Cryoport, Inc.
Form 10-Q
November 09, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended September 30, 2010

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from __________ to __________
Commission File Number: 001-34632

CryoPort, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	**88-0313393** (IRS Employer Identification No.)
20382 BARENTS SEA CIRCLE, LAKE FOREST, CA (Address of Principal Executive Offices)	**92630** (Zip Code)

Registrant s Telephone Number, Including Area Code: **(949) 470-2300**

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. þ Yes o 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

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

As of October 31, 2010 the Company had 13,682,673 shares of its $0.001 par value common stock issued and outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CRYOPORT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (unaudited)	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,745,745	$ 3,629,886
Restricted cash	90,858	90,404
Restricted cash investor funds	255,000	
Accounts receivable, net of allowances of $3,100 at September 30, 2010 and $1,600 at March 31, 2010	58,940	81,036
Inventories	60,228	
Deferred financing costs	54,156	
Other current assets	63,315	104,014
Total current assets	4,328,242	3,905,340
Property and equipment, net	696,238	559,241
Intangible assets, net	346,555	311,965
Total assets	$ 5,371,035	$ 4,776,546
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 502,543	$ 823,653
Accrued compensation and related expenses	234,570	312,002
Deposits from investors	255,000	
Current portion of convertible debentures payable, net of discount	1,014,420	200,000
Line of credit and accrued interest	90,375	90,388
Current portion of related party notes payable	146,000	150,000
Derivative liabilities	91,490	334,363
Total current liabilities	2,334,398	1,910,406
Related party notes payable and accrued interest, net of current portion	1,451,854	1,478,256
Convertible debentures payable, net of current portion and discount	1,738,520	2,302,459
Total liabilities	5,524,772	5,691,121
Commitments and Contingencies		
Stockholders deficit:		
Common stock, $0.001 par value; 250,000,000 shares authorized; 12,849,805 and 8,136,619 shares issued and outstanding at September 30, 2010 and March 31, 2010, respectively	12,850	8,137
Additional paid-in capital	48,615,847	45,021,097
Accumulated deficit	(48,782,434)	(45,943,809)

Total stockholders deficit	(153,737)	(914,575)
Total liabilities and stockholders deficit	$ 5,371,035	$ 4,776,546

See accompanying notes to unaudited condensed consolidated financial statements

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CRYOPORT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For The Three Months Ended September 30,		For The Six Months Ended September 30,	
	2010	2009	2010	2009
Revenues	$ 124,409	$ 8,478	$ 275,869	$ 22,181
Cost of revenues	378,217	177,267	772,752	326,444
Gross loss	(253,808)	(168,789)	(496,883)	(304,263)
Costs and expenses:				
Selling, general and administrative	1,114,304	779,193	2,057,569	1,507,502
Research and development	114,514	93,066	236,635	180,791
Total costs and expenses	1,228,818	872,259	2,294,204	1,688,293
Loss from operations	(1,482,626)	(1,041,048)	(2,791,087)	(1,992,556)
Other (expense) income:				
Interest income	3,912	2,233	7,349	3,714
Interest expense	(157,452)	(1,610,059)	(296,160)	(4,143,256)
Loss on sale of property and equipment				(797)
Change in fair value of derivative liabilities	126,345	(4,535,848)	242,873	(1,401,550)
Total other expense, net	(27,195)	(6,143,674)	(45,938)	(5,541,889)
Loss before income taxes	(1,509,821)	(7,184,722)	(2,837,025)	(7,534,445)
Income taxes		1,600	1,600	1,600
Net loss	$ (1,509,821)	$ (7,186,322)	$ (2,838,625)	$ (7,536,045)
Net loss per common share, basic and diluted	$ (0.15)	$ (1.56)	$ (0.31)	$ (1.69)
Basic and diluted weighted average common shares outstanding	10,268,637	4,615,471	9,213,355	4,455,596

