3.49	\$1.83
Second Quarter Ended September 30, 2016	\$2.27	\$1.97
First Quarter Ended June 30, 2016	\$2.92	\$1.51

## Dividends

No dividends on common stock have been declared or paid by the Company. The Company intends to employ all available funds for the development of its business and, accordingly, does not intend to pay any cash dividends in the foreseeable future.

## Recent Sale of Unregistered Securities

None

## Issuer Purchases of Equity Securities

None.

## ITEM 6. Selected Financial Data

The following selected financial data for the years ended March 31, 2014 through March 31, 2016, the nine months ended December 31, 2016 and the year ended December 31, 2017 have been derived from audited consolidated financial statements of the Company. You should read the following financial information together with the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K. The information set forth below is not necessarily indicative of our future financial condition or results of operations.

### Statement of Operations Data:

Year Ended December 31,	Nine Months Ended December 31,	Years Ended March 31,
-------------------------------	---	-----------------------

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

	2017	2016	2016	2015	2014
Revenues	\$ 11,954	\$ 6,123	\$5,882	\$3,935	\$2,660
Cost of revenues	5,988	3,603	3,992	2,766	2,223
Gross margin	5,966	2,520	1,890	1,169	437
General and administrative	7,421	4,635	5,925	3,497	2,600
Sales and marketing	5,232	3,573	4,156	2,912	2,507
Engineering and development	1,206	454	550	353	409
Loss from operations	(7,893 )	(6,142 )	(8,741 )	(5,593 )	(5,078 )
Debt conversion expense	—	—	—	—	(13,714)
Interest expense	(15 )	(58 )	(1,066 )	(1,428 )	(784 )
Change in fair value of derivative liabilities	—	—	—	—	21
Warrant inducement and repricing expense	—	(4,195 )	—	—	—
Other income (expense), net	14	(2 )	(9 )	(4 )	(8 )
Loss before provision for income taxes	(7,894 )	(10,397 )	(9,816 )	(7,025 )	(19,563)
Provision for income taxes	(5 )	(6 )	(4 )	(2 )	(2 )
Net loss	(7,899 )	(10,403 )	(9,820 )	(7,027 )	(19,565)
Preferred stock beneficial conversion charge	—	—	(4,474 )	(4,864 )	—
Undeclared cumulative preferred dividends	—	—	(763 )	(306 )	—
Net loss attributable to common stockholders	\$ (7,899 )	\$ (10,403 )	\$ (15,057)	\$ (12,197)	\$ (19,565)
Net loss per share attributable to common stockholders – basic and diluted	\$ (0.34 )	\$ (0.68 )	\$ (2.05 )	\$ (2.44 )	\$ (4.81 )

**Balance Sheet Data:**

	December 31,		March 31,		
	2017	2016	2016	2015	2014
Cash and cash equivalents	\$ 15,042	\$ 4,525	\$ 2,793	\$ 1,405	\$ 370
Working capital (deficit)	15,114	3,865	1,958	(835 )	(2,903)
Total assets	20,264	8,112	5,824	2,607	1,710
Convertible notes and accrued interest, net	—	—	—	—	1,622
Long term obligations, less current portion	192	200	554	26	—
Total stockholders' equity (deficit)	\$ 17,887	\$ 5,680	\$ 3,096	\$ (416 )	\$ (2,304)

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Form 10-K. Our actual results could differ materially from those contained in forward-looking statements due to a number of factors. See "Forward-Looking Statements" in this Form 10-K.*

### General Overview

We provide fully integrated, cold-chain logistics solutions to the life sciences industry through a seamless combination of proprietary packaging, information technology, and specialized cold-chain logistics knowhow. Our solutions integrate "chain-of-condition" and "chain-of-custody" information into a single data stream. Our competencies and capabilities are used to develop solutions that are customized to our client's requirements. We provide comprehensive and reliable technology-centric alternatives to traditional cold chain distribution/logistics solutions. Our services are utilized for temperature controlled shipping and storage in the life sciences industry; e.g., personalized medicine, cell therapies, CAR-T cells, stem cells, cell lines, vaccines, diagnostic materials, semen, eggs, embryos, cord blood, bio-pharmaceuticals, infectious substances, and other commodities that require continuous exposure to certain ranges of precision controlled temperatures. As part of our services, our technologies provide the ability for us, or our client, to monitor location and other specified critical variables for each shipment in real time, which is recorded and archived for each shipment for scientific, quality assurance and regulatory purposes. This information enables an audit trail that can verify the 'in shipment' condition of the life sciences commodity, material, product or therapy being shipped. Included in our tailored solutions, Cryoport's technology is designed to support clinical trials, Biologics License Applications (BLA), Investigational New Drug Applications and New Drug Application (NDA) with the United States Food and Drug Administration (FDA) as well as commercial distribution.

See the "Business" section in Part I, Item 1 of this Form 10-K for additional information.

### Recent Developments

On September 21, 2016, we changed our fiscal year from a fiscal year ending March 31 of each year to a fiscal year ending December 31 of each year, effective as of December 31, 2016. This change resulted in a transition period from April 1, 2016 through December 31, 2016. Accordingly, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section includes the comparison of the results for the 12-month period ended December 31, 2017 to the 12-month unaudited period ended December 31, 2016, and the nine-month transition period from April 1, 2016 through December 31, 2016 to the nine-month unaudited period from April 1, 2015 through

December 31, 2015, respectively, and accordingly are not comparing results for a comparable period of time. Amounts included herein for the year ended December 31, 2016 and the nine months ended December 31, 2015 are unaudited.

## **Segment Reporting**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. The chief operating decision maker is our Chief Executive Officer. In consideration of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 280, *Segment Reporting*, we are not organized around specific products and services, geographic regions, or regulatory environments. Accordingly, we currently operate in one reportable segment.



**Results of Operations*****Results of Operations for Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016***

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

	Year Ended December 31,		\$ Change	% Change	
	2017	2016			
	(unaudited)				
	(\$ in 000's)				
Revenues	\$ 11,954	\$ 7,679	\$ 4,275	55.7	%
Cost of revenues	(5,988 )	(4,578 )	(1,410 )	30.8	%
Gross margin	5,966	3,101	2,865	92.4	%
General and administrative expenses	(7,421 )	(6,449 )	(972 )	15.1	%
Sales and marketing expenses	(5,232 )	(4,820 )	(412 )	8.6	%
Engineering and development expenses	(1,206 )	(598 )	(608 )	101.6	%
Interest expense	(15 )	(139 )	124	(88.7 )	%
Warrant inducement and repricing expense	—	(4,195 )	4,195	(100 )	%
Other income (expense)	14	(7 )	21	(311.8 )	%
Provision for income taxes	(5 )	(6 )	1	(9.3 )	%
Net loss	\$ (7,899 )	\$ (13,113 )	\$ 5,214	(39.8 )	%

**Total revenues**

	Year Ended December 31,		\$ Change	% Change	
	2017	2016			
	(\$ in 000's)				
Biopharmaceutical	\$ 9,113	\$ 5,302	\$ 3,811	71.9	%
Reproductive medicine	1,706	1,532	174	11.4	%
Animal health	1,135	845	290	34.3	%
Total revenues	\$ 11,954	\$ 7,679	\$ 4,275	55.7	%

**Revenues.** We generated revenues from customers in all of our target life sciences markets, such as biopharma, animal health and reproductive medicine. Revenues increased \$4.3 million or 55.7% to \$12.0 million for the year ended December 31, 2017, as compared to \$7.7 million for the year ended December 31, 2016. This increase was 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 \$3.8 million or 71.9%, to \$9.1 million for the year ended December 31, 2017, as compared to \$5.3 million for the same period in 2016. During the year ended December 31, 2017, we added approximately 83 new biopharmaceutical clients and, as of December 31, 2017, supported 214 clinical trials, of which 26 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 11.4% for the year ended December 31, 2017, as compared to the same period in 2016. This increase is driven by our activities in the U.S. market, with a 43.8% increase in revenues in the U.S. through continued success of our targeted marketing campaigns, which was partially offset by a 32.5% decrease in revenues in the international markets as a result of regulatory uncertainties. Our revenues from animal health increased 34.3% for the year ended December 31, 2017, as compared to the same period in 2016, primarily driven by the international relocation of cell banks for a new client.

**Gross margin and cost of revenues.** Gross margin for the year ended December 31, 2017 was 49.9% of revenues, as compared to 40.4% of revenues for the same period in 2016. The increase in gross margin by almost ten percentage points was 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. Cost of revenues increased \$1.4 million, or 30.8%, to \$6.0 million for the year ended December 31, 2017, as compared to the same period in 2016. The increase in cost of revenues was primarily due to freight charges from the increased volume of shipments.

**General and administrative expenses.** General and administrative expenses increased \$971,600 for the year ended December 31, 2017 or 15.1% as compared to the same period in 2016. This increase is primarily due to an increase in public company related expenses in the amount of \$429,600, salaries and associated employee costs of \$367,900, stock-based compensation expense of \$284,700 including legal fees, legal settlements of \$162,700, insurance premiums of \$102,800, implementation costs for a new ERP system of \$89,000, patent and trademark legal fees of \$74,400, travel and lodging expenses of \$36,800 and bank charges and fees of \$19,400. These increases were partially offset by decreases in depreciation and amortization of \$202,400, allocated facility expenses of \$172,900, the 2016 disposal of components used to manufacture our shippers in the amount of \$121,700 due to our decision to co-develop and outsource the manufacturing of our shippers that was not incurred in 2017, a decrease of \$33,500 for estimated bad debt, and a decrease in moving expenses incurred in 2016 of \$10,000.

**Sales and marketing expenses.** Sales and marketing expenses increased \$412,200 or 8.6% for the year ended December 31, 2017 as compared to the same period in 2016. This increase is primarily due to salaries and associated employee costs of \$522,600, stock-based compensation expense of \$95,700, facility expenses of \$73,900, travel and lodging expense of \$62,700, implementation costs for a new ERP system of \$57,800, and marketing trade shows of \$18,200. This increase was partially offset by a reduction in outsourced marketing consulting of \$448,900 as a result of bringing this function in-house.

**Engineering and development expenses.** Engineering and development expenses increased \$607,600 or 101.6% for the year ended December 31, 2017, as compared to the same period in 2016. The increase is primarily due to \$303,700 in wages and associated employee costs to add a software development product manager, senior engineer and Chief Technology Officer, \$210,900 in testing expenses, facility expenses of \$133,900 and an increase in stock-based compensation of \$79,000. These increases were partially offset by a reduction of \$148,100 in web portal expenses. We continually strive to improve and expand the features of our Cryoport Express® Solutions. Our developments are directed towards facilitating the safe, reliable and efficient shipment of life science commodities through innovative and technology-based solutions. During the year ended December 31, 2017, we made significant progress in developing the next generation of our Cryoport™ logistics management platform. We also tested and upgraded the firmware and software of our SmartPak II™ Condition Monitoring System that tracks the key aspects of each shipment that could affect the quality and/or timing of delivery of the commodities shipped to its intended destination. We also incurred costs to design and validate additional new primary and secondary packaging solutions and accessories in response to requests from our customers. We supplement our internal engineering and development resources with subject matter experts and consultants.

**Interest expense.** Interest expense decreased \$123,700, or 88.7%, for the year ended December 31, 2017, as compared to the same period in 2016. Interest expense for the year ended December 31, 2017 included amortization of the debt discount on the related-party notes of \$6,100 and the stated interest expense of \$9,600. Interest expense for the year ended December 31, 2016 included amortization of the debt discount on the related-party notes of \$84,800 and the stated interest expense of \$54,600.

**Warrant inducement and repricing expense.** Warrant repricing expense for the year ended December 31, 2016 was due to the repricing of certain warrants for the tender offer that was completed April 7, 2016.

**Other income (expense), net.** The other income (expense), net increased \$21,100 for the year ended December 31, 2017 primarily due to an increase in interest income on larger cash balances and foreign exchange gains on accounts receivable and payable invoices partially offset by bank administrative charges.

**Results of Operations for Nine Months Ended December 31, 2016 Compared to the Nine Months Ended December 31, 2015**

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

	Nine Months Ended December 31,		\$ Change	% Change	
	2016	2015			
	(\$ in 000's)				
Revenues	\$ 6,123	\$ 4,327	\$ 1,796	41.5	%
Cost of revenues	(3,603)	(3,018)	(585)	19.4	%
Gross margin	2,520	1,309	1,211	92.6	%
General and administrative expenses	(4,635)	(4,111)	(524)	12.7	%
Sales and marketing expenses	(3,573)	(2,909)	(664)	22.8	%
Engineering and development expenses	(454)	(406)	(48)	11.8	%
Interest expense	(58)	(984)	926	(94.1)	%
Warrant inducement and repricing expense	(4,195)	—	(4,195)	100	%
Other expense	(2)	(5)	3	(62.3)	%
Provision for income taxes	(6)	(4)	(2)	56.5	%
Net loss	\$ (10,403)	\$ (7,110)	\$ 3,293	46.3	%

**Total revenues**

	Nine Months Ended December 31,		\$ Change	% Change	
	2016	2015			
	(\$ in 000's)				
Biopharmaceutical	\$ 4,289	\$ 2,673	\$ 1,616	60.4	%
Reproductive medicine	1,201	998	203	20.4	%
Animal health	633	656	(23)	(3.5)	%
Total revenues	\$ 6,123	\$ 4,327	\$ 1,796	41.5	%

**Revenues.** We generated revenues from customers in all of our target life sciences markets, such as biopharma, animal health and reproductive medicine. Revenues increased \$1.8 million or 41.5% to \$6.1 million for the nine months ended December 31, 2016, as compared to \$4.3 million for the nine months ended December 31, 2015. This increase was 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 \$1.6 million or 60.4%, to \$4.3 million for the nine months ended December 31, 2016, as compared to \$2.6 million for the same period in 2015. During the nine months ended December 31, 2016, we added approximately 89 new biopharmaceutical clients and supported over 129 clinical trials, of which 18 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 20.4% for the nine months ended December 31, 2016, as compared to the same period in 2015. This increase was driven by a 45.4% increase in revenues in the U.S. market through continued success of our targeted marketing campaigns and was partially offset by a 3.9% decrease in revenues in the international markets as a result of regulatory uncertainties. Our revenues from animal health decreased 3.5% for the nine months ended December 31, 2016, as compared to the same period in 2015 due to reduced shipping volumes and third-party freight charges being directly billed to one of our clients.

