

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

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: 000-51578

**CryoPort, Inc.**

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of  
incorporation or organization)

88-0313393

(IRS Employer  
Identification No.)

451 Atlas Street Brea, California, 92821

(Address of principal executive offices)

(714) 256-6100

(Issuer's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 month (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

As of November 13, 2006 the Company had 30,295,029 shares of its \$.001 par value common stock issued and outstanding.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**CRYOPORT, INC.**  
**CONSOLIDATED BALANCE SHEET**

**September 30, 2006**  
**(Unaudited)**

<b>ASSETS</b>	<b>September 30, 2006</b> <b>(Unaudited)</b>
<b>Current assets:</b>	
Cash	\$ 10,562
Accounts receivable, net	4,375
Inventories	175,186
Prepaid expenses and other current assets	9,270
Total current assets	199,393
Fixed assets, net	45,801
Intangible assets, net	7,031
	\$ 252,225
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 301,053
Accrued expenses	97,345
Accrued warranty costs	58,155
Accrued salaries	110,037
Short term note payable and accrued interest payable	86,710
Current portion of note to officer	27,000
Current portion of related party notes payable	82,500
Current portion of note payable	24,000
Total current liabilities	786,800
Related party notes payable and accrued interest, net of current portion	1,643,200
Note payable, net of current portion	35,440
Note to officer, net of current portion	215,388
Total liabilities	2,680,828
<b>Commitments and contingencies</b>	
<b>Stockholders' deficit:</b>	
Common stock, \$0.001 par value; 100,000,000 shares authorized; 30,295,029 shares issued and outstanding	30,295
Additional paid-in capital	5,960,181
Accumulated deficit	(8,419,079)
Total stockholders' deficit	(2,428,603)
	\$ 252,225

*See accompanying notes to unaudited consolidated financial statements*

**CRYOPORT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For The Three Months Ended September 30,		For The Six Months Ended September 30,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ 8,214	\$ 23,723	\$ 26,675	\$ 146,216
Cost of sales	33,434	110,636	72,774	254,592
Gross loss	(25,220)	(86,913)	(46,099)	(108,376)
Operating expenses:				
Selling, general and administrative expenses	1,040,060	319,610	1,243,367	588,374
Research and development expenses	19,950	65,198	39,059	144,552
Total operating expenses	1,060,010	384,808	1,282,426	732,926
Loss from operations	(1,085,230)	(471,721)	(1,328,525)	(841,302)
Other expense:				
Interest expense	(25,387)	(21,196)	(51,663)	(42,549)
Net loss	\$ (1,110,617)	\$ (492,917)	\$ (1,380,188)	\$ (883,851)
Net loss available to common stockholders per common share:				
Basic and diluted loss per common share	\$ (0.04)	\$ (0.02)	\$ (0.05)	\$ (0.03)
Basic and diluted weighted average common shares outstanding	30,239,599	29,855,017	30,152,616	29,793,906

*See accompanying notes to unaudited consolidated financial statements*

**CRYOPORT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For The Six Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cash flows from operating activities:		
Net loss	\$ (1,380,188)	\$ (883,851)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,053	45,454
Bad debt (recovery) expense	(7,256)	25,000
Estimated fair value of stock options and warrants issued to consultants and employees	910,331	17,280
Changes in operating assets and liabilities:		
Accounts receivable	25,187	(34,487)
Inventories	15,135	(49,497)
Prepaid expenses and other current assets	-	42,118
Accounts payable	77,983	43,601
Accrued expenses	(14,716)	1,436
Accrued warranty costs	(1,377)	(4,504)
Accrued salaries	51,233	98,746
Accrued interest	51,664	41,566
Net cash used in operating activities	<u>(257,951)</u>	<u>(657,138)</u>
Cash flows used in investing activities:		
Purchases of fixed assets	-	(39,700)
Cash flows from financing activities:		
Proceeds from borrowings under notes payable	80,000	-
Repayment of notes payable	(7,500)	(6,000)
Proceeds from issuance of common stock	191,290	255,660
Net cash provided by financing activities	<u>263,790</u>	<u>249,660</u>
Net change in cash	5,839	(447,178)
Cash, beginning of period	4,723	720,195
Cash, end of period	<u>\$ 10,562</u>	<u>\$ 273,017</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ -	\$ -
Income taxes	\$ 800	\$ 800
Supplemental schedule of non-cash financing activities:		
Conversion of accrued salaries to note payable	\$ 242,388	\$ -

*See accompanying notes to unaudited consolidated financial statements*

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 1 - MANAGEMENT'S REPRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared by Cryoport, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information, and pursuant to the instructions to Form 10-QSB and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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, 2006 are not necessarily indicative of the results that may be expected for the year ending March 31, 2007. It is suggested that the consolidated financial statements be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Form 10-KSB for the fiscal year ended March 31, 2006.

