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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2018

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

Commission File Number: 001-34632

CRYOPORT, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada	**88-0313393**

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

17305 Daimler St.

Irvine, CA 92614

(Address of principal executive offices)

(949) 470-2300

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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Cryoport, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

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

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

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(unaudited)

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

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

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

Cryoport, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

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Cryoport, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Note 1. Management's Representation and Basis of Presentation

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

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

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

Note 2. Nature of the Business

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

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

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Concentrations of Credit Risk

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

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

Customers

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

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

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

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

Inventories

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

Property and Equipment

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

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

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

Intangible Assets

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

Long-lived Assets

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

Deferred Financing Costs

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

Income Taxes

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

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

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

Revenue Recognition

See Note 9.

Accounting for Shipping and Handling Revenue, Fees and Costs

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

Engineering and Development Expenses

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

Stock-Based Compensation

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

The Company accounts for forfeitures of unvested awards as they occur. The Company’s stock-based compensation plans are discussed further in Note 8.

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

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

Basic and Diluted Net Loss Per Share

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	2017	2018	2017
Net loss	$(2,143,687)	$(1,979,664)	$(7,297,337)	$(5,629,332)

Weighted average common shares issued and outstanding - basic and diluted	28,769,867	24,632,169	27,791,616	22,093,169
Basic and diluted net loss per share attributable to common stockholders	$(0.07)	$(0.08)	$(0.26)	$(0.25)

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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:

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2018	2017	2018	2017
Stock Options	5,711,337	2,497,543	5,704,439	1,236,253
Warrants	1,524,376	2,620,553	1,370,272	4,956,509
	7,325,713	5,118,096	7,074,711	6,192,762

Segment Reporting

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

Foreign Currency Transactions

Management has determined that the functional currency of its subsidiaries is the local currency. Assets and liabilities of the Netherlands and UK subsidiaries are translated into U.S. dollars at the period-end exchange rates. Income and expenses are translated at an average exchange rate for the period and the resulting translation gain (loss) adjustments are accumulated as a separate component of stockholders' equity. The translation gain (loss) adjustment totaled $(12,951) for the three and nine months ended September 30, 2018.

Comprehensive Income (Loss)

Comprehensive income includes all changes in equity (net assets) during a period from non-owner sources. For the three and nine months ended September 30, 2018, the components of comprehensive income (loss) consist of unrealized losses on available for sale securities and foreign currency translation losses.

Balance Sheet Arrangements

We do not currently have any off balance sheet arrangements.

Reclassifications

Certain prior year amounts have been reclassified in the condensed consolidated balance sheets to conform to the current year presentation.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance. Subsequent to the issuance of ASU No. 2014-09, the FASB clarified the guidance through several Accounting Standards Updates; hereinafter the collection of revenue guidance is referred to as "Topic 606." Topic 606 is based on the principle that an entity should recognize revenue to depict the transfer of 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. Topic 606 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The Company adopted Topic 606 on January 1, 2018 using the modified retrospective transition method; accordingly, Topic 606 has been applied to the fiscal 2018 financial statements and disclosures going forward, but the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of Topic 606 to be immaterial to our operating results on an ongoing basis. See Note 9, "Revenue Recognition," for additional details on this implementation and the required disclosures.

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 June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting" which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, "Compensation-Stock Compensation", to include share-based payment transactions for acquiring goods and services from nonemployees. Some of the areas for simplification apply only to nonpublic entities. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, "Revenue from Contracts with Customers". which simplifies the accounting for share-based payments granted to nonemployees for goods and services. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods therein with a modified retrospective transition. Management is currently evaluating the impact this standard will have on our consolidated financial statements.

Note 4. Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of highly liquid fixed-income investments with original maturities of three months or less at the time of purchase, including money market funds. Short-term investments consist of readily marketable securities with a remaining maturity of more than three months from the date of purchase and include U.S. Treasury notes and bills and mutual funds that invest primarily in tax free municipal bonds and treasury inflation protected securities. Short-term investments are classified as current assets, even though maturities may extend beyond one year, because they represent investments of cash available for operations. We classify all cash equivalents and short-term investments as "available for sale", as these investments are free of trading restrictions. These marketable securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as accumulated other comprehensive income (loss) and included as a separate component of stockholders' equity. Gains and losses are recognized when realized. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in earnings. Gains and losses are determined using the specific identification method. We had no material realized gains or losses in the three and nine months ended September 30, 2018.