**Gross margin and cost of revenues.** Gross margin for the nine months ended December 31, 2016 was 41.1% of revenues, as compared to 30.2% of revenues for the same period in 2015. The increase in gross margin by almost eleven percentage points was 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. Cost of revenues increased \$585,000, or 19.4%, to \$3.6 million for the nine months ended December 31, 2016, as compared to the same period in 2015. The increase in cost of revenues was primarily due to freight charges from the increased volume of shipments.

**General and administrative expenses.** General and administrative expenses increased \$524,000 for the nine months ended December 31, 2016 or 12.7% as compared to the same period in 2015. This increase was primarily due to increases in stock-based compensation expense of \$389,600, an increase in salaries and associated employee costs of \$160,600 and an increase in allocated facility expenses of \$121,500 related to our new headquarters in Irvine, California, which was partially offset by a reduction in public company and legal expenses of \$120,900 and a decrease in travel expenses of \$30,800.

**Sales and marketing expenses.** Sales and marketing expenses increased \$664,500 or 22.8% for the nine months ended December 31, 2016 as compared to the same period in 2015. This increase was primarily due to increases in salaries and associated employee costs in the aggregate amount of \$399,400 incurred to expand our sales, logistics and client care force, increased targeted marketing initiatives to support our sales efforts in the amount of \$190,000, an increase in allocated facility expenses of \$76,000 related to our new headquarters in Irvine, California, stock-based compensation expense of \$35,900 and increased travel expenses and trade shows in the amount of \$13,500.

**Engineering and development expenses.** Engineering and development expenses increased \$47,800 or 11.8% for the nine months ended December 31, 2016, as compared to the same period in 2015. The increase was primarily due to an increase of \$37,100 for development efforts that were focused on further enhancing our cloud-based Cryoport™ Logistics Management Platform. In addition, salaries and associated employee costs increased by \$94,400 related to the addition of a design and manufacturing engineer. For the nine months ended December 31, 2015, we wrote off previously capitalized costs in the amount of \$98,100 resulting from the abandonment of a method of shipment patent application. 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 \$926,500, or 94.1%, for the nine months ended December 31, 2016, as compared to the same period in 2015. Interest expense for the nine months ended December 31, 2016 included amortization of the debt discount on the Company's related-party notes payable of \$18,700 and the stated interest expense of \$39,500. Interest expense for the nine months ended December 31, 2015 included amortization of the debt discount on the related-party notes payable of \$195,600, the related interest expense of \$43,400, 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 inducement and repricing expense.** The warrant inducement and repricing expense of \$4.2 million for the nine months ended December 31, 2016 resulted from the repricing of certain warrants in connection with the tender offer transactions completed in April 2016 and October 2016, which included \$616,000 for the issuance of the supplemental warrants.

**Other expense, net.** The other expense, net for the nine months ended December 31, 2016 is primarily due to administrative charges and foreign exchange losses on accounts receivable and payable invoices.

## **Liquidity and Capital Resources**

As of December 31, 2017, the Company had cash and cash equivalents of \$15.0 million, was debt free and had working capital of \$15.1 million. Historically, we have financed our operations primarily through sales of our equity securities.

For the year ended December 31, 2017, we used \$3.6 million of cash for operations primarily as a result of the net loss of \$7.9 million offset by non-cash expenses of \$4.4 million primarily comprised of 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 accounts receivable of \$441,600, an increase in prepaids and other current assets of \$261,500 offset by an increase in accounts payable and accrued expenses of \$123,200 and an increase in accrued compensation of \$506,500.

Net cash used in investing activities of \$1.8 million during the year ended December 31, 2017 was primarily due to the purchase of Cryoport Express® CXVC1 Shippers, standard shippers, SmartPak II™ Condition Monitoring Systems and computer equipment as well as legal expenses incurred for trademark and patent applications.

Net cash provided by financing activities totaled \$15.9 million during the year ended December 31, 2017, and resulted from net proceeds of \$11.4 from the March 2017 common stock offering and proceeds from the exercise of stock options and warrants of \$5.2 million which were partially offset by the repayment of related party notes of \$656,200.

The Company's management recognizes that the Company may need to obtain additional capital to fund its operations until sustained profitable operations are achieved. Additional funding plans may include obtaining additional capital through equity and/or debt funding sources. No assurance can be given that additional capital, if needed, will be available when required or upon terms acceptable to the Company. See “—Risks Related to Our Financial Condition — If we are unable to obtain additional funding, we may have to reduce or discontinue our business operations” in the “Risk Factors” section in Part I, Item 1A of this Form 10-K for additional information.

### **Off-Balance Sheet Arrangements**

We do not have any off balance sheet arrangements within the meaning of Item 303(a)(4) of Regulation S-K.



## Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2017, and the effects such obligations are expected to have on liquidity and cash flow in future periods (\$ in '000's):

	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Contractual obligations					
Operating lease obligations <sup>(1)</sup>	\$2,422	\$ 406	\$ 845	\$ 897	\$ 274
Total	\$2,422	\$ 406	\$ 845	\$ 897	\$ 274

(1) The operating lease obligations are primarily related to the facility lease for our principal executive office in Irvine, California, which expires February 28, 2023, subject to our option to extend the lease for two additional five-year periods. The initial base rent is approximately \$24,700 per month. We also lease 8,100 square feet of warehouse facilities in Livingston, New Jersey under an operating lease expiring December 31, 2024, subject to our option to extend the lease for an additional five-year period. The initial base rent is approximately \$7,600 per month. These lease agreements contain certain scheduled annual rent increases which will be accounted for on a straight-line basis. In addition, we lease certain office equipment which expires in March 2018.

## Impact of Inflation

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

## Critical Accounting Policies and Estimates

Our discussion and analysis of our consolidated financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the U.S., or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities reported in our consolidated financial statements. The estimation process requires assumptions to be made about future events and conditions, and is consequently inherently subjective and uncertain. Actual results could differ materially from our estimates.

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. We consider the following policies to be critical to an understanding of our consolidated financial statements and the uncertainties associated with the complex judgments made by us that could impact our results of operations, financial position and cash flows. See Note 2: "*Summary of Significant Accounting Policies*" of our accompanying consolidated financial statements for a description of our critical accounting policies and estimates.

### ***New Accounting Pronouncements***

See Note 2: "*Recent Accounting Pronouncements*" of our accompanying consolidated financial statements for a description of recent accounting pronouncements that may have a significant impact on our financial reporting and our expectations of their impact on our results of operations and financial condition.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Changes in United States interest rates would affect the interest earned on our cash and cash equivalents.

Based on our overall cash and cash equivalents interest rate exposure at December 31, 2017, a near-term change in interest rates, based on historical movements, would not have a material adverse effect on our financial position or results of operations.

We have operated primarily in the United States. Accordingly, we have not had any significant exposure to foreign currency rate fluctuations.

### **Item 8. Financial Statements and Supplementary Data**

Our annual consolidated financial statements are included in Part IV, Item 15 of this Form 10-K and are incorporated into this Item 8 by reference.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

***(a) Evaluation of Disclosure Controls and Procedures***

The term “disclosure controls and procedures” (defined in Rule 13a-15(e) under the Exchange Act) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as of December 31, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017 to ensure the timely disclosure of required information in our SEC filings.

***(b) Management’s Report on Internal Control Over Financial Reporting.***

Management’s Report on Internal Control Over Financial Reporting which appears on the following page is incorporated herein by reference.

Our consolidated financial statements as of and for the year ended December 31, 2017 have been audited by KMJ Corbin & Company LLP, our independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). KMJ Corbin & Company LLP has also audited our internal control over financial reporting as of December 31, 2017, as stated in its attestation report included elsewhere in this Annual Report on Form 10-K.

***(c) Changes In Internal Control Over Financial Reporting***

During the quarter ended December 31, 2017, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

41

**CRYOPORT, INC.**

**MANAGEMENT'S REPORT ON**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of the Company is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) and for the assessment of the effectiveness of internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting is supported by written policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual consolidated financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's

internal control over financial reporting.

Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

By: /s/ JERRELL W. SHELTON  
Jerrell W. Shelton,  
Chief Executive Officer and Director

By: /s/ ROBERT STEFANOVICH  
Robert Stefanovich,  
Chief Financial Officer

March 8, 2018

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date Elected</b>
Jerrell W. Shelton	72	Chairman, President and Chief Executive Officer	2012
Richard J. Berman	75	Director	2015
Robert Hariri, M.D., Ph.D.	59	Director	2015
Ramkumar Mandalam, Ph.D.	53	Director	2014
Edward J. Zecchini	58	Director	2013
Robert S. Stefanovich	53	Chief Financial Officer, Treasurer and Corporate Secretary	2011

**Jerrell W. Shelton.** Mr. Shelton became a member of our board of directors in October 2012 and was appointed President and Chief Executive Officer of the Company in November 2012. He was appointed Chairman of the Board in October 2015. He served on the Board of Directors and standing committees of Solera Holdings, Inc. from April 2007 through November 2011. From June 2004 to May 2006, Mr. Shelton was the Chairman and CEO of Wellness, Inc., a provider of advanced, integrated hospital and clinical environments. Prior to that, he served as Visiting Executive to IBM Research and Head of IBM's WebFountain. From October 1998 to October 1999, Mr. Shelton was Chairman, President and CEO of NDC Holdings II, Inc. Between October 1996 and July 1998, he was President and CEO of Continental Graphics Holdings, Inc. And from October 1991 to July 1996, Mr. Shelton served as President and CEO of Thomson Business Information Group. Mr. Shelton has a B.S. in Business Administration from the University of Tennessee and an M.B.A. from Harvard University. Mr. Shelton currently serves on the Advisory Board of Directors of the Smithsonian Institution Library. Mr. Shelton's extensive leadership, management, strategic planning and financial expertise through his various leadership and directorship roles in public, private and global companies, makes him well-qualified to serve as a member of the board of directors.

**Richard J. Berman.** Mr. Berman became a member of our board of directors in January 2015 and serves as Chairman of the Audit Committee and member of the Compensation Committee and Nomination and Governance Committee of our board of directors. Mr. Berman's business career spans over 35 years of venture capital, senior management and merger & acquisitions experience. Mr. Berman has served as a director and/or officer of over a dozen public and private companies. From 2006 to 2011, he was Chairman of National Investment Managers, a company with \$12 billion in pension administration assets. Mr. Berman is a director of five public healthcare companies: Advaxis, Inc., Catasys, Inc. and Cryoport Inc. From 2002 to 2010, he was a director of Nexmed Inc. where he also served as Chairman/CEO in 2008 and 2009 (formerly Apricus Biosciences, Inc.); From 1998 to 2000, he was employed by Internet Commerce Corporation (now Easylink Services) as Chairman and CEO, and was a director from 1998 to

2012. Previously, Mr. Berman worked at Goldman Sachs; was Senior Vice President of Bankers Trust Company, where he started the M&A and Leveraged Buyout Departments; created the largest battery company in the world in the 1980's by merging Prestolite, General Battery and Exide to form Exide Technologies (XIDE); helped to create what is now Soho (NYC) by developing five buildings; and advised on over \$4 billion of M&A transactions. He is a past Director of the Stern School of Business of NYU where he obtained his BS and MBA. He also has U.S. and foreign law degrees from Boston College and The Hague Academy of International Law, respectively. Mr. Berman's financial and business expertise, including his background in biotechnology, international management and banking, and his extensive experience as a director in the public company context makes him well-qualified to serve as a member of the board of directors.