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Company was originally incorporated under the name G.T.5-Limited ("GT-5") on May 25, 1990 as a Nevada Corporation. The Company was engaged in the business of designing and building exotic body styles for automobiles compatible with the vehicle's existing chassis.

On March 15, 2005, the Company entered into a Share Exchange Agreement (the "Agreement") with Cryoport Systems, Inc. ("Cryoport Systems"), a California corporation, and its stockholders whereby the Company acquired all of the issued and outstanding shares of Cryoport Systems in exchange for 24,108,105 shares of its common stock (which represents approximately 81% of the total issued and outstanding shares of common stock following the close of the transaction). Cryoport Systems was originally formed in 1999 as a California limited liability company and was reorganized into a California corporation on December 11, 2000. Cryoport Systems was founded to capitalize on servicing the transportation needs of the growing global "biotechnology revolution". Effective March 16, 2005, the Company changed its name to Cryoport, Inc. The transaction was recorded as a reverse acquisition.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The principal focus of the Company is to develop a line of disposable (or one-way) dry cryogenic shippers for the transport of biological materials. These materials include live cell pharmaceutical products; e.g., cancer vaccines, diagnostic materials, reproductive tissues, infectious substances and other items that require continuous exposure to cryogenic temperature (less than -150°C). The Company currently manufactures a line of reusable cryogenic dry shippers. These primarily serve as vehicles for the development of the cryogenic technology that supports the disposable product development but also are essential components of the infrastructure that supports testing and research activities of the pharmaceutical and biotechnology industries. The Company's mission is to provide cost effective packaging systems for biological materials requiring, or benefiting from, a cryogenic temperature environment over an extended period of time.

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has not generated significant revenues from operations and has no assurance of any future revenues. The Company incurred a net loss of \$1,380,188 during the six-month period ended September 30, 2006 and had a cash balance of \$10,562 at September 30, 2006. In addition, at September 30, 2006, the Company's stockholders' deficit was \$2,428,603 and the Company had negative working capital of \$587,407. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company's management recognizes that the Company must obtain additional capital for the eventual achievement of sustained profitable operations. Management's plans include obtaining additional capital through equity funding sources. However, no assurance can be given that additional capital, if needed, will be available when required or upon terms acceptable to the Company or that the Company will be successful in its efforts to negotiate the extension of its existing debt. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The acquisition of Cryoport Systems by the Company has been accounted for as a reverse acquisition, whereby the assets and liabilities of Cryoport Systems are reported at their historical cost. The Company had no assets or operations at the date of acquisition. The reverse acquisition resulted in a change in reporting entity for accounting and reporting purposes. Accordingly, the accompanying consolidated financial statements have been retroactively restated for all periods presented to report the historical financial position, results of operations and cash flows of Cryoport Systems. Since the Company's stockholders retained 5,600,000 shares of common stock in connection with the reverse acquisition, such shares have been reflected as if they were issued to the Company on the date of acquisition for no consideration as part of a corporate reorganization.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Principles of Consolidation

The 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 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, allowances for inventory obsolescence, accrued warranty costs, valuation of deferred tax assets and product liability reserves.

Concentrations of Credit Risk

*Cash*

The Company maintains its cash accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At September 30, 2006, the Company had no cash balances which were in excess of the FDIC insurance limit. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure.

*Customers*

The Company grants credit to customers within the United States of America and to a limited number of international customers, and does not require collateral. Sales to other international customers are secured by advance payments, letters of credit, or cash against documents. 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, totaling approximately \$47,000 as of September 30, 2006, are provided based on past experience and a specific analysis of the accounts which management believes are sufficient. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.



**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The Company has foreign sales primarily in Europe, Latin America and Canada. Foreign sales are primarily under non-exclusive distribution agreements with international distributors. During the six month periods ended September 30, 2006 and 2005, the Company had foreign sales of approximately \$11,306 and \$51,000, respectively, which constituted approximately 42% and 35%, respectively, of net sales.

The majority of the Company's customers are in the bio-tech and animal breeding industries. Consequently, there is a concentration of receivables within these industries, which is subject to normal credit risk.

**Fair Value of Financial Instruments**

The Company's consolidated financial instruments consist of cash, accounts receivable, related party notes payable, payables, accrued expenses and a note payable to a third party. The carrying value for all such instruments, except the related party notes payable, approximates fair value at September 30, 2006. The difference between the fair value and recorded values of the notes payable is not significant.