See accompanying notes to unaudited condensed consolidated financial statements

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CRYOPORT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For The Six Months Ended September 30,	
	2010	**2009**
Operating Activities		
Net loss	$ (2,838,625)	$ (7,536,045)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	109,696	62,865
Amortization of deferred financing costs		25,579
Amortization of debt discount	250,481	3,737,569
Stock issued to consultants		118,807
Share-based compensation related to stock options and warrants issued to consultants, employees and directors	339,444	352,744
Change in fair value of derivative instruments	(242,873)	1,401,550
Loss on sale of assets		797
Loss on disposal of cryogenic shippers	3,510	
Interest accrued on restricted cash	(454)	(1,062)
Changes in operating assets and liabilities:		
Accounts receivable	22,096	(4,727)
Inventories		81,012
Prepaid expenses and other current assets	40,699	29,643
Accounts payable	(84,605)	287,639
Accrued warranty costs		(18,743)
Accrued compensation and related expenses	138,568	38,550
Accrued interest	29,585	278,325
Net cash used in operating activities	(2,232,478)	(1,145,497)
Investing Activities		
Purchases of intangible assets	(73,942)	(24,372)
Purchases of property and equipment	(271,079)	(9,767)
Net cash used in investing activities	(345,021)	(34,139)
Financing Activities		
Proceeds from private placement of common stock, net of cash paid for issuance costs	3,027,160	
Restricted cash-investor funds	255,000	
Deposits from investors	(255,000)	
Proceeds from borrowings under convertible notes		1,321,500
Payment of deferred financing costs	(273,802)	(129,290)
Payment of related party notes payable	(60,000)	(60,000)
Repayments of note payable to officer		(30,000)
Payment of fees associated with exercise of warrants		(51,174)
Proceeds from exercise of options and warrants		999,600

Net cash provided by financing activities	2,693,358	2,050,636
Net change in cash and cash equivalents	115,859	871,000
Cash and cash equivalents, beginning of year	3,629,886	249,758
Cash and cash equivalents, end of year	$ 3,745,745	$ 1,120,758
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 15,100	$ 3,573
Income taxes	$ 1,600	$ 1,600

See accompanying notes to unaudited condensed consolidated financial statements

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CRYOPORT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For The Six Months Ended September 30, 2010	2009
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Deferred financing costs in connection with equity financings	$ 46,456	$ 74,518
Deferred financing costs offset against proceeds in additional paid in capital	$ 25,803	$
Fair value of options issued to employee in lieu of cash bonus	$ 216,000	$
Reduction of accrued offering costs in connection with February 2010 financing	$ 29,067	$
Deferred financing costs in connection with convertible debt financing and debt modifications	$	$ 11,944
Fair value of warrants to be issued as cost incurred in connection with warrant exercises	$	$ 81,604
Estimated fair value of shares issued for services	$ 23,999	$
Debt discount in connection with convertible debt financing	$	$ 1,483,415
Conversion of debt and accrued interest to common stock	$	$ 984,254
Reclassification of embedded conversion feature to equity	$	$ 646,102
Accrued interest added to principal amount of debentures	$	$ 79,582
Cashless exercise of warrants and stock options	$	$ 110
Cumulative effect of accounting change to debt discount for derivative liabilities	$	$ 2,595,095
Cumulative effect of accounting change to accumulated deficit for derivative liabilities	$	$ 9,657,893
Cumulative effect of accounting change to additional paid-in capital for derivative liabilities	$	$ 4,217,730
Reclassification of fixed assets to inventory	$ 60,228	$
Reclassification of inventory to fixed assets	$	$ 449,229

See accompanying notes to unaudited condensed consolidated financial statements

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CRYOPORT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
For the Three and Six Months Ended September 30, 2010 and 2009

Note 1. Management s Representation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by CryoPort, Inc. (the Company) in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information, and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statement presentation. However, the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the six months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending March 31, 2011. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