**Robert Hariri, M.D., Ph.D.** Dr. Hariri, M.D., Ph.D. became a member of our board of directors in September 2015 and serves as Chairman of the Scientific and Technology Committee and member of the Audit Committee and Nomination and Governance Committee of our board of directors. Dr. Hariri is a visionary surgeon, scientist, aviator and entrepreneur and serves the Founder, Chairman and CEO of Celularity, one of the world's largest human cellular therapeutics companies. Previously, he served as the CEO of the Cellular Therapeutics Division of Celgene Corporation. Prior to joining Celgene Cellular Therapeutics as president in 2002, Dr. Hariri was founder, chairman and chief scientific officer at Anthrogenesis Corporation/LIFEBANK, Inc., a privately held biomedical technology and service corporation involved in the area of human stem cell therapeutics, which was acquired by Celgene in 2002. Dr. Hariri is also co-founder and president of Human Longevity, Inc., a genomics and cell-therapy company. He serves on numerous Boards of Directors including Bionik Laboratories Corp (OTCQX: BNKL), Myos Corporation (Nasdaq: MYOS), Provista Diagnostics and is a member of the Board of Visitors of the Columbia University School of Engineering & Applied Sciences and the Science & Technology Council of the College of Physicians and Surgeons; as well as a member of the Scientific Advisory Board for the Archon X PRIZE for Genomics, which is awarded by the X Prize Foundation. Dr. Hariri is also a Trustee of the Liberty Science Center and has been appointed Commissioner of Cancer Research by New Jersey Governor, Chris Christie. Dr. Hariri was recipient of the Thomas Alva Edison Award in 2007 and 2011, and has received numerous other honors for his many contributions to biomedicine and aviation. He has pioneered the use of stem cells to treat a range of life threatening diseases and has over 140 issued and pending patents, has authored over 100 published chapters, articles and abstracts and is most recognized for his discovery of pluripotent stem cells from the placenta as a member of the team which discovered TNF (tumor necrosis factor). A jet-rated commercial pilot with thousands of hours of flight time in over 60 different military and civilian aircraft, Dr. Hariri is a founder of the Rocket Racing League, an extreme aerospace corporation and Jet-A Aviation, a heavy-jet charter airline. Dr. Hariri received his undergraduate training at Columbia College and Columbia University School of Engineering and Applied Sciences and was awarded his M.D. and Ph.D. degrees from Cornell University Medical College. Dr. Hariri received his surgical training at The New York Hospital-Cornell Medical Center where he also directed the Aitken Neurosurgery Laboratory and the Center for Trauma Research. Dr. Hariri's training as a scientist, his knowledge and experience with respect to the biomedical and pharmaceutical industries and his extensive research and experience makes him well-qualified to serve as a member of the board of directors.

**Ramkumar Mandalam, Ph.D.** Dr. Mandalam became a member of our board of directors in June 2014 and serves as Chairman of the Governance and Nomination Committee and member of the Compensation Committee our board of directors. Dr. Mandalam is the President and CEO of Cellerant Therapeutics, Inc., a clinical stage biotechnology company developing novel cell-based and antibody therapies for cancer treatment and blood-related disorders. Under his leadership, Cellerant has developed a pipeline of candidates for treatment of hematological malignancies and has rapidly expanded from an early-stage to an advanced clinical-stage company. Prior to joining Cellerant in 2005, he was the Executive Director of Product Development at Geron Corporation, a biopharmaceutical company where he managed the development and manufacturing of cell based therapies for treatment of degenerative diseases and cancer. From 1994 to 2000, he held various positions in research and development at Aastrom Biosciences, where he was responsible for programs involving ex vivo expansion of human bone marrow stem cells and dendritic cells. Dr. Mandalam received his Ph.D. in Chemical Engineering from the University of Michigan, Ann Arbor, Michigan. Dr. Mandalam is the author or co-author of several publications, patent applications, and abstracts. Dr. Mandalam's training as a scientist, extensive background in biotechnology and management expertise and makes him well-qualified to serve as a member of the board of directors.

**Edward J. Zecchini.** Mr. Zecchini became a member of our board of directors in September 2013 and serves as Chairman of the Compensation Committee and member of the Audit Committee and Scientific and Technology Committee our board of directors. Mr. Zecchini currently serves as Chief Information Officer at Remedy Partners, Inc. Prior to that, Mr. Zecchini served as Executive Vice President and Chief Technology Officer at Sandata Technologies, LLC, from May 2010 to March 2014, President and Chief Executive Officer of IT Analytics LLC from March 2008 to April 2010, Executive Vice President of Operations and Chief Information Officer of Touchstone Healthcare Partnership from May 2007 to February 2008 and Senior Vice President and Chief Information Officer of HealthMarkets, Inc. from October 2004 to April 2007. Earlier in his career he held senior level positions at Thomson Healthcare and SportsTicker, Inc. Mr. Zecchini has over thirty years of experience in the healthcare and information technology industries. Mr. Zecchini holds a Bachelor of Arts degree from the State University of New York at Oswego. Mr. Zecchini's business expertise, including his background and extensive experience information technology and management makes him well-qualified to serve as a member of the board of directors.

**Robert S. Stefanovich.** Mr. Stefanovich became Chief Financial Officer, Treasurer and Corporate Secretary for the Company in June 2011. From June 15, 2012 to November 4, 2012, Mr. Stefanovich served as the Principal Executive Officer of the Company. From November 2007 through March 2011, Mr. Stefanovich served as Chief Financial Officer of Novalar Pharmaceuticals, Inc., a venture-backed specialty pharmaceutical company. Prior to that, he held several senior positions, including interim Chief Financial Officer of Xcorporeal, Inc., a publicly traded medical device company, Executive Vice President and Chief Financial Officer of Artemis International Solutions Corporation, a publicly traded software company, Chief Financial Officer and Secretary of Aethlon Medical Inc., a publicly traded medical device company and Vice President of Administration at SAIC, a Fortune 500 company. Mr. Stefanovich also served as a member of the Software Advisory Group and an Audit Manager with Price Waterhouse LLP's (now PricewaterhouseCoopers) hi-tech practice in San Jose, CA and Frankfurt, Germany. He currently also serves as a board member of Project InVision International, a provider of business performance improvement solutions. He received his Masters of Business Administration and Engineering from University of Darmstadt, Germany.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC reports of beneficial ownership and reports of changes in beneficial ownership in the Company's securities. Such directors, executive officers and 10% stockholders are also required to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms received by it, the Company believes that during the year ended December 31, 2017, all Section 16(a) filings applicable to its directors, officers, and 10% stockholders were filed on a timely basis.

## **Director Independence**

Our board of directors is responsible for determining the independence of our directors. For purposes of determining director independence, our board of directors has applied the definitions set forth in NASDAQ Rule 5605(a)(2) and the related rules of the SEC. Based upon its evaluation, our board of directors has affirmatively determined that the following directors meet the standards of independence: Mr. Berman, Dr. Hariri, Dr. Mandalam and Mr. Zecchini.

## **Committees of the Board of Directors**

Our board of directors has established an Audit Committee, a Compensation Committee, Nomination and Governance Committee and a Science and Technology Committee. Charters for each of these committees is available on the Company's website at [www.cryoport.com](http://www.cryoport.com) on the "Investor Relations: Corporate Governance" page under the heading "About Us." Information on the website does not constitute a part of this registration statement.

### ***Audit Committee***

The functions of the Audit Committee are to (i) review the qualifications of the independent auditors, our annual and interim financial statements, the independent auditor's report, significant reporting or operating issues and corporate policies and procedures as they relate to accounting and financial controls; and (ii) to consider and review other matters relating to our financial and accounting affairs.

The current members of the Audit Committee are Mr. Berman, who is the Audit Committee Chairman, Dr. Hariri and Mr. Zecchini. The Company has determined that (i) Mr. Berman qualifies as an "audit committee financial expert" as defined under the rules of the SEC and is "independent" within the meaning of NASDAQ Rule 5605(a)(2) and the applicable laws and regulations of the SEC, and (ii) Dr. Hariri and Mr. Zecchini meet NASDAQ's financial literacy and financial sophistication requirements and are "independent" within the meaning of NASDAQ Rule 5605(a)(2) and the applicable laws and regulations of the SEC.

### ***Compensation Committee***

The purpose of the Compensation Committee is to discharge our board of directors' responsibilities relating to compensation of the Company's directors and executive officers, to produce an annual report on executive compensation for inclusion in the Company's annual proxy statement, as necessary, and to oversee and advise our board of directors on the adoption of policies that govern the Company's compensation programs, including stock incentive and benefit plans.

The current members of the Compensation Committee are Mr. Zecchini, who is the Compensation Committee Chairman, Dr. Mandalam and Mr. Berman, each of whom is independent under applicable independence requirements. Each of the current members of the Compensation Committee is a "non-employee director" under Section 16 of the Exchange Act and an "outside director" for purposes of Section 162(m) of the Code.

### ***Nomination and Governance Committee***

The functions of the Nomination and Governance Committee are to (i) make recommendations to our board of directors regarding the size of our board of directors, (ii) make recommendations to our board of directors regarding criteria for the selection of director nominees, (iii) identify and recommend to our board of directors for selection as director nominees individuals qualified to become members of the Board, (iv) recommend committee assignments to our board of directors, (v) recommend to our board of directors corporate governance principles and practices appropriate to the Company, and (vi) lead our board of directors in an annual review of its performance.

### ***Science and Technology Committee***

The purpose of the Science and Technology Committee is to oversee matters pertaining to the Company's strategic direction as related to product and services serving the cellular therapy business and investments in research, development, and technology relating thereto. The committee may include director and persons who are not directors. Currently, Dr. Robert Hariri, M.D., Ph.D. is the sole member of the Science and Technology Committee.

The current members of the Nomination and Governance Committee are Dr. Mandalam, who is the Nomination and Governance Committee Chairman, Mr. Berman and Dr. Hariri.

### **Corporate Code of Conduct**

The Company has adopted a corporate code of conduct that applies to its directors and all employees, including the Company's Chief Executive Officer and Chief Financial Officer. The Company has posted the text of its corporate code of conduct on the Company's website at [www.cryoport.com](http://www.cryoport.com) on the "Investor Relations: Corporate Governance"

page under the heading “About Us”.

45

**Item 11. Executive Compensation****Executive Officers of the Company****SUMMARY COMPENSATION TABLE**

The following table contains information with respect to the compensation of our Chief Executive Officer and Chief Financial Officer for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016. We refer to our Chief Executive Officer and Chief Financial Officer as our “Named Executive Officers.”

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (1) (\$)</b>	<b>Bonus (\$)</b>	<b>Option Awards (2) (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total Compensation (\$)</b>
Jerrell W. Shelton President and Chief Executive Officer	2017	435,417	—	986,471 (3)	—	1,421,888
	2016*	225,000	—	449,256 (3)	—	674,256
Robert S. Stefanovich Chief Financial Officer	2017	277,187	—	218,435 (4)	—	495,622
	2016*	199,583	40,000(5)	216,606 (4)	—	456,189

\* For the nine-month transition period ended December 31, 2016

(1) This column represents the dollar value of base salary earned during each fiscal year indicated.

This amount represents the total grant date fair value of all stock option awards at the date of grant. Pursuant to SEC rules, the amount shown excludes the impact of estimated forfeitures related to service-based vesting

(2) conditions. For information on the valuation assumptions with respect to the grants made during the year ended December 31, 2017 and nine-month transition period ended December 31, 2016, see Note 2 “Summary of Significant Accounting Policies” in the accompanying consolidated financial statements.

Based on the recommendation of the Compensation Committee and approval by our board of directors, on May 23, 2017 and May 6, 2016, Mr. Shelton was granted an option to purchase 340,000 and 280,000 shares, respectively, of common stock in connection with his service as Chief Executive Officer of the Company. The exercise prices of the options are equal to or greater than the fair value of the Company’s stock as of the respective grant dates.

(3) Based on the recommendation of the Compensation Committee and approval by our board of directors, on May 18, 2017 and May 6, 2016, Mr. Stefanovich was granted an option to purchase 81,000 and 135,000 shares of common (4) stock, respectively, of common stock in connection with his service as Chief Financial Officer of the Company.

The exercise prices of the options are equal to or greater than the fair value of the Company’s stock as of the respective grant dates.

(5) This amount represents the bonus earned for the nine months ended December 31, 2016 as approved by the Compensation Committee of our board of directors.

## Narrative Disclosure to Summary Compensation Table

### *Employment Contracts*

#### *Jerrell W. Shelton*

On June 28, 2013, the Company entered into an employment agreement (the “Prior Agreement”) with Mr. Shelton with respect to his employment as President and Chief Executive Officer. The Prior Agreement was effective through May 14, 2017 (the “Term”).

The Prior Agreement provided an initial annual base salary of \$300,000 during the Term. In addition, on the date of the Prior Agreement, Mr. Shelton was awarded options giving him the right to acquire an aggregate of 325,209 shares of the Company’s common stock at an exercise price equal to the closing price of the Company’s common stock on the date of the Prior Agreement, or \$3.24 per share, and such options were granted outside of the Company’s incentive plans. The option vested immediately with respect to 13,551 shares and the remaining right to purchase the remaining shares vested in equal monthly installments on the fifth day of each month for forty-six months beginning on July 5, 2013 and ending on May 5, 2017; provided that such vesting will be accelerated on the date that the Company files a Form 10-Q or Form 10-K indicating an income from operations for the Company in two consecutive fiscal quarters and immediately in the event of a change of control of the Company.

Mr. Shelton had agreed during the Term and for a period of one year following the termination of the Prior Agreement, not to solicit, induce, entice or attempt to solicit, induce, or entice any employee of the Company to leave employment with the Company. Payments due to Mr. Shelton upon a termination of the Prior Agreement are described below.

On May 26, 2017, the Company entered into a new employment agreement effective June 1, 2017 (the “New Agreement”) with Mr. Shelton with respect to his employment as President and Chief Executive Officer of the Company.