**Inventories**

Inventories are stated at the lower of standard cost or current estimated market value. Cost is determined using the first-in, first-out method. The Company periodically reviews its inventories and records a provision for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories. Work in process and finished goods include material, labor and applied overhead. Inventories at September 30, 2006 consist of the following:

Raw materials	\$	91,732
Work in process		56,035
Finished goods		<u>27,419</u>
	\$	<u>175,186</u>

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Fixed Assets

Depreciation and amortization of fixed assets are provided using the straight-line method over the following useful lives:

Furniture and fixtures	7 years
Machinery and equipment	5-7 years
Leasehold improvements	Lesser of lease term or estimated useful life

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 applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized in current operations.

Intangible Assets

*Patents and Trademarks*

Patents and trademarks are amortized, using the straight-line method, over their estimated useful life of five years.

Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets upon the occurrence of a triggering event by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. At September 30, 2006, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Company's products will continue, which could result in impairment of its long-lived assets in the future.

Accrued Warranty Costs

Estimated costs of the Company's standard warranty, included with products at no additional cost to the customer for a period up to one year, are recorded as accrued warranty costs at the time of product sale. Costs related to servicing the standard warranty are charged to the accrual as incurred.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The following represents the activity in the warranty accrual account during the six month periods ended September 30:

	<u>2006</u>	<u>2005</u>
Beginning warranty accrual	\$ 59,532	\$ 70,500
Increase in accrual (charged to cost of sales)	1,623	12,750
Charges to accrual (product replacements)	(3,000)	(17,254)
Ending warranty accrual	<u>\$ 58,155</u>	<u>\$ 65,996</u>

Revenue Recognition

Revenue is recognized in accordance with Staff Accounting Bulletin (“SAB”) No. 101, *Revenue Recognition in Financial Statements*, as revised by SAB 104. The Company recognizes revenue when products are shipped to a customer and the risks and rewards of ownership and title have passed based on the terms of the sale. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company’s estimates.

Accounting for Shipping and Handling Revenue, Fees and Costs

The Company classifies amounts billed for shipping and handling as revenue in accordance with EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*. Shipping and handling fees and costs are included in cost of sales.

Advertising Costs

The Company expenses the cost of advertising when incurred as a component of selling, general and administrative expenses. During the six month periods ended September 30, 2006 and 2005, the Company expensed approximately \$1,315 and \$26,000 respectively, in advertising costs.

Research and Development Expenses

The Company expenses internal research and development costs as incurred. Third party research and development costs are expensed when the contracted work has been performed.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Stock-Based Compensation

*Adoption of SFAS 123 (R)*

On April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123(R)") which establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on accounting for transactions where an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of the Company's fiscal year 2007. The Company's consolidated financial statements as of and for the three and six months ended September 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's consolidated statements of operations, other than as related to option grants to employees and consultants below the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period.

Stock-based compensation expense recognized in the Company's consolidated statements of operations for the three and six months ended September 30, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of March 31, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to March 31, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in the consolidated statements of operations for the three and six months ended September 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures, if any. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated average forfeiture rates for the three and six months ended September 30, 2006 was zero as the Company has not had a significant history of forfeitures. There were no stock options granted during the six months ended September 30, 2006 and 2005.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. Due to the Company's loss position, there were no such tax benefits during the three and six months ended September 30, 2006. Prior to the adoption of SFAS 123(R) those benefits would have been reported as operating cash flows had the Company received any tax benefits related to stock option exercises.

***Plan Description***

The Company's stock option 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 generally vest over a five-year period beginning on the grant date and have a five-year term. As of September 30, 2006, the Company is authorized to issue up to 5,000,000 shares under this plan and has 2,511,387 shares available for future issuances.

***Summary of Assumptions and Activity***

The fair value of stock-based awards to employees and directors is calculated using the Black-Scholes option pricing model, even though this model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock options. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

	<b>September 30, 2006</b>	<b>September 30, 2005</b>
Stock options:		
Expected term	N/A	N/A
Expected volatility	N/A	N/A
Risk-free interest rate	N/A	N/A
Expected dividends	N/A	N/A

The following table illustrates the effect on net loss and net loss per share for the three and six months ended September 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plans. For purposes of this pro forma disclosure, the fair value of the options is estimated using the Black Scholes option-pricing model and amortized on a straight-line basis to expense over the options' vesting period:

	<b>For The Three Months Ended September 30, 2005</b>	<b>For The Six Months Ended September 30, 2005</b>
Net loss - as reported	\$ (492,917)	\$ (883,851)
Add: Share based employee compensation included in net income, net	-	-
Deduct: Share-based employee compensation expense determined under fair value method, net of tax effects	(12,237)	(24,674)
Net loss - pro forma	\$ (505,154)	\$ (908,525)
Net loss per common share - basic and diluted		
As reported	\$ (0.02)	\$ (0.03)
Pro forma	\$ (0.02)	\$ (0.03)

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

A summary of option activity for the six months ended September 30, 2006, is presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Yrs)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at March 31, 2006	2,488,613	\$ 0.45	2.44	
Options granted	-	\$ -		
Options exercised	-	\$ -		
Options forfeited	-	\$ -		
	<u>2,488,613</u>	<u>\$ 0.45</u>	<u>1.94</u>	<u>\$ 296,062</u>
Options outstanding at September 30, 2006				
Options exercisable at September 30, 2006	<u>2,451,757</u>	<u>\$ 0.45</u>	<u>1.92</u>	<u>\$ 296,062</u>

There were no options granted or exercised during the six months ended September 30, 2006. Upon the exercise of options, the Company issues new shares from its authorized shares.