Cash, cash equivalents and short-term investments consisted of the following as of September 30, 2018:

Description	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	$13,763,484	$ —	$ —	$13,763,484
Cash equivalents:				
Money market mutual fund	86,160	—	—	86,160
Total cash and cash equivalents	13,849,644	—	—	13,849,644
Short-term investments:				
U.S. Treasury notes and bills	7,914,372	3,982	(26,266)	7,892,088
Mutual funds	2,001,019	—	(8,189)	1,992,830
Total short-term investments	9,915,391	3,982	(34,455)	9,884,918
Cash, cash equivalents and short-term investments	$23,765,035	$ 3,982	$ (34,455)	$23,734,562

The following table summarizes the amortized cost and estimated fair value of short-term fixed income securities based on stated maturities as of September 30, 2018:

	Amortized Cost	**Estimated Fair Value**
Due within one year	$5,945,514	$ 5,925,658
Due between one and two years	3,969,877	3,959,260
Total	$9,915,391	$ 9,884,918

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Declines in fair value judged to be other-than-temporary on securities available for sale are included as a component of other income, net. In order to determine whether a decline in value is other-than-temporary, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair market value. As of September 30, 2018, we did not consider any of our investments to be other-than-temporarily impaired.

Note 5. 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 did not elect the fair value option, as allowed, to account for financial assets and liabilities that were not previously carried at fair value. Therefore, material financial assets and liabilities that are not carried at fair value, such as trade accounts receivable and payable, are reported at their historical carrying values.

The carrying values of our assets that are required to be measured at fair value on a recurring basis as of September 30, 2018 approximate fair value because of our ability to immediately convert these instruments into cash with minimal expected change in value which are classified in the table below in one of the three categories of the fair value hierarchy described above:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
September 30, 2018				
Assets:				
Money market mutual fund	$86,160	$—	$ —	$86,160
Mutual funds	1,992,830	—	—	1,992,830
US Treasury notes and bills	—	7,892,088	—	7,892,088
	$2,078,990	$7,892,088	$ —	$9,971,078

There were no transfers between Level 1 and Level 2 financial instruments during the nine months ended September 30, 2018 and 2017.

We did not have any financial liabilities measured at fair value on a recurring basis as of September 30, 2018.

Note 6. Commitments and Contingencies

Facility and Equipment Leases

We lease 27,600 square feet of corporate, research and development, and logistics facilities in Irvine, California under an operating lease expiring February 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 logistics facilities in Livingston, New Jersey under an operating lease expiring December 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. In addition, we lease 7,600 square feet of logistics facilities in Hoofddorp, The Netherlands under an operating lease expiring March 2023, subject to our option to extend the lease for two additional five-year periods. The initial base rent is approximately $4,500 per month. These lease agreements contain certain scheduled annual rent increases which are accounted for on a straight-line basis.

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.

Litigation

The Company may become a party to product litigation in the normal course of business. The Company accrues for open claims based on its historical experience and available insurance coverage. In the opinion of management, there are no legal matters involving the Company that would have a material adverse effect upon the Company's consolidated financial condition or results of operations.

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make pyments to a guaranteed or indemnified party, in relation to certain actions or transactions. The guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying condensed consolidated balance sheets.

The Company indemnifies its directors, officers, employees and agents, as permitted under the laws of the States of California and Nevada. In connection with its facility 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 agreement.

Note 7. Stockholders' Equity

Authorized Stock

The Company has 100,000,000 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. In May 2018, the shareholders approved an increase in the number of authorized common shares from 50,000,000 shares to 100,000,000 shares.

Common Stock Issued for Services

During the nine months ended September 30, 2018, 4,481 shares of common stock with a fair value of $52,500 were issued to two members of the board of directors as compensation for services.

Common Stock Reserved for Future Issuance

As of September 30, 2018, approximately 7.9 million shares of common stock were issuable upon conversion or exercise of rights granted under prior financing arrangements, stock options and warrants, as follows:

Exercise of stock options	5,804,408
Exercise of warrants	2,107,221
Total shares of common stock reserved for future issuances	7,911,629

August 2018 "At the Market" Equity Offering Program

On August 24, 2018, we entered into a sales agreement (the "Sales Agreement") with Jefferies LLC ("Jefferies") under which we can sell up to an aggregate of $35 million of the Company's common stock (the "Shares"), from time to time through an "at the market" equity offering program ("ATM Prospectus").