The New Agreement provides for an annual base salary in an amount determined by the Company’s Compensation Committee of the Board of Directors of the Company and Mr. Shelton’s annual base salary was increased to \$550,000 effective on June 1, 2017. Mr. Shelton is eligible to participate in the equity incentive plans and cash bonus plans adopted by the Company from time-to-time. Mr. Shelton has agreed not to solicit or encourage or attempt to solicit or encourage any employee of the Company to leave employment with the Company during the term of the Agreement and for a period of eighteen months following the termination of the Agreement. The Agreement expires on June 1, 2021. Payments due to Mr. Shelton upon a termination of the Prior Agreement are described below.

*Robert S. Stefanovich*

Although the Company does not have a written employment agreement with Mr. Stefanovich, pursuant to the terms of his offer letter, the Company agreed to pay Mr. Stefanovich an annual base salary and he is eligible for an incentive bonus targeted at 25% of his annual base salary. His annual base salary was increased to \$267,500 in May 2016 and \$283,000 in May 2017. Mr. Stefanovich is eligible to participate in all employee benefits plans or arrangements which may be offered by the Company during the term of employment. The Company shall pay the cost of Mr. Stefanovich’s health insurance coverage in accordance with the Company’s plans and policies while he is an employee of the Company. Mr. Stefanovich is also eligible for twenty (20) paid time off days a year, and is entitled to receive fringe benefits ordinarily and customarily provided by the Company to its senior officers. Payments due to Mr. Stefanovich upon a termination of his employment with the Company are described below.

The Company has no other employment agreements with executive officers of the Company as of December 31, 2017.

**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2017**

The following table shows information regarding unexercised stock options held by our Named Executive Officers as of December 31, 2017:

Name	Number of Securities	Number of Securities	Equity Incentive	Option Exercise	Option Expiration
------	----------------------	----------------------	------------------	-----------------	-------------------



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

	Underlying Unexercised Options (#) Exercisable		Underlying Unexercised Options (#) Unexercisable	Plan Awards Number of Securities Underlying Unexercised Unearned Options (#)	Price (\$)	Date
Jerrell W. Shelton	8,334	(1)	—	—	\$ 2.28	10/22/22
	83,334	(2)	—	—	\$ 2.40	11/5/22
	325,209	(3)	—	—	\$ 3.24	6/28/23
	290,645	(4)	96,856	—	\$ 4.80	12/18/24
	142,016	(5)	77,876	—	\$ 7.80	5/07/25
	482,417	(6)	344,583	—	\$ 5.00	8/20/25
	110,833	(7)	169,167	—	\$ 1.87	5/06/26
	49,583	(8)	290,417	—	\$ 3.44	5/23/27
Robert Stefanovich	10,417	(9)	—	—	\$ 10.32	6/20/21
	5,000	(10)	—	—	\$ 5.16	8/3/22
	69,918	(11)	—	—	\$ 3.24	6/28/23
	55,008	(12)	18,326	—	\$ 4.80	12/18/24
	37,135	(13)	20,349	—	\$ 7.80	5/07/25
	103,367	(14)	73,833	—	\$ 3.07	8/20/25
	53,438	(15)	81,562	—	\$ 1.87	5/06/26
	11,812	(16)	69,188	—	\$ 3.21	5/18/27

- Based on the recommendation of the Compensation Committee and approval by our board of directors, Mr. Shelton was granted an option to purchase 8,334 shares of common stock exercisable at \$2.28 per share on
- (1) October 22, 2012 upon joining the board of directors. Options vests in twelve equal monthly installments. The exercise price for shares of common stock pursuant to the options is equal to the fair value of the Company's stock as of the grant date.  
Based on the recommendation of the Compensation Committee and approval our board of directors , Mr. Shelton was granted an option to purchase 137,500 shares of common stock exercisable at \$2.40 per share on November 5, 2012, which vests in six equal monthly installments. 54,166 of these options were issued under the 2011 stock option plan and exercised in May and November 2013 and 83,884 were issued outside of a plan. The exercise price for shares of common stock pursuant to the option is equal to the fair value of the Company's stock as of the grant date.
  - (2) Based on the recommendation of the Compensation Committee and approval our board of directors , Mr. Shelton was granted an option to purchase 325,209 shares of common stock exercisable at \$3.24 per share on June 28, 2013. The option vests 2/48<sup>th</sup> immediately with the remainder vesting 1/48<sup>th</sup> per month for 46 months. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.
  - (3) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Shelton was granted an option to purchase 387,501 shares of common stock exercisable at \$4.80 per share on December 18, 2014. The option vests in monthly installments over a four year period, 262,500 shares were issued outside of a plan. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.
  - (4) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Shelton was granted an option to purchase 219,892 shares of common stock exercisable at \$7.80 per share on May 7, 2015. The option vests in monthly installments over a four year period, 219,892 shares were issued outside of a plan. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.
  - (5) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Shelton was granted an option to purchase 827,000 shares of common stock exercisable at \$3.07 per share on August 20, 2015, subject to stockholder approval of the 2015 Omnibus Equity Incentive Plan which occurred on November 20, 2015. The award was amended on February 3, 2016 to increase the exercise price of the option from \$3.07 to \$5.00. The option vests in monthly installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to or more than the fair value of the Company's stock on the date of grant.
  - (6) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Shelton was granted an option to purchase 280,000 shares of common stock exercisable at \$1.87 per share on May 6, 2016. The option vests in monthly installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.
  - (7) Based on the recommendation of the Compensation Committee and approval by our board of directors, Mr. Shelton was granted an option to purchase 340,000 shares of common stock exercisable at \$3.44 per share on May 23, 2017. The option vests in monthly installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.
  - (8) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Stefanovich was granted an option to purchase 10,417 shares of common stock exercisable at \$10.32 per share on June 20, 2011. The option vests in six month installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.
  - (9)
  - (10)

Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Stefanovich was granted an option to purchase 5,000 shares of common stock exercisable at \$5.16 per share on August 3, 2012. The option vests in six month installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.

- (11) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Stefanovich was granted an option to purchase 69,918 shares of common stock exercisable at \$3.24 per share on June 28, 2013. The options vest in equal monthly installments over four years. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.

- (12) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Stefanovich was granted an option to purchase 73,334 shares of common stock exercisable at \$4.80 per share on December 18, 2014. The options vest in equal monthly installments over four years. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.

- (13) Based on the recommendation of the Compensation Committee and approval by our board of directors , Mr. Stefanovich was granted an option to purchase 57,484 shares of common stock exercisable at \$7.80 per share on May 7, 2015. The options vest in equal monthly installments over a four year period, 57,484 shares were issued outside of a plan. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.

Based on the recommendation of the Compensation Committee and approval by our board of directors, Mr. Stefanovich was granted an option to purchase 177,200 shares of common stock exercisable at \$3.07 per share on August 20, 2015, subject to stockholder approval of the 2015 Omnibus Equity Incentive Plan which occurred on November 20, 2015. The option vests in monthly installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to or more than the fair value of the Company's stock on the date of grant.

(14) Based on the recommendation of the Compensation Committee and approval by our board of directors, Mr. Stefanovich was granted an option to purchase 135,000 shares of common stock exercisable at \$1.87 per share on May 6, 2016. The option vests in monthly installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.

(15) Based on the recommendation of the Compensation Committee and approval by our board of directors, Mr. Stefanovich was granted an option to purchase 81,000 shares of common stock exercisable at \$3.21 per share on May 18, 2017. The option vests in monthly installments over a four year period. The exercise price for the shares of common stock pursuant to the option is equal to the fair value of the Company's stock on the date of grant.

#### ***Potential Payments On Termination Or Change In Control***

Pursuant to Mr. Shelton's Prior Agreement, if Mr. Shelton would have terminated the Prior Agreement, died, or had been terminated for "Cause" (as defined in the Prior Agreement), he would have been entitled to all compensation and benefits that he earned through the date of termination. If he had been terminated for Cause, the Company could have, to the extent allowed by law, set off losses, fines or damages that he had caused as a result of his misconduct. If he had been terminated "without cause" (as defined in the Prior Agreement), he would have been entitled to a continuation of his base salary for three months following termination and one half (1/2) of unvested options as of date of termination would have become fully vested. In the event the Company had terminated his employment, except if for "Cause" (as defined in the Prior Agreement), within twelve months after a Change in Control (as defined in the Cryoport, Inc. 2011 Stock Incentive Plan), then, Mr. Shelton would have been entitled to: (i) the continuation of his base salary for twelve months following the date of termination, which would have been paid in accordance with the Company's ordinary payroll practices in effect from time to time, and would have begun on the first payroll period immediately following the date on which the general release and waiver became irrevocable; and (ii) all options previously granted to Mr. Shelton would have become fully vested and exercisable as of the date of termination of employment.

If Mr. Shelton terminates the New Agreement, he dies, or he is terminated for cause, he will be entitled to all compensation and benefits that he earned through the date of termination. If he is terminated without cause or he terminates for good reason, he will be entitled to continuation of base salary for eighteen months following termination and one half of unvested options as of date of termination shall become fully vested; provided that if the termination date is within twelve months after a change in control of the Company, then all of the unvested options as of such date will become fully vested.

Pursuant to Mr. Stefanovich's employment offer, in the event that Mr. Stefanovich's employment with the Company is terminated as a result of a "change of control," as is defined in the Company's 2009 Stock Incentive Plan, he will be

entitled to receive a severance payment equal to twelve months of his base salary, continuation of health benefits for a period of twelve months, and the unvested portion of his stock option grants immediately shall vest in full. Separately, in the event his employment is terminated by the Company for reasons other than cause, Mr. Stefanovich will be entitled to receive a severance payment equal to six months of his base salary plus continuation of health benefits for a period of six months following his termination of employment.

The Cryoport, Inc. 2015 Omnibus Equity Incentive Plan, the Cryoport, Inc. 2011 Stock Incentive Plan and the Cryoport, Inc. 2009 Stock Incentive Plan each provide that if a “change in control” occurs, the Compensation Committee has the discretion to provide in the applicable option agreement that any outstanding awards shall become fully vested and exercisable.

The Company does not provide any additional payments to the named executive officers upon their resignation, termination, retirement, or upon a change of control.

#### ***Change in Control Agreements***

There are no understandings, arrangements or agreements known by management at this time which would result in a change in control of the Company or any subsidiary.

## DIRECTOR COMPENSATION

Compensation for our board of directors is governed by the Company's Compensation Committee.

### *Director Fees*

**Effective October 1, 2015 through June 23, 2017, the compensation plan for non-employee directors was as follows:**

Director fees were paid in cash, restricted shares of the Company's common stock or a combination thereof, at the option of the director.

Option 1: Annual cash compensation of \$40,000, paid quarterly,

Option 2: Annual cash compensation of \$13,333, paid quarterly and \$26,667 converted into common stock using the volume weighted average price ("VWAP") of the stock for the last five days of the trading month ending each quarter, plus an annual grant of options, on the date of the Company's annual meeting, to purchase 25,000 shares of the Company's common stock; or

Option 3: No annual cash compensation but \$40,000 converted into common stock using the VWAP of the stock for the last five days of the trading month ending each quarter and paid quarterly. This option carries a 15% premium, as there is no cash outlay to the Company. The calculation would be  $\$40,000 \times 1.15 = \$46,000/\text{VWAP}$ .

In addition to the compensation options above the following compensation apply to non-employee directors chairing a committee of our board of directors. This compensation was paid on the same basis as the director chose from the options described above:

Chairman/Lead Director	\$25,000
------------------------	----------

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

Audit Committee	\$20,000
Compensation Committee	\$15,000
Nominating and Corporate Governance Committee	\$10,000
Science and Technology Committee	\$24,000

Newly appointed directors received an initial grant of options to purchase 50,000 shares of the Company's common stock, vesting monthly over four years.

**Effective June 23, 2017, the compensation plan for non-employee directors was as follows:**

Director fees are paid in cash, restricted shares of the Company's common stock or a combination thereof, at the option of the director.

Option 1: Annual cash compensation of \$40,000, paid quarterly,

Option 2: Annual cash compensation of \$13,333, paid quarterly and \$26,667 converted into common stock using the VWAP of the stock for the last five days of the trading month ending each quarter, plus an annual grant of options, on the date of the Company's annual meeting, to purchase 25,000 shares of the Company's common stock; or

Option 3: No annual cash compensation but \$40,000 converted into common stock using the VWAP of the stock for the last five days of the trading month ending each quarter and paid quarterly. This option carries a 15% premium, as there is no cash outlay to the Company. The calculation would be  $\$40,000 \times 1.15 = \$46,000/\text{VWAP}$ .

In addition to the compensation options above the following compensation apply to non-employee directors chairing a committee of the Board. This compensation will be paid on the same basis as the director chose from the options described above:

Chairman/Lead Director	\$25,000
Audit Committee	\$20,000
Compensation Committee	\$15,000

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

Nominating and Corporate Governance Committee \$10,000

Science and Technology Committee \$24,000



*Stock option grants*

Newly appointed/elected directors receive an inducement ('sign-on') option grant to purchase 50,000 shares of the Company's common stock, vesting ratably on a monthly basis over three years, effective as of, with an exercise price equal to the closing price of the Company's common stock on the date the directorship commences.

*Annual Option Grants*

Each director shall receive annual option grants to purchase 35,000 shares of the Company's common stock, vesting ratably on a monthly basis over twelve months, effective as of, and with an exercise price equal to the closing price of the Company's common stock on the date of the Annual Meeting of Stockholders.