A summary of the status of the Company's non-vested stock options as of September 30, 2006 and changes during the six months then ended is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>
Non-vested stock options at March 31, 2006	177,352	\$ 0.52
Non-vested stock options granted	-	-
Vested stock options	(140,496)	\$ 0.53
Forfeited/cancelled stock options	-	-
Non-vested stock options at September 30, 2006	<u>36,856</u>	<u>\$ 0.51</u>

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

As of September 30, 2006, there was approximately \$22,179 of total unrecognized compensation cost related to employee and director stock option compensation arrangements. That cost is expected to be recognized on a straight-line basis over the next 1.50 years. The total fair value of shares vested during the six months ended September 30, 2006 was \$70,576.

As a result of adopting SFAS 123(R) on April 1, 2006, the Company's loss before income taxes and net loss for the six months ended September 30, 2006 was approximately \$39,796 lower than if it had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted net loss per share for the six months ended September 30, 2006 was approximately \$0.001 lower than if it had continued to account for share-based compensation under APB Opinion No. 25.

The following table summarizes stock-based compensation expense related to stock options under SFAS 123(R) for the three and six months ended September 30, 2006, which was allocated as follows:

	<b>Three Months Ended September 30, 2006</b>	<b>Six Months Ended September 30, 2006</b>
Stock-based compensation expense included in:		
Cost of sales	\$ -	\$ -
Salary and related	-	-
Selling, general and administrative	<u>35,288</u>	<u>70,576</u>
Stock based compensation expense related to employee stock options	<u>\$ 35,288</u>	<u>\$ 70,576</u>

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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. Under SFAS No. 109, 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. The Company is a subchapter "C" Corporation and files a federal income tax return. The Company files separate state income tax returns for California and Nevada.



**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Basic and Diluted Loss Per Share**

The Company has adopted SFAS No. 128, *Earnings Per Share* (see Note 6).

Basic loss per common share is computed by dividing the net loss available to common stockholders by the weighted average number of shares outstanding for the period. Diluted loss per share is computed by dividing net loss by the weighted average shares outstanding assuming all dilutive potential common shares were issued. Basic and diluted loss per share are the same as the effect of stock options and warrants on loss per share are anti-dilutive and thus not included in the diluted loss per share calculation. The impact under the treasury stock method of dilutive stock options and warrants would have resulted in an decrease of 872,835 shares for the six month period ended September 30, 2006 and an increase of 3,255,211 shares for the six month period ended September 30, 2005.

**Recent Accounting Pronouncements**

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles were required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005; however, SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS No. 154 did not have a material effect on the Company's financial position, results of operations or cash flows.

**NOTE 3 - COMMITMENTS AND CONTINGENCIES**

**Litigation**

The Company becomes 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.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 3 - COMMITMENTS AND CONTINGENCIES, continued**

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The 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 lease, the Company has indemnified its lessor for certain claims arising from the use of the facility. In connection with its business merger, the Company has indemnified the merger candidate for certain claims arising from the failure of the Company to perform any of its representations or obligations under the agreements. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement. These 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 balance sheet.

**NOTE 4 - NOTES PAYABLE**

On May 12, 2006, the Company arranged for short term financing of \$175,000, pursuant to a Loan Agreement and related Secured Promissory Note with Ventana Group, LLC. Disbursements to the Company under the Loan Agreement are based on achievement of milestones reached towards finalizing a long term equity financing agreement. As of September 30, 2006, the Company had received \$80,000 of funds and had accrued \$6,710 of interest payable under this Loan Agreement. The note is secured by machinery and equipment owned by the Company. Per the terms of the note, interest on the unpaid principal balance of the note is accrued at a monthly rate of 2% and is payable together with all outstanding principal on February 10, 2007.

The Company has a non-interest bearing note payable to a third party lender for \$77,304, which was due in April 2003. The Company is scheduled to make monthly payments of \$2,000 as agreed with the third party lender. As of September 30, 2006, the remaining unpaid balance was \$59,440.