Under the Sales Agreement, the Company will set the parameters for the sale of the Shares, including the number of Shares to be issued, the time period during which sales are requested to be made, the limitation on the number of Shares that may be sold in any one trading day and any minimum price below which sales may not be made. Subject to the terms and conditions of the Sales Agreement, Jefferies, who will act as sales agent, may sell the Shares by methods deemed to be an "at the market offering" as defined in Rule 415(a)(4) promulgated under the Securities Act of 1933, as amended, including sales made directly on the Nasdaq Capital Market, or on any other existing trading market for the Shares, in negotiated transactions at market prices prevailing at the time of sale or at prices related to such prevailing market prices and/or any other method permitted by law. Jefferies will use its commercially reasonable efforts in conducting such sales activities consistent with its normal trading and sales practices, applicable state and federal laws, rules and regulations and the rules of The Nasdaq Stock Market LLC. The Sales Agreement may be terminated by the Company upon ten days' written notice to Jefferies for any reason. Jefferies may terminate the Sales Agreement upon ten days' written notice to the Company for any reason or at any time under certain circumstances, including but not limited to the occurrence of a material adverse change in the Company.

The Sales Agreement provides that Jefferies will be entitled to compensation for its services of 3.0% of the gross sales price of all Shares sold under the Sales Agreement. The Company has no obligation to sell any Shares under the Sales Agreement and may at any time suspend solicitation and offers under the Sales Agreement. The Sales Agreement contains customary representations, warranties and agreements by the Company, indemnification obligations of the Company and Jefferies, other obligations of the parties and termination provisions. The representations, warranties and covenants contained in the Sales Agreement were made only for purposes of such agreement and, as of specific dates, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties.

The Shares will be issued pursuant to the Company's effective shelf registration statement on Form S-3 (File No. 333-215776) (the "Registration Statement"), declared effective by the U.S. Securities and Exchange Commission on February 9, 2017. The Company filed a prospectus supplement with the SEC on August 24, 2018 relating to the offer and sale of the Shares pursuant to the Sales Agreement. As of September 30, 2018, the Company received net proceeds of $3.4 million and incurred $44,200 in offering costs that were offset against the proceeds from this offering.

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).

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") were 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 is included in warrant inducement and repricing expense in the consolidated statement of operations for the nine months ended September 30, 2018. In connection with this offering, the Company incurred $99,400 in offering costs that were offset against the proceeds from this offering.

Note 8. Stock-Based Compensation

Warrant Activity

We typically issue warrants to purchase shares of our common stock to investors as part of a financing transaction or in connection with services rendered by placement agents and consultants. Our outstanding warrants expire on varying dates through November 2021. A summary of warrant activity is as follows:

	Number of Shares	Weighted-Average Exercise Price/Share	**Weighted-Average Remaining Contractual Term (Years)**	Aggregate Intrinsic Value (1)
Outstanding — December 31, 2017	5,141,112	$ 4.09		
Issued	—	—		
Exercised	(3,013,325)	3.57		
Expired	(20,566)	39.40		
Outstanding — September 30, 2018	2,107,221	$ 4.08	1.8	$18,669,600
Vested (exercisable) — September 30, 2018	2,107,221	$ 4.08	1.8	$18,669,600

Aggregate intrinsic value represents the difference between the exercise price of the warrant and the closing market price of our common stock on September 28, 2018, which was $12.81 per share.

The total intrinsic value of warrants exercised during the nine months ended September 30, 2018 was $21.2 million.

Stock Options

We have five 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”), the 2015 Omnibus Equity Incentive Plan (the “2015 Plan”), and the 2018 Omnibus Equity Incentive Plan (the “2018 Plan”), (collectively, the “Plans”). The 2002 Plan, the 2009 Plan, the 2011 Plan and the 2015 Plan (the “Prior Plans”) have been superseded by the 2018 Plan. In May 2018, the stockholders approved the 2018 Plan for issuance up to 3,730,179 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 2018 Plan. As of September 30, 2018, the Company had 4,150,196 shares available for future awards under the 2018 Plan.

During the nine months ended September 30, 2018, we granted stock options at exercise prices equal to or greater than the quoted market price of our common stock on the grant date. The fair value of each option grant was estimated on the date of grant using Black-Scholes with the following weighted average assumptions:

Expected life (years)	5.3 – 7.0
Risk-free interest rate	2.6% – 2.9%
Volatility	97.7% – 110.1%
Dividend yield	0%

The expected option life assumption is estimated based on the simplified method. Accordingly, the Company has utilized the average of the contractual term of the options and the weighted average vesting period for all options to calculate the expected option term. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of our employee stock options. The expected volatility is based on the historical volatility of our stock commensurate with the expected life of the stock-based award. We do not anticipate paying dividends on the common stock in the foreseeable future.

We recognize stock-based compensation expense over the vesting period using the straight-line single option method. Stock-based compensation expense is recognized only for those awards that vest. We account for the forfeitures of unvested awards as they occur.