Upon joining the Board, new directors shall be granted a pro-rated annual award (i.e., for portion of year served prior to next shareholder meeting), which shall vest in monthly increments until the next annual meeting.

All options shall include a provision that provides that if such director ceases to be a director, vested options shall lapse (to the extent not exercised) on the earlier of: (i) ten years; or (ii) three years after the date the director ceases to be a director of the Company.

The following table sets forth the director compensation of the non-employee directors of the Company during the year ended December 31, 2017.

Name	Fees Earned Or Paid in Cash \$(1)	Stock Awards (\$)	Option Awards \$(2)	All Other Compensation (\$)	Total (\$)
Richard Berman	85,000	—	138,174	—	223,174
Robert Hariri, M.D., Ph.D	64,000	—	138,174	—	202,174
Ramkumar Mandalam, Ph.D.	16,667	33,333	138,174	—	188,174
Edward Zecchini	18,333	36,667	138,174	—	193,174

(1)

Fees earned or paid in cash as shown in this schedule represent payments and accruals for directors' services earned during the year ended December 31, 2017.

This column represents the total grant date fair value of all stock options granted during the year ended December 31, 2017. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to (2) service-based vesting conditions. For information on the valuation assumptions with respect to the grants made, refer to Note 2 "*Summary of Significant Accounting Policies*" in the accompanying consolidated financial statements.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth information with respect to the beneficial ownership of the Company's common stock as of March 1, 2018, by each person or group of affiliated persons known to the Company to beneficially own 5% or more of its common stock, each director, each named executive officer, and all of its directors and executive officers as a group. As of March 1, 2018, there were 27,339,977 shares of common stock outstanding. Unless otherwise indicated, the address of each beneficial owner listed below is c/o Cryoport, Inc., 17305 Daimler St, Irvine, CA 92614.

The following table gives effect to the shares of common stock issuable within 60 days of March 1, 2018, upon the exercise of all options and other rights beneficially owned by the indicated stockholders on that date. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned.

Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(2)		Percentage of Shares of Common Stock Beneficially Owned	
Named Executive Officers and Directors:				
Jerrell W. Shelton	1,946,704	(1)	6.7	%
Richard Berman	141,800	(1)(3)	*	
Robert Hariri, M.D. Ph.D.	109,767	(1)	*	
Ramkumar Mandalam Ph.D.	134,632	(1)	*	
Edward Zecchini	140,476	(1)	*	
Robert S. Stefanovich	390,760	(1)	1.4	%
All directors and executive officers as a group (6 persons)	2,864,139	(1)	9.6	%

\* Represents less than 1%

(1) Includes shares which individuals shown above have the right to acquire as of March 1, 2018, or within 60 days thereafter, pursuant to outstanding stock options and/or warrants as follows: Mr. Shelton — 1,759,443 shares; Mr. Berman — 133,662 shares; Dr. Hariri — 94,467 shares; Dr. Mandalam—107,080 shares; Mr. Zecchini—107,080 and Mr. Stefanovich — 389,760 shares.

(2) The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the holder has sole or shared voting power or investment power and also any shares which the holder has the right to acquire within 60 days.

(3) Includes 9,250 warrants and 8,138 shares owned by Mrs. Richard Berman, spouse of Mr. Berman.

### *Securities Authorized for Issuance Under Equity Compensation Plans*

The following table sets forth certain information as of December 31, 2017 concerning the Company's common stock that may be issued upon the exercise of options or warrants or pursuant to purchases of stock under the Company's equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon the Exercise of Outstanding Options and Warrants	(b) Weighted-Average Exercise Price of Outstanding Options and Warrants	(c) Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
---------------	--	--	---

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

Equity compensation plans approved by stockholders	4,226,896	\$ 3.94	1,339,909
Equity compensation plans not approved by stockholders(1)	6,237,074	\$ 4.26	N/A
Total	10,463,970	\$ 4.13	1,339,909

From November 5, 2012 through May 7, 2015, a total of 1,095,962 options outstanding were granted to employees (1) outside of an option plan of which 890,935 shares were issued to Mr. Shelton and 127,402 shares were issued to Mr. Stefanovich.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The Company has established policies and other procedures regarding approval of transactions between the Company and any employee, officer, director, and certain of their family members and other related persons, including those required to be reported under Item 404 of Regulation S-K. These policies and procedures are generally not in writing, but are evidenced by long standing principles set forth in our Code of Conduct or adhered to by our board of directors. As set forth in the Audit Committee Charter, the Audit Committee reviews and approves all related-party transactions after reviewing such transaction for potential conflicts of interests and improprieties. Accordingly, all such related-party transactions are submitted to the Audit Committee for ongoing review and oversight. Generally speaking, we enter into related-party transactions only on terms that we believe are at least as favorable to our company as those that we could obtain from an unrelated third party.

The following related-party transactions were approved or ratified by at least two independent directors and future material affiliated transactions will be approved by a majority of the independent directors who do not have an interest in the transaction and who had access, at the issuer's expense, to issuer's or independent legal counsel.

As of December 31, 2016, we had an aggregate principal balance of \$646,700 in unsecured indebtedness owed to related parties, including former members of the Board of Directors, representing working capital advances made to us from February 2001 through March 2005.

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"). 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 was 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 year ended December 31, 2017 and the nine months ended December 31, 2016, \$6,100 and \$18,700, respectively, of the debt discount was amortized to interest expense. The notes were repaid in full in April 2017.

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 had an outstanding principal balance of \$35,800 at March 31, 2016 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 \$9,600 and \$39,500 for the year ended December 31, 2017 and the nine months ended December 31, 2016, respectively. Accrued interest, which is included in related-party notes payable in the accompanying consolidated balance sheets, amounted to \$0 and \$11,400 as of December 31, 2017 and 2016, respectively.

One note issued to Marc Grossman, M.D., which as of March 31, 2016 had an outstanding principal balance of \$6,500, as amended, provided for interest at a rate of 6% per annum commencing on March 13, 2015; however, no interest payments were required if no event of default occurred and if the Company (i) complied with its regular payment obligations, reimbursed the payee for attorneys' fees in connection with the negotiation of the note amendment, up to a maximum amount of \$1,000, on the later of (A) March 13, 2015, or (B) three (3) days after receiving written notice from the payee of the amount of attorneys' fees incurred by payee, and (iii) the Company immediately paid all unpaid amounts due and payable in full before the earlier of May 1, 2016 or at the same time that payee(s) of any other promissory note(s) with the Company that were issued in 2005 were paid in full before May 1, 2016, other than (Y) notes that are satisfied upon conversion into common stock, warrants or any other equity of the Company, or (Z) notes that have been paid in full before March 2, 2015. All principal and interest under the original note, as amended by the note amendment, was due on May 1, 2016. The note required monthly payments 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.

**Item 14. Principal Accountant Fees and Services*****Independent Registered Public Accounting Firms Fees***

The following table shows the fees that were billed to us for the audit and other services provided by KMJ Corbin & Company LLP (“KMJ”) for the Company’s year ended December 31, 2017 and the nine-month transition period ended December 31, 2016.

	Year Ended December 31, 2017	Nine Months Ended December 31, 2016
Audit Fees	\$ 85,500	\$ 64,900
Audit-Related Fees	46,935	36,225
Tax Fees	15,050	13,500
	\$ 147,485	\$ 114,625

The fees billed to us by KMJ during or related to the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016 consist of audit fees, audit-related fees and tax fees, as follows:

***Audit Fees.*** Represents the aggregate fees billed to us for professional services rendered for the audit of our annual consolidated financial statements and for the reviews of our consolidated financial statements included in our Form 10-Q filings for each fiscal quarter.

***Audit-Related Fees.*** Represents the aggregate fees billed to us for assurance and related services that are reasonably related to the performance of the audit and review of our consolidated financial statements that are not already reported in Audit Fees. These services include accounting consultations and attestation services that are not required by statute such as comfort letters, S-1 and S-8 filings.

***Tax Fees.*** Represents the aggregate fees billed to us for professional services rendered for tax returns, compliance and tax advice.

**All Other Fees.** We did not incur any other fees to KMJ during the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016.

***Policy on Audit Committee Pre-Approval of Fees***

The Audit Committee must pre-approve all services to be performed for us by our independent auditors. Pre-approval is granted usually at regularly scheduled meetings of the Audit Committee. If unanticipated items arise between regularly scheduled meetings of the Audit Committee, the Audit Committee has delegated authority to the chairman of the Audit Committee to pre-approve services, in which case the chairman communicates such pre-approval to the full Audit Committee at its next meeting. The Audit Committee also may approve the additional unanticipated services by either convening a special meeting or acting by unanimous written consent. During the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, all services billed by KMJ were pre-approved by the Audit Committee in accordance with this policy.



**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a)(1) *Consolidated Financial Statements:*

	<b>Page</b>
Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-4
Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 (unaudited) and the nine months ended December 31, 2016	F-5
Consolidated Statements of Stockholders' Equity (Deficit) for the year ended December 31, 2017 and the nine months ended December 31, 2016	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016 (unaudited) and the nine months ended December 31, 2016	F-7
Notes to Consolidated Financial Statements	F-8

(a)(2) *Financial Statement Schedules:* All financial statement schedules are omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

(a)(3) *Exhibits.* See Index to Exhibits at page E-1 of this Annual Report on Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Cryoport, Inc.

By: /s/ JERRELL W. SHELTON  
 Jerrell W. Shelton  
 Chief Executive Officer and Director

Date: March 8, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ JERRELL W. SHELTON Jerrell W. Shelton	Chief Executive Officer and Director (Principal Executive Officer)	March 8, 2018
/s/ ROBERT S. STEFANOVICH Robert S. Stefanovich	Chief Financial Officer (Principal Financial and Accounting Officer)	March 8, 2018
/s/ RICHARD BERMAN Richard Berman	Director	March 8, 2018
/s/ ROBERT HARIRI, M.D., PH.D. Robert Hariri, M.D., Ph.D.	Director	March 8, 2018
/s/ RAMKUMAR MANDALAM, PH.D. Ramkumar Mandalam Ph.D.	Director	March 8, 2018
/s/ EDWARD ZECCHINI Edward Zecchini	Director	March 8, 2018

**Cryoport, Inc. and Subsidiaries**

**Consolidated Financial Statements**

*As of December 31, 2017 and 2016*

*Years Ended December 31, 2017 and 2016 (unaudited) and Nine Months Ended December 31, 2016*

**Cryoport, Inc. and Subsidiaries**

**Consolidated Financial Statements**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Balance Sheets as of December 31, 2017 and 2016</u>	<u>F-4</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 (unaudited) and nine months ended December 31, 2016</u>	<u>F-5</u>
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the year ended December 31, 2017 and nine months ended December 31, 2016</u>	<u>F-6</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016 (unaudited) and nine months ended December 31, 2016</u>	<u>F-7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-8</u>

F-1

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Cryoport, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Cryoport, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year ended December 31, 2017 and the nine month period ended December 31, 2016, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the year ended December 31, 2017 and the nine month period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2018 expressed an unqualified opinion on the Company's internal control over financial reporting.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing

procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KMJ Corbin & Company LLP

Costa Mesa, California  
March 8, 2018

We have served as the Company's auditor since 2005.

F-2

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Cryoport, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Cryoport, Inc. and subsidiaries (the “Company”), based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company as of and for the year ended December 31, 2017, and our report dated March 8, 2018 expressed an unqualified opinion on those consolidated financial statements.

### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KMJ Corbin & Company LLP

Costa Mesa, California  
March 8, 2018

F-3



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

	December 31, 2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 15,042,189	\$ 4,524,529
Accounts receivable, net of allowance for doubtful accounts of \$70,000 and \$75,000, respectively	1,625,476	1,195,479
Inventories	114,796	89,499
Prepaid expenses and other current assets	516,427	286,919
Total current assets	17,298,888	6,096,426
Property and equipment, net	2,511,174	1,647,104
Intangible assets, net	90,646	5,000
Deposits	363,403	363,403
Total assets	\$ 20,264,111	\$ 8,111,933
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and other accrued expenses	\$ 1,259,629	\$ 1,160,299
Accrued compensation and related expenses	925,514	419,034
Related-party notes payable and accrued interest, net of discount of \$0 and \$6,100, respectively	—	651,934
Total current liabilities	2,185,143	2,231,267
Deferred rent liability	192,202	200,264
Total liabilities	2,377,345	2,431,531
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; 25,701,924 and 17,604,283 issued and outstanding at December 31, 2017 and 2016, respectively	25,702	17,604
Additional paid-in capital	149,293,947	129,196,680
Accumulated deficit	(131,432,883)	(123,533,882)
Total stockholders' equity	17,886,766	5,680,402
Total liabilities and stockholders' equity	\$ 20,264,111	\$ 8,111,933

See accompanying notes to consolidated financial statements.