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

Note 2. Organization and Summary of Significant Accounting Policies

The Company

CryoPort, Inc. (the Company or we) is a provider of an innovative cold chain frozen shipping system dedicated to providing superior, affordable cryogenic shipping solutions that ensure the safety, status and temperature of high value, temperature sensitive materials. The Company has developed cost-effective reusable cryogenic transport containers (referred to as a shipper) capable of transporting biological, environmental and other temperature sensitive materials at temperatures below minus 150° Celsius. These dry vapor shippers are one of the first significant alternatives to dry ice shipping and achieve 10-plus day holding times compared to one to two day holding times with dry ice (assuming no re-icing during transit). The Company s value proposition comes from both providing safe transportation and an environmentally friendly, long lasting shipper, and through its value-added services that offer a simple hassle-free solution for its customers. These value-added services include an internet-based web portal that enables the customer to conveniently initiate scheduling, shipping and tracking of the progress and status of a shipment, and provides in-transit temperature and custody transfer monitoring services of the shipper. The CryoPort service also provides a fully ready charged shipper containing all freight bills, customs documents and regulatory paperwork for the entire journey of the shipper to its customers at their pick up location.

The Company s principal focus has been the further development and commercial launch of CryoPort Express® Portal, an innovative IT solution for shipping and tracking high-value specimens through overnight shipping companies, and its CryoPort Express® Shipper, a dry vapor cryogenic shipper for the transport of biological and pharmaceutical materials. A dry vapor cryogenic shipper is a container that uses liquid nitrogen in dry vapor form, which is suspended inside a vacuum insulated bottle as a refrigerant, to provide storage temperatures below minus 150° Celsius. The dry vapor shipper is designed using innovative, proprietary, and patented technology which prevents spillage of liquid nitrogen and pressure build up as the liquid nitrogen evaporates. A proprietary foam retention system is employed to ensure that liquid nitrogen stays inside the vacuum container, even when placed upside-down or on its side as is often the case when in the custody of a shipping company. Biological specimens are stored in a specimen chamber, referred to as a well, inside the container and refrigeration is provided by harmless cold nitrogen gas evolving from the liquid nitrogen entrapped within the foam retention system surrounding the well. Biological specimens transported using our cryogenic shipper can include clinical samples, diagnostics, live cell pharmaceutical products (such as cancer vaccines, semen and embryos, and infectious substances) and other items that require and/or are protected through continuous exposure to frozen or cryogenic temperatures (less than minus 150 ° Celsius).

The Company recently entered into its first strategic relationship with a global courier on January 13, 2010 when it signed an agreement with Federal Express Corporation (FedEx) pursuant to which the Company will lease to FedEx such number of its cryogenic shippers that FedEx will, from time to time, order for FedEx s customers. Under this agreement, FedEx has the right to and shall, on a non-exclusive basis, promote market and sell transportation of the Company s shippers and its related value-added goods and services, such as its data logger, web portal and planned CryoPort Express® Smart Pak System. On September 2, 2010, the Company entered into an agreement with DHL Express (USA), Inc. (DHL) that will give DHL life science customers direct access to the Company s web-based order entry and tracking portal to order the CryoPort Express® Shipper and receive preferred DHL shipping rates. The agreement covers DHL shipping discounts that may be used to support the Company s customers using the CryoPort Express® shipping solution. In connection with the agreement, the Company is integrating its proprietary web portal to DHL s tracking and billing systems. Once this integration is completed, DHL life science customers will have a seamless way of shipping their critical biological material worldwide. The IT integration with DHL is expected to be completed in the Company s third quarter of fiscal year 2011.

Going Concern

As reported in the Report of Independent Registered Public Accounting Firm on the Company s March 31, 2010 and 2009 consolidated financial statements, the Company has incurred recurring losses and negative cash flows from operations since inception. The Company has not generated significant revenues from operations and has no assurance of any future significant revenues. The Company generated revenues of $275,869, incurred a net loss of $2,838,625 and used cash from operations of $2,232,478 during the six months ended September 30, 2010. The Company generated revenues of $117,956, incurred a net loss of $5,651,561 and used cash from operations of $2,853,359 during the year ended March 31, 2010. These factors raise substantial doubt about the Company s ability to continue as a going concern.