As of September 30, 2006, the Company had \$1,362,000 in outstanding unsecured indebtedness owed to five related parties including current and former members of the board of directors representing working capital advances made to the Company from February 2001 through March 2005. These notes bear interest at the rate of 6% per annum and provide for total combined monthly principal payments which began April 1, 2006 of \$2,500. The monthly principal payments are scheduled to increase by \$2,500 every six months to a combined maximum of \$10,000. Any remaining unpaid principal and accrued interest is due at maturity on various dates through March 1, 2015.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 4 - NOTES PAYABLE, continued**

Related party interest expense under these notes was \$44,954 and \$42,549 for the six months ended September 30, 2006 and 2005, respectively. Accrued interest, which is included in notes payable in the accompanying consolidated balance sheet, related to these notes amounted to \$363,700 as of September 30, 2006.

As of September 30, 2006, the Company had not made the required payments under the related party notes which were due on July 1, August 1, and September 1, 2006. However, pursuant to the note agreements, the Company has a 120-day grace period to pay missed payments before the notes are in default. On October 28, 2006, the Company paid the July 1 payments due on these related party notes. Management expects to continue to pay all payments due prior to the expiration of the 120-day grace periods.

**NOTE 5 - EQUITY**

In April 2006, 8,333 warrants were exercised at a price of \$0.30 per share.

In April 2006, the Company entered into an Agency Agreement with a broker to raise funds in a private placement offering of common stock under Regulation D. During the six months ended September 30, 2006, in connection with this agreement, 205,000 shares of the Company's common stock were sold to investors at an average price of \$1.06 per share for proceeds of \$188,790 to the Company, net of issuance costs of \$28,210.

During the six months ended September 30, 2006 and 2005, compensation expense from the vesting of options issued to employees and non-employees totaled \$70,576 and \$17,280, respectively, and has been included in selling, general and administrative expenses in the accompanying consolidated statements of operations (see Note 2).

On August 3, 2006, the Company issued a total of 846,750 warrants to purchase shares of the Company's common stock to various consultants, board members, and employees. The Company has determined the fair value of the issued warrants, based on the Black-Scholes pricing model, to be \$839,755 as of the date of grant. The assumptions used under the Black-Scholes pricing model included: a risk free rate of 4.82%; volatility of 233%; an expected exercise term of 5 years; and no annual dividend rate. The fair market value of the warrants has been recorded as consulting and compensation expense and is included in selling, general and administrative expenses for the three and six months ended September 30, 2006.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

**NOTE 6 - LOSS PER SHARE**

The following is a reconciliation of the numerators and denominators of the basic and diluted loss per share computations for the six month periods ended September 30:

	<b>Three Months Ended September 30, 2006</b>	<b>Three Months Ended September 30, 2005</b>	<b>Six Months Ended September 30, 2006</b>	<b>Six Months Ended September 30, 2005</b>
Numerator for basic and diluted earnings per share:				
Net loss available to common stockholders	\$ (1,110,617)	\$ (492,917)	\$ (1,380,188)	\$ (883,851)
Denominator for basic and diluted loss per common share:				
Weighted average common shares outstanding	30,239,599	29,855,017	30,152,616	29,793,906
Net loss per common share available to common stockholder	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>

**NOTE 7 - RELATED PARTY TRANSACTIONS**

In June 2005, the Company retained the legal services of Gary C. Cannon, Attorney at Law, for a monthly retainer fee of \$6,500. At that same time, Mr. Cannon also became the Company's Secretary and a member of the Company's Board of Directors. The total amount paid to Mr. Cannon for retainer fees and out-of-pocket expenses for the six months ended September 30, 2006 and 2005 was \$19,500 and \$6,000, respectively.

In August of 2006, Peter Berry, the Company's Chief Executive Officer, agreed to convert his deferred salaries to a long term note payable. Under the terms of this note, monthly payments of \$3,000 will be made to Mr. Berry beginning in January 2007. In January 2008 these payments will increase to \$6,000 and remain at that amount until the loan is fully paid in December 2010. Interest of 6% per annum on the outstanding principal of notes will begin to accrue January 1, 2008 and will be paid on a monthly basis along with the monthly principal payment beginning in January 2008.

**NOTE 8 - SUBSEQUENT EVENTS**

On October 13, 2006, various shareholders advanced the Company short term, zero interest loans ranging from \$3,000 to \$5,000 each for an aggregate total of \$13,000. These loans are expected to be repaid in full in November, 2006.

In October 2006, the Company entered into an Agency Agreements with a broker to raise funds in a private placement offering units of convertible debenture under Regulation D. As of November 13, 2006 the Company had received \$30,450 net of commissions of \$4,550 under this private placement offering of convertible debenture debt.