F-4

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

	Years Ended December 31,		Nine Months Ended December 31,
	2017	2016 (unaudited)	2016
Revenues	\$ 11,954,267	\$ 7,678,816	\$ 6,123,271
Cost of revenues	5,987,834	4,577,393	3,603,655
Gross margin	5,966,433	3,101,423	2,519,616
Operating costs and expenses:			
General and administrative	7,420,837	6,449,196	4,634,775
Sales and marketing	5,232,406	4,820,230	3,573,204
Engineering and development	1,205,692	598,106	453,628
Total operating costs and expenses	13,858,935	11,867,532	8,661,607
Loss from operations	(7,892,502 )	(8,766,109 )	(6,141,991 )
Other expense:			
Interest expense	(15,693 )	(139,416 )	(58,222 )
Warrant inducement and repricing expense	—	(4,195,252 )	(4,195,252 )
Other income (expense), net	14,337	(6,770 )	(1,898 )
Total other expense, net	(1,356 )	(4,341,438 )	(4,255,372 )
Loss before provision for income taxes	(7,893,858 )	(13,107,547 )	(10,397,363 )
Provision for income taxes	(5,143 )	(5,673 )	(5,673 )
Net loss	(7,899,001 )	(13,113,220 )	(10,403,036 )
Undeclared cumulative preferred dividends	—	(75,460 )	—
Net loss attributable to common stockholders	\$(7,899,001 )	\$(13,188,680 )	\$(10,403,036 )
Net loss per share attributable to common stockholders – basic and diluted	\$(0.34 )	\$(0.93 )	\$(0.68 )
Weighted average common shares outstanding – basic and diluted	22,963,382	14,220,977	15,393,402

See accompanying notes to consolidated financial statements.

## Cryoport, Inc. and Subsidiaries

## Consolidated Statements of Stockholders' Equity (Deficit)

	Class A Preferred Stock		Class B Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	Stockholders' Equity (Deficit)
Balance at March 31, 2016	—	\$ —	—	\$ —	12,251,313	\$ 12,251	\$ 116,214,522	\$(113,130,846)	\$ 3,095,927
Net loss	—	—	—	—	—	—	—	(10,403,036)	(10,403,036)
Stock-based compensation expense	—	—	—	—	—	—	2,281,233	—	2,281,233
Issuance of common stock for April tender offer, net of costs of \$281,500	—	—	—	—	2,020,597	2,021	2,242,226	—	2,244,247
Issuance of common stock for October tender offer, net of costs of \$477,300	—	—	—	—	2,470,913	2,471	3,226,640	—	3,229,111
Supplemental warrant expense in connection with the October tender offer	—	—	—	—	—	—	615,899	—	615,899
Warrant repricing expense	—	—	—	—	—	—	3,579,352	—	3,579,352
Issuance of common stock for Rights Offering, net of costs of \$315,000	—	—	—	—	841,873	842	989,056	—	989,898
Issuance of common stock for board of director compensation	—	—	—	—	19,587	19	47,752	—	47,771
Balance at December 31, 2016	—	—	—	—	17,604,283	17,604	129,196,680	(123,533,882)	5,680,402
Net loss	—	—	—	—	—	—	—	(7,899,001)	(7,899,001)
Stock-based compensation expense	—	—	—	—	—	—	3,477,781	—	3,477,781
Issuance of common stock for board of	—	—	—	—	15,872	16	69,984	—	70,000

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

director compensation								
Proceeds from common stock offering, net of costs of \$170,326	—	—	—	— 6,325,000	6,325	11,399,599	—	11,405,924
Proceeds from exercise of stock options and warrants	—	—	—	— 1,756,769	1,757	5,149,903	—	5,151,660
Balance at December 31, 2017	—	\$	—	— \$	25,701,924	\$25,702	\$149,293,947	\$(131,432,883) \$17,886,766

See accompanying notes to consolidated financial statements.

**Cryoport, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

	Years Ended December 31,		Nine Months Ended December 31,
	2017	2016 (unaudited)	2016
<b>Cash Flows From Operating Activities:</b>			
Net loss	\$(7,899,001 )	\$(13,113,220)	\$(10,403,036 )
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	664,831	374,202	301,297
Amortization of debt discount and deferred financing costs	6,130	84,784	18,729
Stock-based compensation expense to employees, directors and consultants	3,547,781	3,117,946	2,329,003
Warrant inducement and repricing expense	—	4,195,252	4,195,252
Loss on disposal of property and equipment	186,030	169,053	37,588
Provision for bad debt	11,646	2,503	42,646
Changes in operating assets and liabilities:			
Accounts receivable	(441,643 )	(581,197 )	(217,126 )
Inventories	(25,297 )	(74,895 )	(19,698 )
Prepaid expenses and other current assets	(261,489 )	2,046	(38,190 )
Accounts payable and other accrued expenses	123,249	51,320	88,637
Accrued compensation and related expenses	506,480	41,921	(89,720 )
Accrued interest	(1,843 )	11,409	11,410
Net cash used in operating activities	(3,583,126 )	(5,718,876 )	(3,743,208 )
<b>Cash Flows From Investing Activities:</b>			
Purchases of property and equipment	(1,714,931 )	(1,062,926 )	(657,667 )
Patent costs	(85,646 )	(5,000 )	(5,000 )
Net cash used in investing activities	(1,800,577 )	(1,067,926 )	(662,667 )
<b>Cash Flows From Financing Activities:</b>			
Proceeds from exercise of stock options and warrants	5,151,660	—	—
Proceeds from the April 2016 tender offer, net of offering costs	—	2,244,247	2,244,247
Proceeds from the rights offering, net of offering costs	—	989,898	989,898
Proceeds from the October 2016 tender offer, net of offering costs	—	3,229,111	3,229,111
Proceeds from public offering, net of offering costs	11,405,924	—	—
Repayment of notes payable	—	—	—
Repayment of related-party notes payable	(656,221 )	(399,350 )	(325,378 )

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

Net cash provided by financing activities	15,901,363	6,063,906	6,137,878
Net change in cash and cash equivalents	10,517,660	(722,896 )	1,732,003
Cash and cash equivalents — beginning of period	4,524,529	5,247,425	2,792,526
Cash and cash equivalents — end of period	\$15,042,189	\$4,524,529	\$4,524,529

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$4,744	\$9,534	\$43,223
Cash paid for income taxes	\$5,143	\$5,673	\$5,673

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Cumulative undeclared preferred dividends recorded upon conversion of Class A convertible preferred stock and Class B convertible preferred stock into common stock	\$—	\$1,068,055	\$—
Estimated relative fair value of warrants issued in connection with related-party notes payable	\$—	\$26,901	\$—
Leasehold improvements paid by tenant allowance included in accounts payable and accrued expenses	\$—	\$200,000	\$—
Reclassification of shipper inventory to property and equipment	\$—	\$38,276	\$—
Deferred offering costs in connection with future warrant repricing included in accounts payable and prepaid expenses and other current assets	\$31,981	\$—	\$—

See accompanying notes to consolidated financial statements.

## **Cryoport, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **Note 1. Nature of the Business**

Cryoport, Inc. (“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 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 2. Summary of Significant Accounting Policies**

##### ***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

In September 2016, the Company elected to change its fiscal year end from March 31 to a new fiscal year end of December 31. Accordingly, the accompanying consolidated financial statements include audited financial statements for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016 and unaudited financial statements for the year ended December 31, 2016. As a result of the change, the Company’s quarterly reporting periods are comprised of the three calendar months ending March 31, June 30 and September 30.



### ***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, 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 December 31, 2017 and 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.

### *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 December 31, 2017, the Company had cash balances of approximately \$14.8 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 a limited number of 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 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 December 31, 2017 and 2016 are net of reserves for doubtful accounts of \$70,000 and \$75,000, 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 majority of 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. No single customer owed the Company more than 10% of net accounts receivable at December 31, 2017 and 2016.

The Company has revenue from foreign customers primarily in Europe, Japan, Canada, India and Australia. During the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, the Company had revenues from foreign customers of approximately \$1.3 million and \$750,400, respectively, which constituted approximately 11.0% and 12.3%, respectively, of total revenues. No single customer generated over 10% of revenues during the year ended December 31, 2017 and the nine months ended December 31, 2016.

### *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 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 container over a period of time. The Company retains the title to the containers and provides its customers the use of the container for a specific shipping cycle. At the culmination of the customer's shipping cycle, the container is returned to the Company. As a result, the Company classifies the containers as property and equipment for the per-use container program.

Property and equipment are recorded at cost. Cryogenic shippers and data loggers, which comprise 47% and 44% of the Company's net property and equipment balance at December 31, 2017 and 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 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 December 31, 2017.

#### ***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 December 31, 2017 and 2016, there were no unrecognized tax benefits included in the accompanying consolidated balance sheets that would, if recognized, affect the effective tax rate.

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 provision for income taxes 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 consolidated balance sheets at December 31, 2017 and 2016 and has not recognized interest and/or penalties in the consolidated statements of operations for the year ended December 31, 2017 and the nine months ended December 31, 2016. The Company is subject to taxation in the U.S. and various state jurisdictions. As of December 31, 2017, 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***

The Company provides shipping containers to its customers and charges a fee in exchange for the use of the containers. 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 containers 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 services 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 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 estimated fair values. The fair value of stock-based awards is estimated at grant date using the Black-Scholes Option Pricing Method (“Black-Scholes”) and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. The Company accounts for forfeitures of unvested awards as they occur.

The Company uses Black-Scholes to estimate the fair value of stock-based awards. 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’s stock-based compensation plans are discussed further in Note 10.

#### ***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 estimated fair value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for the estimated 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 estimated 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 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 year ended December 31, 2017 and the nine months ended December 31, 2016:

	Year Ended December 31, 2017	Nine Months Ended December 31, 2016
Net loss	\$ (7,899,001 )	\$ (10,403,036 )
Less:		
Preferred stock beneficial conversion charge	—	—
Undeclared cumulative preferred dividends	—	—
Net loss attributable to common stockholders	\$ (7,899,001 )	\$ (10,403,036 )
Weighted average common shares outstanding – basic and diluted	22,963,382	15,393,402
Basic and diluted net loss per share attributable to common stockholders	\$ (0.34 )	\$ (0.68 )

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:

	Year Ended December 31, 2017	Nine Months Ended December 31, 2016
Stock options	4,582,383	154,479
Warrants	4,579,699	10,710
	9,162,082	165,189

### ***Segment Reporting***

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

### ***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 December 31, 2017 and 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 Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 supersedes the revenue recognition requirements in FASB Topic 605, “Revenue Recognition”, and most industry-specific guidance throughout the Codification. For public companies, this standard is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. ASU 2014-09 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company adopted ASU 2014-09 on January 1, 2018 using the modified retrospective method.

The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, has created the possibility that more judgment and estimates may be required within the revenue recognition process than required under existing U.S. generally accepted accounting principles. We have completed our analysis on the adoption of ASU 2014-09 and have determined the adoption will not have a material impact on the recognition of revenue. However, ASU 2014-09 requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, which we expect to fully disclose in connection with our 10-Q filing for the first quarter of 2018.

We are in the process of implementing appropriate changes to our processes, systems and controls to support revenue recognition and the expanded qualitative and quantitative disclosures required under the new standard.

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. We adopted this guidance on January 1, 2017 and the adoption of ASU No. 2015-11 did not have an impact on our 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 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. We adopted this guidance on January 1, 2017 and the adoption of ASU No. 2016-09 did not have an impact on our consolidated financial statements.

**Note 3. Inventories**

Inventories consist of the following:

	December 31, 2017	December 31, 2016
Raw materials	\$ 104,745	\$ 58,655
Finished goods	10,051	30,844
	\$ 114,796	\$ 89,499

**Note 4. Property and Equipment**

Property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Cryogenic shippers and data loggers	\$ 2,107,642	\$ 1,525,409
Furniture and fixtures	63,411	59,961
Computers and software	519,198	474,681
Machinery and equipment	362,476	310,398
Leasehold improvements	436,620	426,105
Fixed assets in process	568,688	106,598
	4,058,035	2,903,152
Less accumulated depreciation and amortization	(1,546,861 )	(1,256,048 )
	\$ 2,511,174	\$ 1,647,104

Total depreciation and amortization expense related to property and equipment amounted to \$664,800 and \$292,700 for the year ended December 31, 2017 and the nine months ended December 31, 2016, respectively.

**Note 5. Intangible Assets**

Intangible assets consist of the following:

December 31, 2017				
	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Amortization Period (years)
Patents and trademarks	\$ 138,021	\$ (47,375 )	\$ 90,646	—
Software development costs	545,445	(545,445 )	—	—
Total intangible assets	\$ 683,466	\$ (592,820 )	\$ 90,646	

  

December 31, 2016				
	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Amortization Period (years)
Patents and trademarks	\$ 52,375	\$ (47,375 )	\$ 5,000	—
Software development costs	545,445	(545,445 )	—	—
Total intangible assets	\$ 597,820	\$ (592,820 )	\$ 5,000	

Amortization expense for intangible assets for the year ended December 31, 2017 and the nine month period ended December 31, 2016 was \$0 and \$8,600, respectively. Estimated amortization expense in calendar year 2018 is expected to be \$0.

**Note 6. Accrued Compensation and Related Expenses**

Accrued compensation and related expenses consist of the following:

	December 31, 2017	December 31, 2016
Accrued salaries and wages	\$ 617,984	\$ 166,008
Accrued paid time off	307,530	207,026
Accrued board of director fees	—	46,000
	\$ 925,514	\$ 419,034

**Note 7. Related-Party Transactions**

As of December 31, 2016, the Company had aggregate principal balances of \$646,700 in outstanding unsecured indebtedness owed to related parties, including 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”). 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 was 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 year ended December 31, 2017 and the nine months ended December 31, 2016, \$6,100 and \$18,700, respectively, of the debt discount was amortized to interest expense. The notes were repaid in full in April 2017.