On February 25, 2010, the Company completed a public offering for net proceeds of approximately $3,742,097, which was used to fund the working capital required for minimal operations including limited shipper build up as well as limited sales efforts to advance the Company s commercialization of the CryoPort Express® Shippers until additional capital was obtained. From August 2010 to October 2010, the Company conducted a private placement to institutional and accredited investors resulting in the issuance of units consisting of 5,532,418 shares of common stock and warrants to purchase 5,532,418 shares of common stock at an exercise price of $0.77, for gross cash proceeds of $3,872,702 and net cash proceeds of $3,566,850 (of which the sale and issuance of 4,699,550 units closed during the quarter ended September 30, 2010, for gross cash proceeds of $3,289,701 and net cash proceeds of $3,027,160 see Note 8 and Note 9). Each unit consisting of one share of common stock, and one warrant to purchase one additional share of common stock, was priced at $0.70. Certain investors that had invested in the Company s public offering that was completed on February 25, 2010 were issued additional warrants with the same terms to purchase an aggregate of 448,333 shares of common stock in connection with this private placement. As a result of the private placement, the Company had aggregate cash and cash equivalents of $3,745,745 as of September 30, 2010. Management has estimated that cash on hand as of September 30, 2010 will be sufficient to allow the Company to continue its operations only into the first quarter of the Company s fiscal year 2012. The Company s management recognizes that the Company must obtain additional capital for the achievement of sustained profitable operations. Management s plans include obtaining additional capital through equity and debt funding sources; however, no assurance can be given that additional capital, when needed, will be available when required or upon terms acceptable to the Company.

Reverse Stock Split

On February 5, 2010, we effected a 10-for-1 reverse stock split of all of our issued and outstanding shares of common stock (the Reverse Stock Split) by filing a Certificate of Amendment to Amended and Restated Articles of Incorporation with the Secretary of State of Nevada. The par value and number of authorized shares of our common stock remained unchanged. The number of shares and per share amounts included in the unaudited condensed consolidated financial statements and the accompanying notes have been adjusted to reflect the Reverse Stock Split retroactively. Unless otherwise indicated, all references to number of shares, per share amounts and earnings per share information contained in this report give effect to the Reverse Stock Split.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed 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 allowances for doubtful accounts and sales returns, recoverability of long-lived assets, deferred tax assets and their accompanying valuations, valuation of derivative liabilities and valuation of common stock, warrants and stock options issued for products or services.

Fair Value of Financial Instruments

The Company s financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, related-party notes payable, a line of credit, convertible notes payable, accounts payable and accrued expenses. The carrying value for all such instruments approximates fair value at September 30, 2010 and March 31, 2010. 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.

Concentration of Credit Risk

Cash and cash equivalents

The Company maintains its cash accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) with deposit coverage limits up to $250,000 per owner through January 1, 2014. At September 30, 2010, the Company had approximately $3,864,000 of cash balances, including restricted cash, which exceeded the FDIC insurance limit. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure.

Restricted cash

The Company has invested cash in a one year restricted certificate of deposit bearing interest at 1% which serves as collateral for borrowings under a line of credit agreement (see Note 3). At September 30, 2010 and March 31, 2010, the balance in the certificate of deposit was $90,858 and $90,404, respectively.

In addition, at September 30, 2010, the Company had $255,000 in restricted cash received from investors participating in the second closing of the Company s private placement which occurred on October 14, 2010 (see Note 9). This restricted cash was recorded as a liability in the accompanying condensed consolidated financial statements.