**CRYOPORT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**For The Three and Six Months Ended September 30, 2006 and 2005**

On November 10, 2006 the board approved to extend the expiration of the Company's outstanding stock options for a period of five years. As a result of this modification to the stock options, the Company revised the fair value of these stock-based awards to employees and directors using the Black-Scholes option pricing model in accordance with SFAS 123 (R) resulting in an additional \$98,021 of general and administrative expense to be recognized during the third quarter ending December 31, 2006.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

*In this Form 10-QSB the terms "CryoPort", "Company" and similar terms refer to CryoPort, Inc., and its wholly owned subsidiary CryoPort Systems, Inc.*

**Safe Harbor and Forward Looking Statements:**

The Company has made some statements in this Form 10-QSB, including some under this "Management's Discussion and Analysis or Plan of Operation", and elsewhere, which are forward-looking statements within the definition of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. These statements may discuss the Company's future expectations, contain projections of its plan of operation or financial condition or state other forward-looking information. In this Form 10-QSB, forward looking statements are generally identified by words such as "anticipate", "plan", "believe", "expect", "estimate", and the like. Forward-looking statements involve future risks and uncertainties, and there are factors that could cause actual results or plans to differ materially from those expressed or implied by the statements. The forward-looking information is based on various factors and is derived using numerous assumptions. A reader, whether investing in the company's securities or not, should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-QSB. Important factors that may cause actual results to differ from projections include, but are not limited to, the following:

- The success or failure of management's efforts to implement the Company's plan of operations;
- The Company's ability to fund its operating expenses;
- The Company's ability to compete with other companies that have a similar plan of operation;
- The effect of changing economic conditions impacting the Company's plan of operation;
- The Company's ability to meet the other risks as may be described in its future filings with the Securities and Exchange Commission.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**General Overview**

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited consolidated balance sheet as of September 30, 2006 and the related consolidated statements of operations and cash flows for each of the three and six months ended September 30, 2006 and 2005, and the related notes thereto (see Item 1 Financial Statements) as well as the audited financial statements of the Company as of March 31, 2006 and for the years ended March 31, 2006 and 2005 included in the Company's Annual Report on Form 10-KSB for the year ended March 31, 2006.

The Company cautions readers that important facts and factors described in this Management's Discussion and Analysis or Plan of Operation and elsewhere in this document sometimes have affected, and in the future could affect, the Company's actual results, and could cause the Company's actual results during fiscal year 2007 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of the Company.

### **Going Concern**

As reported in the Report of Independent Registered Public Accounting Firm on the Company's March 31, 2006 and 2005 financial statements, the Company has incurred recurring losses from operations and has a stockholders' deficit. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

There are significant uncertainties which negatively affect the Company's operations. These are principally related to (i) the limited distribution network for the Company's reusable product line, (ii) the early stage development of the Company's one-way product, (iii) the absence of any commitment or firm orders from key customers in the Company's target markets for the reusable or the one-way shippers, (iv) the success in bringing products concurrently under development to market with the Company's key customers. Moreover, there is no assurance as to when, if ever, the Company will be able to conduct the Company's operations on a profitable basis. The Company's limited sales to date for the Company's reusable product, the lack of any purchase requirements in the existing distribution agreements and those currently under negotiations, make it impossible to identify any trends in the Company's business prospects. There is no assurance the Company will be able to generate sufficient revenues or sell any equity securities to generate sufficient funds when needed, or whether such funds, if available, will be obtained on terms satisfactory to the Company.

The Company has not generated significant revenues from operations and has no assurance of any future significant revenues. The Company incurred net losses of \$1,110,617 and \$492,917 for the three month periods ended September 30, 2006 and 2005, respectively and net losses of \$1,380,188 and \$883,851 for the six month periods ended September 30, 2006 and 2005, respectively. In addition, at September 30, 2006 the Company's accumulated deficit was \$8,419,079 and the Company had negative working capital of \$587,407. The Company's management recognizes that the Company must obtain additional capital for the further development and launch of the one-way product and the eventual achievement of sustained profitable operations.

We anticipate that unless we are able to raise or generate proceeds of at least \$3,000,000 within the next two to six months, although operations will continue, we will be unable to fully execute our business plan, which will result in us not growing at the desired rate. Should this situation occur, management is committed to operating on a smaller scale until generated revenues or future funding can support expansion.