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 had an outstanding principal balance of \$35,800 at March 31, 2016 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 \$9,600 and \$39,500 for the year ended December 31, 2017 and the nine months ended December 31, 2016, respectively. Accrued interest, which is included in related-party notes payable in the accompanying consolidated balance sheets, amounted to \$0 and \$11,400 as of December 31, 2017 and 2016, respectively.

One note issued to Marc Grossman, M.D., which as of March 31, 2016 had an outstanding principal balance of \$6,500, as amended, provided for interest at a rate of 6% per annum commencing on March 13, 2015; however, no interest payments were required if no event of default occurred and if the Company (i) complied with its regular payment obligations, reimbursed the payee for attorneys' fees in connection with the negotiation of the note amendment, up to a maximum amount of \$1,000, on the later of (A) March 13, 2015, or (B) three (3) days after receiving written notice from the payee of the amount of attorneys' fees incurred by payee, and (iii) the Company immediately paid all unpaid amounts due and payable in full before the earlier of May 1, 2016 or at the same time that payee(s) of any other promissory note(s) with the Company that were issued in 2005 were paid in full before May 1, 2016, other than (Y) notes that are satisfied upon conversion into common stock, warrants or any other equity of the Company, or (Z) notes that have been paid in full before March 2, 2015. All principal and interest under the original note, as amended by the note amendment, was due on May 1, 2016. The note required monthly payments 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 8. 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 initial base rent is approximately \$24,700 per month. We also lease 8,100 square feet of warehouse facilities in Livingston, New Jersey under an operating lease expiring December 31, 2024, subject to our option to extend the lease for an additional five-year period. The initial base rent is approximately \$7,600 per month. These lease agreements contain certain scheduled annual rent increases which will be accounted for on a straight-line basis. In addition, we lease certain office equipment which expires in March 2018.

Future minimum lease payments are approximately as follows:

	<b>Operating Leases</b>
Years ending December 31,	
2018	\$ 405,609
2019	416,370
2020	428,868
2021	441,736
2022	454,984
Thereafter	274,405
	<b>\$ 2,421,972</b>

Rent expense for the year ended December 31, 2017 and the nine month period ended December 31, 2016 was approximately \$298,500 and \$222,700, respectively.

***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 Cryoport<sup>TM</sup> 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 expired on December 31, 2017 and will automatically renew for subsequent one year terms, unless notice of termination is given.

Consulting fees for services provided by KLATU were \$179,100 and \$252,600 for the year ended December 31, 2017 and the nine months ended December 31, 2016, 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 on 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 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 leases, the Company has indemnified its lessors for certain claims arising from the use of the facilities. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreements.

## **Note 9. Stockholders' Equity**

### ***Authorized Stock***

The Company has 50,000,000 authorized shares of common stock with a par value of \$0.001 per share.

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

designated 400,000 shares of the Company's authorized preferred stock as Class B Convertible Preferred Stock. In April 2015, the Company increased the number shares of Class B Convertible Preferred Stock from 400,000 shares to 585,000 shares.

### ***Common Stock Issuances For Services***

During the year ended December 31, 2017, 15,872 shares of common stock with a fair value of \$70,000 were issued to two members of the board of directors as compensation for services.

During the nine months ended December 31, 2016, 19,587 shares of common stock with a fair value of \$47,800 were issued to two members of the board of directors as compensation for services.

### ***Common Stock Offering***

On March 31, 2017, we completed an underwritten public offering (the "Offering") for gross proceeds of \$12.7 million for 6,325,000 shares of our common stock (the "Shares") pursuant to a registration statement on Form S-3 that was previously filed and declared effective by the SEC. The Shares were issued and sold pursuant to an underwriting agreement (the "Underwriting Agreement"), dated March 28, 2017, by and among the Company and Cowen and Company, LLC and Needham & Company, LLC, as Representatives of the underwriters, at a public offering price per share of \$2.00. The Shares include 825,000 shares issued and sold pursuant to the Underwriters' exercise in full of their option to purchase additional shares of common stock pursuant to the Underwriting Agreement. The Company received net proceeds of approximately \$11.4 million from the Offering after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. In connection with this offering, the Company incurred \$170,300 in offering costs which were offset against the proceeds from this offering.

### ***Supplemental Warrant Exercises***

In July 2017, the Company received proceeds of \$1.8 million from the exercise of 605,114 supplemental warrants which were issued in connection with the October 2016 tender offer. The warrants were exercisable upon issuance and expired 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 exceeded \$4.50 for ten consecutive trading days.

As of June 27, 2017, the closing price of the Company's common stock was equal to or exceeded \$4.50 for ten consecutive trading days. As a result, the supplemental warrants expiration date was accelerated to July 27, 2017 unless exercised prior to that date.

### *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.

In connection with this offering, the Company incurred \$477,300 in offering costs that have been offset against proceeds from this offering.

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 fair value of the Original Warrants as of the date of their exchange and the fair value of the New Warrants at issuance, amounting to \$1,649,600, and the fair value of the Supplemental Warrants issued of \$615,900 resulted in a warrant inducement and repricing expense of \$2,265,400 during the nine months ended December 31, 2016, with an offsetting amount recorded as additional paid-in-capital. The fair value of the Original Warrants exchanged, the New warrants and the Supplemental Warrants was determined using the Black-Scholes pricing model as of the closing date of October 28, 2016.

*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 provided 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 \$281,500 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 \$1,929,800 was incurred which was determined using the Black-Scholes option pricing model and was calculated as the difference between the fair value of the warrants prior to, and immediately after, the reduction in the exercise price on the date of repricing. Such amount is included in warrant inducement and repricing expense in the accompanying consolidated statement of operations for the nine months ended December 31, 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 \$315,000 in offering costs that have been offset against the proceeds from this offering.

### ***Preferred Stock Conversion***

On January 30, 2016 (the "Mandatory Exchange Time"), the Company caused the mandatory exchange (the "Mandatory Exchange") of all its outstanding Class A Convertible Preferred Stock and Class B Convertible Preferred Stock (together, the "Preferred Stock"), consisting of 454,750 shares of Class A Convertible Preferred Stock and 534,571 shares of Class B Convertible Preferred Stock, into (i) an aggregate of 4,977,038 shares (the "Shares") of common stock, \$0.001 par value per share (the "Common Stock"), of the Company and (ii) an aggregate of 4,977,038 warrants with an exercise price of \$3.57, each warrant representing the right to purchase one share of Common Stock (the "Warrants" and together with the Shares, the "Securities").

Undeclared cumulated preferred dividends accrued during the year ended December 31, 2016 amounted to \$75,460 prior to the Mandatory Exchange.

*Common Stock Reserved for Future Issuance*

As of December 31, 2017, approximately 10.5 million shares of common stock were issuable upon exercise of stock options and warrants, as follows:

Exercise of stock options	5,322,858
Exercise of warrants	5,141,112
Total shares of common stock reserved for future issuances	10,463,970

**Note 10. Stock-Based Compensation****Warrants**

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 various 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	3.30		
Issued	795,927	2.79		
Exercised	(4,491,510 )	1.39		
Expired	(10,807 )	82.12		
Outstanding — December 31, 2016	7,447,478	4.29		
Issued	—	—		
Exercised	(1,664,232 )	3.25		
Expired	(642,134 )	8.55		
Outstanding — December 31, 2017	5,141,112	\$ 4.09	2.3	\$24,108,800
Vested (exercisable) — December 31, 2017	5,141,112	\$ 4.09	2.3	\$24,108,800

(1) Aggregate intrinsic value represents the difference between the exercise price of the warrant and the closing market price of the Company's common stock on December 31, 2017, which was \$8.59 per share.

During the year ended December 31, 2017 and the nine months ended December 31, 2016, the fair value of each warrant grant was estimated on the date of grant using Black-Scholes with the following assumptions:

	December 31, 2017	December 31, 2016
Expected life (years)	—	2.4– 5.0
Risk-free interest rate	—	0.93% - 1.14%
Volatility	—	103% - 116%
Dividend yield	—	0%



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

The following table summarizes information with respect to warrants outstanding and exercisable at December 31, 2017:

Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 1.88 – 2.40	146,206	1.9	\$ 2.17	146,206	\$ 2.17
\$ 3.57 – 3.57	3,836,793	2.6	\$ 3.57	3,836,793	\$ 3.57
\$ 4.44 – 4.47	599,898	0.8	\$ 4.44	599,898	\$ 4.44
\$ 5.88 – 6.00	547,323	1.9	\$ 6.00	547,323	\$ 6.00
\$61.20 – 129.60	10,892	0.7	\$ 99.97	10,892	\$ 99.97
	5,141,112			5,141,112	

During the year ended December 31, 2017, the Company issued 1,403,149 shares of common stock in connection with the exercise of warrants for proceeds of \$4.5 million. In addition, during the year ended December 31, 2017, the Company issued 144,164 shares of common stock in connection with the cashless exercise of warrants to purchase 261,083 shares of common stock.

The total intrinsic value of warrants exercised during the year ended December 31, 2017 and the nine months ended December 31, 2016 was \$7.1 million and \$3.2 million, respectively.

### *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 (collectively 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 December 31, 2017, the Company had 1,339,909 shares available for future awards under the 2015 Plan.

During the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, 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 assumptions:

	December 31, 2017	December 31, 2016
Expected life (years)	5.3 – 6.6	6.0 – 6.1
Risk-free interest rate	1.79% - 2.23%	1.17% - 2.09%
Volatility	111% - 115%	113% - 118%
Dividend yield	0%	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 ultimately vest.

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

	Year Ended December 31, 2017	Nine Months Ended December 31, 2016
Cost of revenues	\$ 43,349	\$ 18,355
General and administrative	2,689,496	1,791,981
Sales and marketing	723,648	510,078
Engineering and development	91,288	8,589
	\$ 3,547,781	\$ 2,329,003

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)	892,774	1.89		
Exercised	-	-		
Forfeited	(294,799 )	3.28		
Expired	(84,750 )	4.61		
Outstanding — December 31, 2016	4,512,550	\$ 4.01		
Granted (weighted-average fair value of \$3.85 per share)	1,176,300	4.59		
Exercised	(209,456 )	3.09		
Forfeited	(101,199 )	3.04		
Expired	(55,357 )	7.89		
Outstanding — December 31, 2017	5,322,858	\$ 4.16	7.7	\$23,718,000
Vested (exercisable) — December 31, 2017	2,871,876	\$ 4.16	7.1	\$12,751,500
Expected to vest after December 31, 2017 (unexercisable)	2,450,982	\$ 4.16	8.4	\$10,966,500

(1) Aggregate intrinsic value represents the difference between the exercise price of the option and the closing market price of the common stock on December 31, 2017, which was \$8.59 per share.

The following table summarizes information with respect to stock options outstanding and exercisable at December 31, 2017:

Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.08 – 2.66	920,102	7.9	\$ 1.88	430,510	\$ 1.98
\$3.00 – 3.96	1,976,705	7.8	\$ 3.20	1,020,669	\$ 3.17
\$4.80 – 4.92	835,628	7.3	\$ 4.77	587,815	\$ 4.77
\$5.00 – 6.65	956,471	7.6	\$ 5.09	541,682	\$ 5.06
\$7.80 – 7.89	442,451	7.4	\$ 7.80	278,699	\$ 7.80
\$8.20 – 22.68	191,501	9.4	\$ 9.34	12,501	\$ 12.02
	5,322,858			2,871,876	

As of December 31, 2017, there was unrecognized compensation expense of \$7.4 million related to unvested stock options, which we expect to recognize over a weighted average period of 2.4 years.

The total intrinsic value of options exercised during the year ended December 31, 2017 was \$797,600.

#### Note 11. Income Taxes

Significant components of the Company's deferred tax assets as of December 31, 2017 and 2016 are shown below:

	December 31, 2017	December 31, 2016
	(000's)	
Deferred tax assets:		
Net operating loss carryforward	\$ 15,307	\$ 20,668
Research credits	100	56
Expenses recognized for granting of options and warrants	2,014	2,316
Accrued expenses and reserves	41	43
Valuation allowance	(17,462)	(23,083)
	\$ —	\$ —

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 provision for income taxes differs from that computed using the federal statutory rate applied to income before taxes as follows:

	December, 31, 2017 (000's)	December 31, 2016
Computed tax benefit at federal statutory rate	\$(2,684)	\$ (3,535 )
State tax, net of federal benefit	(277 )	(196 )
Stock compensation	503	607
Warrant inducement and repricing costs	—	1,426
Permanent items and other	56	41
Tax Cuts and Jobs Act	8,032	—
Valuation allowance	(5,625)	1,663
	\$5	\$ 6

At December 31, 2017, the Company has federal and state net operating loss carryforwards of approximately \$58,490,000 and \$46,573,000 which will begin to expire in 2019, unless previously utilized, and as of 2012 have already begun to expire for state carryforwards. At December 31, 2017, the Company has federal and California research and development tax credits of approximately \$53,000 and \$45,000, respectively. The federal research tax credit begins to expire in 2026 unless previously utilized and the California research tax credit has no expiration date. The California New Jobs Credit will begin to expire in 2018.

Utilization of the net operating loss and research and development carryforwards might be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), as well as similar state and foreign provisions. These ownership changes may limit the amount of NOL and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an “ownership change” as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. Since the Company’s formation, the Company has raised capital through the issuance of capital stock on several occasions which, combined with the purchasing stockholders’ subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent disposition.