Customers

The Company grants credit to customers within the United States of America 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 are sufficient. Accounts receivable at September 30, 2010 and March 31, 2010 are net of reserves for doubtful accounts of approximately $3,100 and $1,600, respectively. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

The Company has foreign revenues primarily in Europe, Canada, India and Australia. During the three and six month periods ended September 30, 2010, the Company had foreign sales of approximately $39,000 and $96,000, respectively, which constituted approximately 31% and 35% of revenues, respectively. During the three and six months ended September 30, 2009, the Company had foreign sales of approximately $2,000 and $11,000, respectively, which constituted approximately 26% and 48% of revenues, respectively.

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The majority of the Company s customers are in the biotechnology, pharmaceutical and life science industries. Consequently, there is a concentration of receivables within these industries, which is subject to normal credit risk. Net revenues for the three and six months ended September 30, 2010 from Lifetechnologies, BD Biosciences and CDx Holdings, Inc. accounted for 11%, 14% and 42%, and 10%, 13%, and 53%, respectively, of our total net revenues. At September 30, 2009, there were no significant customer concentrations. The Company maintains reserves for bad debt and such losses, in the aggregate, historically have not exceeded our estimates.

Inventory

The Company s inventory consists of accessories that are sold and shipped to customers along with pay-per-use containers and are not returned to the Company along with the containers at the culmination of the customer s shipping cycle. Inventories are stated at the lower of standard cost or current estimated market value. Cost is determined using the standard cost method which approximates the first-in, first-to-expire method.

In fiscal year 2010, the Company changed its operations and now provides shipping containers to its customers and charges a fee in exchange for the use of the container. The Company s arrangements are similar to the accounting standard for leases since they convey the right to use the containers over a period of time. The Company retains title to the containers and provides its customers the use of the container for a specified shipping cycle. At the culmination of the customer s shipping cycle, the container is returned to the Company. As a result of the Company s change in business strategy, during the quarter ended September 30, 2009, the Company reclassified the containers from inventory to fixed assets upon commencement of the per-use container program.

Property and Equipment

Property and equipment are recorded at cost. Cryogenic Shippers, which comprise 81% of the Company s net property and equipment balance, 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 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 current operations.

Depreciation and amortization expense for property and equipment for the three and six months ended September 30, 2010 was $37,861 and $70,344, respectively, and $16,397 and $33,745 for the three and six months ended September 30, 2009, respectively.

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. The Company capitalizes certain costs related to software developed for internal use. Software development costs incurred during the preliminary or maintenance project stages are expensed as incurred, while costs incurred during the application development stage are capitalized and amortized using the straight-line method over the estimated useful life of the software, which is five years. Capitalized costs include purchased materials and costs of services including the valuation of warrants issued to consultants.

Amortization expense for intangible assets for the three and six months ended September 30, 2010 was $18,900 and $39,352, respectively, and $14,966 and $29,120 for the three and six months ended September 30, 2009, respectively. All of the Company s intangible assets are subject to amortization.

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 of the asset to its 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 at September 30, 2010 or March 31, 2010.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of the convertible notes payable and private equity financing. Deferred financing costs are being amortized over the term of the financing instrument on a straight-line basis, which approximates the effective interest method, or netted against the gross proceeds received from equity financing. During the three and six month periods ended September 30, 2010, the Company capitalized deferred financing costs of $80,363 and $90,363, respectively, of which $36,207 was in connection with the private placement which closed in August 2010 and charged to paid-in capital. The remaining capitalized amounts will be reclassified to paid-in capital and netted against the proceeds of the second closing of the private placement which occurred on October 14, 2010 (see Note 9). Amortization of deferred financing costs was $0 for the three and six months ended September 30, 2010. Amortization of deferred financing costs was $17,675 and $25,579 for the three and six months ended September 30, 2009, respectively.

Additionally, during the six months ended September 30, 2010, the Company made payments of $255,698 in connection with deferred financing fees related to the February 2010 public offering.