In order to continue as a going concern, the Company's management has begun taking the following steps:

- 1) Continuing to aggressively pursue alternative sources for significant long-term funding of approximately \$3,000,000 to \$5,000,000 to support the launch of the one-way product line.
- 2) Obtain additional capital through a private placement offering, initiated in October 2006, of common stock under Regulation D. Management anticipates that the proceeds from this offering will provide over 6 to 9 months of operating capital.
- 3) Continuing to maintain minimal operating expenditures through stringent cost containment measures. The Company's largest expenses relate to personnel and meeting the legal and reporting requirements of a public company.
- 4) Utilizing part-time consultants and asking employees to manage multiple roles and responsibilities whenever possible to keep operating costs low.
- 5) Continuing to require that key employees and the Company's Board of Directors receive Company stock in lieu of cash as all or part of their compensation in an effort to minimize monthly cash flow. With this strategy, the Company has established a critical mass of experienced business professionals capable of taking the Company forward.
- 6) Maintaining current levels for sales, marketing, engineering, scientific and operating personnel and cautiously and gradually adding critical and key personnel only as necessary to help expand the Company's product offerings in the reusable and one-way cryogenic shipping markets, leading it to additional revenues and profits.
- 7) Adding other expenses such as customer service, administrative and operations staff only commensurate with increased revenues.
- 8) Focusing current research and development efforts only on development, production and distribution of the one-way shipper.

#### **Research and Development**

Due to the ongoing nature of the research associated with the one-way shipper, the Company is unable to ascertain with certainty the total estimated completion dates and costs associated with all phases of this research. As with any research effort, there is uncertainty and risk associated with whether these efforts will produce results in a timely manner so as to enhance the Company's market position. For the six months ended September 30, 2006 and 2005, research and development costs were \$39,059 and \$144,552, respectively. Company sponsored research and development costs related to future products and redesign of present products are expensed as incurred and include such costs as salaries, employee benefits, costs determined utilizing the Black-Scholes option-pricing model for options issued to the Scientific Advisory Board and prototype design and materials costs.

#### **Critical Accounting Policies**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, however, in the past the estimates and assumptions have been materially accurate and have not required any significant changes. Specific sensitivity of each of the estimates and assumptions to change based on other outcomes that are reasonably likely to occur and would have a material effect is identified individually in each of the discussions of the critical accounting policies described below. Should the Company experience significant changes in the estimates or assumptions which would cause a material change to the amounts used in the preparation of the Company's financial statements, material quantitative information will be made available to investors as soon as it is reasonably available.



The Company believes the following critical accounting policies, among others, affect the Company's more significant judgments and estimates used in the preparation of the Company's financial statements:

*Allowance for Doubtful Accounts.* The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and the Company's best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. The Company evaluates the collectibility of the Company's receivables at least quarterly. Such costs of allowance for doubtful accounts are subject to estimates based on the historical actual costs of bad debt experienced, total accounts receivable amounts, age of accounts receivable and any knowledge of the customers' ability or inability to pay outstanding balances. If the financial condition of the Company's customers were to deteriorate, resulting in impairment of their ability to make payments, additional allowances may be required. The differences could be material and could significantly impact cash flows from operating activities.

*Inventory.* The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future pricing and market conditions. Inventory reserve costs are subject to estimates made by the Company based on historical experience, inventory quantities, age of inventory and any known expectations for product changes. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities. Once established, write-downs are considered permanent adjustments to the cost basis of the obsolete or unmarketable inventories.

*Impairment of Long-Lived Assets.* The Company assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of long-lived asset impairment is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. Manufacturing fixed assets are subject to obsolescence potential as result of changes in customer demands, manufacturing process changes and changes in materials used. The Company is not currently aware of any such changes that would cause impairment to the value of its manufacturing fixed assets.

*Accrued Warranty Costs.* The Company estimates the costs of the standard warranty, included with the reusable shippers at no additional cost to the customer for a period up to one year. These estimated costs are recorded as accrued warranty costs at the time of product sale. These estimated costs are subject to estimates made by the Company based on the historical actual warranty costs, number of products returned for warranty repair and length of warranty coverage.

*Revenue Recognition.* Product sales revenue is recognized upon passage of title to customers, typically upon shipment of product. Any provision for discounts and estimated returns are accounted for in the period the related sales are recorded. Products are generally sold with right of warranty repair for a one year period but with no right of return. Estimated costs of warranty repairs are recorded as accrued warranty costs as described above. Products shipped to customers for speculation purposes are not considered sold and no revenue is recorded by the Company until sales acceptance is acknowledged by the customer.

*Stock-Based Compensation.* The Company accounts for equity issuances to non-employees in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock Based Compensation*, and Emerging Issues Task Force ("EITF") Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services*. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date used to determine the fair value of the equity instrument issued is the earlier of the date on which the third-party performance is complete or the date on which it is probable that performance will occur.

Prior to April 1, 2006, the Company accounted for stock-based compensation issued to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* and related pronouncements. Under this method, compensation expense was recognized over the respective vesting period based on the excess, on the date of grant, of the fair value of our common stock over the grant price, net of forfeitures. Deferred stock-based compensation was amortized on a straight-line basis over the vesting period of each grant.