The Company has not completed a study to assess whether an ownership change has occurred. If the Company has experienced an ownership change, utilization of the NOL or R&D credit carryforwards would be subject to an annual limitation under Section 382 of the Code, which is determined by first multiplying the value of the Company’s stock at the time of the ownership change by the applicable long-term, tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the NOL or R&D credit carryforwards before utilization. Further, until a study is completed and any limitation is known, no amounts are being considered as an uncertain tax position or disclosed as an unrecognized tax benefit. Due to the existence of the valuation allowance, future changes in the Company’s unrecognized tax benefits will not impact its effective tax rate. Any carryforwards that will expire prior to utilization as a result of such limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

A reconciliation of the beginning and ending amounts of unrecognized tax positions are as follows (in thousands):

	Federal		State	
	December 31,		December 31,	
	2017	2016	2017	2016
Unrecognized tax positions, beginning of period	-	-	-	-
Gross increase – current period tax positions	7	-	7	-
Gross decrease – prior period tax positions	-	-	-	-
Gross increase – prior period tax positions	6	-	4	-

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

Expiration of statute of limitations	-	-	-	-
Unrecognized tax positions, end of period	\$ 13	\$ -	\$ 11	\$ -

If recognized, none of the unrecognized tax positions would impact the Company's income tax benefit or effective tax rate as long as the Company's deferred tax assets remain subject to a full valuation allowance. The Company does not expect any significant increases or decreases to the Company's unrecognized tax positions within the next 12 months.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act reduces the corporate tax rate from a maximum of 35% to a flat 21% rate. The rate reduction is effective on January 1, 2018. As a result of the rate reduction, the Company has reduced the deferred tax asset balance as of December 31, 2017 by \$8.0 million. Due to the Company's full valuation allowance position, there was no net impact on the Company's income tax provision at December 31, 2017 as the reduction in the deferred tax asset balance was fully offset by a corresponding decrease in the valuation allowance.

Due to uncertainties which currently exist in the interpretation of the provisions of the Tax Act regarding Internal Revenue Code Section 162(m), the Company has not evaluated the potential impacts of IRC Section 162(m) as amended by the Tax Act on its consolidated financial statements.

In conjunction with the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has recognized the provisional tax impacts related to the revaluation of deferred tax assets and liabilities at December 31, 2017. There was no net impact on the Company's consolidated financial statements for the year ended December 31, 2017 as the corresponding adjustment was made to the valuation allowance. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act.

### Note 12. Quarterly Financial Data (Unaudited)

A summary of quarterly financial data is as follows (\$ in '000's):

	Quarter Ended			
	March 31	June 30	September 30	December 31
Year ended December 31, 2017				
Total revenues	\$2,712	\$2,917	\$ 3,003	\$ 3,322
Gross margin	\$1,253	\$1,393	\$ 1,606	\$ 1,713
Loss from operations	\$(1,769)	\$(1,864)	\$ (1,988	) \$ (2,271 )
Net loss	\$(1,789)	\$(1,860)	\$ (1,980	) \$ (2,270 )
Net loss per share attributable to common stockholders - basic and diluted	\$(0.10 )	\$(0.08 )	\$ (0.08	) \$ (0.09 )
Nine months ended December 31, 2016				
Total revenues	\$—	\$1,918	\$ 1,977	\$ 2,229
Gross margin	\$—	\$782	\$ 797	\$ 941
Loss from operations	\$—	\$(1,979)	\$ (2,161	) \$ (2,002 )
Net loss	\$—	\$(3,935)	\$ (2,184	) \$ (4,284 )
Net loss per share attributable to common stockholders - basic and diluted	\$—	\$(0.28 )	\$ (0.14	) \$ (0.25 )

Earnings per basic and diluted shares are computed independently for each of the quarters presented based on basic and diluted shares outstanding per quarter and, therefore, may not sum to the totals for the periods shown.

### Note 13. Subsequent Event



***February 2018 Tender Offer***

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

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

The Original Warrants were issued (i) in July 2015 in connection with the Company's registered public offering of 2,090,750 units (each unit consisting of one share of the Company's common stock and one Original Warrant), and (ii) in January 2016 in connection with the mandatory exchange of all of the Company's outstanding Class A Convertible Preferred Stock and Class B Convertible Preferred Stock into 4,977,038 units (each unit consisting of one share of the Company's common stock and one Original Warrant). As of January 2, 2018, 3,836,793 Original Warrants were outstanding.

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

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

As a result of reducing the exercise price of certain warrants in connection with the February 2018 Tender Offer, a warrant repricing expense of \$899,400 was incurred which was determined using the Black-Scholes option pricing model and was calculated as the difference between the fair value of the warrants prior to, and immediately after, the reduction in the exercise price on the date of repricing. Such amount will be included in warrant inducement and repricing expense in the consolidated statement of operations for the three months ended March 31, 2018. In connection with this offering, the Company incurred \$99,400 in estimated offering costs that will be offset against the proceeds from this offering.

**Index to Exhibits,**

<b>Exhibit No.</b>	<b>Description</b>
<u>3.1</u>	<u>Amended and Restated Articles of Incorporation of the Company, as amended. Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2012.</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of the Company. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated February 8, 2016.</u>
<u>3.3</u>	<u>Amended and Restated Certificate of Designation of Class A Preferred Stock. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated March 30, 2015.</u>
<u>3.4</u>	<u>Certificate of Designation of Class B Preferred Stock. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated February 20, 2015.</u>
<u>3.5</u>	<u>Amendment to Certificate of Designation of Class B Preferred Stock. Incorporated by reference to the Company's Amendment No. 1 to Registration Statement on Form S-1 dated April 17, 2015 and referred to as Exhibit 3.6.</u>
<u>3.6</u>	<u>Certificate of Change filed with the Nevada Secretary of State on May 12, 2015. Incorporated by reference to Exhibit 3.7 of the Company's Annual Report on Form 10-K filed with the SEC on May 19, 2015.</u>
<u>3.7</u>	<u>Amendment to Certificate of Designation of Class A Preferred Stock. Incorporated by reference to the Company's Amendment No. 4 to Registration Statement on Form S-1 dated June 22, 2015 and referred to as Exhibit 3.8.</u>
<u>3.8</u>	<u>Amendment to Certificate of Designation of Class B Preferred Stock. Incorporated by reference to the Company's Amendment No. 4 to Registration Statement on Form S-1 dated June 22, 2015 and referred to as Exhibit 3.9.</u>
<u>3.9</u>	<u>Amendment to Certificate of Designation of Class A Preferred Stock. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated September 1, 2015.</u>
<u>3.10</u>	<u>Amendment to Certificate of Designation of Class B Preferred Stock. Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K dated September 1, 2015.</u>
<u>3.11</u>	<u>Certificate of Amendment filed with the Nevada Secretary of State on November 23, 2015. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated November 23, 2015.</u>
<u>4.1</u>	<u>Form of Warrant issued with Convertible Promissory Notes. Incorporated by reference to Exhibit 4.20 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2013.</u>
<u>4.2</u>	

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

Form of Warrant issued upon Conversion of Convertible Promissory Notes. Incorporated by reference to Exhibit 4.21 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2013.

4.3 Form of Warrant Issued to Placement Agents. Incorporated by reference to Exhibit 4.22 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2013.

4.4 Form of Warrant issued with Convertible Promissory Notes (5% Bridge Notes). Incorporated by reference to Exhibit 4.23 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended December 31, 2013.

4.5 Form of Warrant issued in connection with the May 2014 private placement. Incorporated by reference to Exhibit 4.24 of the Company's Annual Report on Form 10-K filed with the SEC on June 25, 2014.

4.6 Warrant to Purchase Common Stock. Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated December 9, 2014.

4.7 Warrant to Purchase Common Stock. Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated February 20, 2015.

E-1

<b>Exhibit No.</b>	<b>Description</b>
<u>4.8</u>	<u>Form of Warrant issued in connection with the Exchange and Investment Agreement. Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated March 9, 2015.</u>
<u>4.9</u>	<u>Form of March Warrant issued in connection with the Investment Agreement. Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K dated March 9, 2015.</u>
<u>4.10</u>	<u>Form of March Fee Warrant issued in connection with the Investment Agreement. Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K dated March 9, 2015.</u>
<u>4.11</u>	<u>Form of Warrant and Warrant Certificate issued in connection with public offering of Units. Incorporated by reference to the Company's Amendment No. 4 to Registration Statement on Form S-1 dated June 22, 2015 and referred to as Exhibit 4.28.</u>
<u>4.12</u>	<u>Form of Warrant issued to Aegis Capital Corp. in connection with public offering of Units. Incorporated by reference to the Company's Amendment No. 3 to Registration Statement on Form S-1 dated June 12, 2015 and referred to as Exhibit 4.29.</u>
<u>4.13</u>	<u>Form of Warrant issued with Second Amended and Restated Note. Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated March 1, 2016.</u>
<u>4.14</u>	<u>Form of Subscription Rights Certificate. Incorporated by reference to Exhibit 4.17 to the Company's Registration Statement on Form S-1 dated April 28, 2016.</u>
<u>4.15</u>	<u>Form of New Warrants issued in connection with the Company's registered warrant repricing. Incorporated by reference to Annex A to the Company's Amendment No. 3 to Registration Statement on Form S-4 dated October 14, 2016.</u>
<u>4.16</u>	<u>Form of Warrant Agreement relating to the Supplemental Warrants (including the Form of Supplemental Warrant certificate), by and between the Company and Continental Stock Transfer &amp; Trust Company issued in connection with the Company's registered warrant repricing. Incorporated by reference to Exhibit 4.19 to the Company's Registration Statement on Form S-4 dated August 11, 2016.</u>
<u>10.1</u>	<u>Amended and Restated Master Consulting and Engineering Services Agreement, by and between KLATU Networks, LLC and Cryoport Systems, Inc., dated September 16, 2015. Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated September 16, 2015.</u>
<u>10.2</u>	<u>2009 Stock Incentive Plan of the Company. Incorporated by reference to Exhibit 10.21 of the Company's Current Report on Form 8-K dated October 15, 2009 and referred to as Exhibit 10.21.</u>
<u>10.3</u>	<u>Form Incentive Stock Option Award Agreement under the 2009 Stock Incentive Plan of the Company. Incorporated by reference to Exhibit 10.22 of the Company's Current Report on Form 8-K dated October 9, 2009.</u>
<u>10.4</u>	<u>Form of Non-Qualified Stock Option Award Agreement under the 2009 Stock Incentive Plan of the Company. Incorporated by reference to Exhibit 10.25 of the Company's Registration Statement on Form S-8</u>

dated April 27, 2010.

- 10.5 2011 Stock Incentive Plan (as amended and restated). Incorporated by reference to Exhibit B of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on July 30, 2012.
- 10.6 Form of Stock Option Award Agreement. Incorporated by reference to Exhibit 10.37 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2011.
- 10.7 Form of Non-Qualified Stock Option Award Agreement. Incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2011.
- 10.8\* Stock Option Agreement dated November 5, 2012 between the Company and Jerrell Shelton. Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed with the SEC on June 25, 2013.

E-2

Exhibit No.	Description
10.9*	<u>Form of Non-Qualified Stock Option Award Agreement. Incorporated by reference to Exhibit 10.38 to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2011.</u>
10.10	<u>Form of Subscription Agreement in connection with the May 2014 private placement. Incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K filed with the SEC on June 25, 2014.</u>
10.11	<u>Form of Election to Convert in connection with the May 2014 private placement. Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K filed with the SEC on June 25, 2014.</u>
10.12	<u>Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 16, 2014.</u>
10.13	<u>Subscription Agreement and Letter of Investment Intent. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 9, 2014.</u>
10.14	<u>Form of Note Exchange Agreement and Letter of Investment Intent, dated February 19, 2015. Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 9, 2015.</u>
10.15	<u>Form of Exchange Note issued in connection with the Exchange and Investment Agreement. Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 9, 2015.</u>
10.16*	<u>Stock Option Agreement dated December 18, 2014 between the Company and Jerrell Shelton. Incorporated by reference to Exhibit 10.42 of the Company's Annual Report on Form 10-K filed with the SEC on May 19, 2015.</u>
10.17	<u>Purchase and Sale Agreement, by and between KLATU Networks, LLC and Cryoport Systems, Inc., dated September 16, 2015. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated September 16, 2015.</u>
10.18	<u>2015 Omnibus Equity Incentive Plan. Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on October 1, 2015.</u>
10.19	<u>Standard Industrial/Commercial Multi-Tenant Lease – Net dated for reference purposes only October 2, 2015 between the Cryoport Systems, Inc. and Daimler Opportunity, LLC. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated October 21, 2015.</u>
10.20	<u>Guaranty between the Company and Daimler Opportunity, LLC dated as of October 2, 2015. Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated October 21, 2015.</u>
10.21	<u>Form of Second Amended and Restated Note. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated March 1, 2016.</u>

- 21+     Subsidiaries of Registrant.
- 23.1+   Consent of KMJ Corbin & Company LLP, Independent Registered Public Accounting Firm.
- 31.1+   Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
- 31.2+   Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
- 32.1+   Certification of Principal Executive Officer, pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
- 32.2+   Certification of Principal Financial Officer, pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

E-3



<b>Exhibit No.</b>	<b>Description</b>
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.

\*Indicates a management contract or compensatory plan or arrangement.

+Filed herewith.

E-4