Convertible Debentures

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

Derivative Liabilities

Effective April 1, 2009, certain of the Company s issued and outstanding common stock purchase warrants and embedded conversion features previously treated as equity pursuant to the derivative treatment exemption were no longer afforded equity treatment, and the fair value of these common stock purchase warrants and embedded conversion features, some of which have exercise price reset features and some that were issued with convertible debt, was reclassified from equity to liability status as if treated as derivative liabilities since their dates of issue. The common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants do not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants are recognized currently in earnings until such time as the warrants are exercised, expire or the related rights have been waived. These common stock purchase warrants do not trade in an active securities market, and as such, the Company estimates the fair value of these warrants using the Black-Scholes option pricing model (see Note 6).

Supply Concentration Risks

The component parts for our products are primarily manufactured at third party manufacturing facilities. The Company also has a warehouse at its corporate offices in Lake Forest, California, where the Company is capable of manufacturing certain parts and fully assembles its products. Most of the components that the Company uses in the manufacture of its products are available from more than one qualified supplier. For some components, however, there are relatively few alternate sources of supply and the establishment of additional or replacement suppliers may not be accomplished immediately; however, the Company has identified alternate qualified suppliers which the Company believes could replace existing suppliers. Should this occur, the Company believes that with its current level of shippers and production rate the Company has enough components to cover a maximum four to six week disruption gap in production.

There are no specific agreements with any manufacturer nor are there any long term commitments to any manufacturer. The Company believes that any of the manufactures currently used by it could be replaced within a short period of time as none have a proprietary component or a substantial capital investment specific to its products.

Revenue Recognition

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

The 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 collectibility 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 sales.

Research and Development Expenses

Expenditures relating to research and development are expensed in the period incurred. Research and development expenses to date have consisted primarily of costs associated with continually improving the features of the CryoPort Express® System including the web based customer service portal and the CryoPort Express® Shippers. Further, these efforts are expected to lead to the introduction of shippers of varying sizes based on market requirements, constructed of lower cost materials and utilizing high volume manufacturing methods that will make it practical to provide the cryogenic packages offered by the CryoPort Express® System. Other research and development effort has been directed toward improvements to the liquid nitrogen retention system to render it more reliable in the general shipping environment and to the design of the outer packaging. Alternative phase change materials in place of liquid nitrogen may be used to increase the potential markets these shippers can serve such as ambient and 2-8°C markets.

Stock-based Compensation

The Company accounts for share-based payments to employees and directors in accordance with share-based payment accounting guidance which requires all share-based payments to employees and directors, including grants of employee stock options and warrants, to be recognized based upon their fair values. The fair value of stock-based awards is estimated at grant date using the Black-Scholes option pricing model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

Since stock-based compensation is recognized only for those awards that are ultimately expected to vest, the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised, if necessary, in future periods if actual forfeitures differ from estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs. The estimated forfeiture rates at September 30, 2010 and March 31, 2010 was zero as the Company has not had a significant history of forfeitures and does not expect forfeitures in the future.

Cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options or warrants are classified as financing cash flows. Due to the Company s loss position, there were no such tax benefits during the six months ended September 30, 2010 and 2009.

Plan Descriptions

The Company maintains two stock option plans, the 2002 Stock Incentive Plan (the 2002 Plan) and the 2009 Stock Incentive Plan (the 2009 Plan). The 2002 Plan provides for grants of incentive stock options and nonqualified options to employees, directors and consultants of the Company to purchase the Company s shares at the fair value, as determined by management and the board of directors, of such shares on the grant date. The options are subject to various vesting conditions and generally vest over a three-year period beginning on the grant date and have seven to ten-year terms. The 2002 Plan also provides for the granting of restricted shares of common stock subject to vesting requirements. The Company is authorized to issue up to 500,000 shares under this plan and has 1,136 shares available for future issuances as of September 30, 2010.

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On October 9, 2009, the Company s stockholders approved and adopted the 2009 Plan, which had previously been approved by the Company s Board of Directors on August 31, 2009. The 2009 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock rights, restricted stock, performance share units, performance shares, performance cash awards, stock appreciation rights, and stock grant awards (collectively, Awards) to employees, officers, non-employee directors, consultants and independent contractors of the Company. The 2009 Plan also permits the grant of awards that q