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

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2018	2017	2018	2017
Cost of revenues	$80,153	$14,954	$173,557	$33,477
General and administrative	1,018,321	741,549	2,753,134	1,958,658
Sales and marketing	320,794	181,776	854,125	502,851
Engineering and development	79,395	26,578	213,086	34,872
	$1,498,663	$964,857	$3,993,902	$2,529,858

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 — December 31, 2017	5,322,858	$ 4.16		
Granted (weighted-average fair value of $7.64 per share)	998,500	9.28		
Exercised	(392,217)	3.31		
Forfeited	(124,733)	7.23		
Outstanding — September 30, 2018	5,804,408	$ 5.03	7.4	$45,350,600
Vested (exercisable) — September 30, 2018	3,523,983	$ 4.46	6.7	$29,446,900
Expected to vest after September 30, 2018 (unexercisable)	2,280,425	$ 5.92	8.4	$15,903,700

(1) Aggregate intrinsic value represents the difference between the exercise price of the option and the closing market price of our common stock on September 28, 2018, which was $12.81 per share.

As of September 30, 2018, there was unrecognized compensation expense of $10.3 million related to unvested stock options, which we expect to recognize over a weighted average period of 2.7 years.

The total intrinsic value of stock options exercised during the nine months ended September 30, 2018 was $3.3 million.

Note 9. Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which modifies how all entities recognize revenue. Topic 606 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. We adopted Topic 606 on January 1, 2018 using the modified retrospective transition method. The adoption of Topic 606 did not have a material effect on our financial statements or results of operations, and no cumulative catch-up adjustment to the opening balance of retained earnings was required. We used the related practical expedients that allow us to not disclose the transaction price allocated to remaining unsatisfied obligations and an explanation of when we expect to recognize the related revenue.

Revenues are recognized when control is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Nature of Goods and Services

The Company provides Shippers to its customers and charges a fee in exchange for the use of the Shipper under long-term agreements with customers. The Company’s arrangements convey to the customers 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 vast majority of our revenues are covered under long-term agreements. We have determined that individual Statements of Work ("SOW"), whose terms and conditions taken with a Master Services Agreement ("MSA"), create the Topic 606 contracts which are generally short-term in nature (e.g., 15-day shipping cycle). Our agreements (including SOWs) generally do not have multiple performance obligations and, therefore, do not require an allocation of a single price amongst multiple goods or services. Prices under these agreements are generally fixed. 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 probable.

The Company also provides logistics support and management to some customers, which may include onsite logistics personnel. Revenue is recognized for these services as services are rendered over time and at the time that collectability is probable.

Revenue Disaggregation

The Company operates in one reportable segment and evaluates financial performance on a Company-wide basis. We consider sales disaggregated by end-market to depict how the nature, amount, timing and uncertainty of revenues and cash flows are impacted by changes in economic factors. The following table disaggregates our revenues by major source for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(000's omitted)	2018	2017	2018	2017
Biopharmaceutical	$ 4,472	$ 2,346	$ 11,603	$ 6,597
Reproductive medicine	584	409	1,585	1,253
Animal health	229	248	748	782
Total revenues	$ 5,285	3,003	$ 13,936	$ 8,632

Performance Obligations

At contract inception, an assessment of the goods and services promised in the contracts with customers is performed and a performance obligation is identified for each distinct promise to transfer to the customer a good or service (or bundle of goods or services). To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices. Revenue is recognized when our performance obligation has been met, which is when the Shipper has been delivered. The Company considers control to have transferred upon delivery because the Company has a present right to payment at that time, the Company has transferred use of the asset, and the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

For arrangements under which the Company provides logistics support and management to the customer, the Company satisfies its performance obligations as those services are performed whereby the customer simultaneously receives and consumes the benefits of such services under the agreement.

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products pursuant to the accounting policy election allowed under Topic 606. Accordingly, the Company records amounts billed for shipping and handling as a component of revenue. Shipping and handling fees and costs are included in cost of revenues in the accompanying condensed consolidated statements of operations.

Significant Payment Terms

Pursuant to the Company's contracts with its customers, amounts billed for services or products delivered by the Company are generally due and payable in full within 15 days from the date of the invoice (except for any amounts disputed by the customer in good faith). Accordingly, the Company determined that its contracts with customers do not include extended payment terms or a significant financing component.

Variable Consideration

In some cases, the nature of the Company's contracts may give rise to variable consideration, including discounts and allowances or other similar items that generally decrease the transaction price.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Revenues are recorded net of variable consideration, such as discounts and allowances.

Warranties

The Company's products and services are provided on an "as is" basis and no warranties are included in the contracts with customers. Also, the Company does not offer separately priced extended warranty or product maintenance contracts.

Contract Assets