On April 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors related to the Company's 2000 Equity Incentive Plan based on estimated fair values. The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of our fiscal year 2007. The consolidated financial statements as of and for the six months ended September 30, 2006 reflect the impact of adopting SFAS No. 123(R). In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statement of operations. As stock-based compensation expense recognized in the consolidated statement of operations for the nine months ended September 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated average forfeiture rate for the nine months ended September 30, 2006 was zero as the Company has not had a significant history of forfeitures.

Employee stock-based compensation expense recognized under SFAS No. 123(R) for the six months ended September 30, 2006 was \$70,576, determined by the Black-Scholes valuation model. As of September 30, 2006, total unrecognized compensation cost, related to unvested stock options was \$22,179, which is expected to be recognized as an expense over a weighted-average period of 6 months. See Note 2 to the Company's consolidated financial statements for additional information.

## Results of Operations

Three months ended September 30, 2006 compared to three months ended September 30, 2005:

**Net Sales.** During the three months ended September 30, 2006, the Company generated \$8,214 from reusable shipper sales compared to revenues of \$23,723 in the same period of the prior year, a decrease of \$15,509 (65%). This revenue decrease is primarily due to the Company's shift in its sales and marketing focus during the third quarter of the Company's fiscal year 2006 to the introduction of the one-way shipper, anticipated for release in the fourth quarter of the Company's fiscal year 2007, into the biotech industry sector. Additionally, cash constraints slowed production activities and average sales unit prices during the three month period ended September 30, 2006 were lower than that of the same period of the prior year due to the change in the industry sales mix.

**Gross Profit/Loss.** Gross loss for the three month period ended September 30, 2006 decreased by \$61,693 (71%) to \$25,220 compared to \$86,913 for the three month period ended September 30, 2005. The decrease in the gross loss is mainly attributable to the decreased sales volume as well as cost containment measures initiated over the past nine months.

Cost of sales for the three month period ended September 30, 2006 decreased \$77,202 (70%) to \$33,434 from \$110,636 for the three month period ended September 30, 2005 primarily as the result of lower sales volumes as well as cost containment measures initiated over the past nine months. During both periods cost of sales exceeded sales due to plant under utilization.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased by \$720,450 (225%) to \$1,040,060 for the three month period ended September 30, 2006 as compared to \$319,610 for the three month period ended September 30, 2005 due mainly to: (i) \$839,755 of compensation expense related to warrants granted to consultants and employees offset by, (ii) a decrease in sales and marketing costs of \$84,619 (70%) related to decreased trade shows, travel and consultant expenses, and (iii) a decrease in general and administrative costs of \$34,686 (18%) related to decreased regulatory costs including decreased legal and accounting fees related to the prior year's share exchange agreement and public filing costs.

**Research and Development Expenses.** Research and development expenses decreased by \$45,248 (69%) to \$19,950 for the three month period ended September 30, 2006 as compared to \$65,198 for the three month period ended September 30, 2005 related to the significant decrease in the development activity on the one-way product which was experienced in the prior year.

**Net Loss.** As a result of the factors described above, the net loss for the three months ended September 30, 2006 increased by \$617,700 (125%) to \$1,110,617 or (\$0.04) per share compared to \$492,917 or (\$0.02) per share for the three months ended September 30, 2005.

Six months ended September 30, 2006 compared to six months ended September 30, 2005:

**Net Sales.** During the six months ended September 30, 2006, the Company generated \$26,675 from reusable shipper sales compared to revenues of \$146,216 in the same period of the prior year, a decrease of \$119,541 (82%). This revenue decrease is primarily due to the Company's shift in its sales and marketing focus during the third quarter of the Company's fiscal year 2006 to the introduction of the one-way shipper, anticipated for release in the third quarter of the Company's fiscal year 2007, into the biotech industry sector. Additionally, cash constraints slowed production activities and average sales unit prices during the six month period ended September 30, 2006 were lower than that of the same period of the prior year due to the change in the industry sales mix.

**Gross Profit/Loss.** Gross loss for the six month period ended September 30, 2006 decreased by \$62,277 (58%) to \$46,099 compared to \$108,376 for the six month period ended September 30, 2005. The decrease in the gross loss is mainly attributable to the lower sales volumes as well as to the decreased cost of sales as a result of cost containment measures initiated over the past nine months.

Cost of sales for the six month period ended September 30, 2006 decreased \$181,818 (71%) to \$72,774 from \$254,592 for the six month period ended September 30, 2005 primarily as the result of lower sales volumes as well as from cost containment measures in the fixed manufacturing costs initiated over the past nine months. During both periods cost of sales exceeded sales due to plant under utilization.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased by \$654,993 (111%) to \$1,243,367 for the six month period ended September 30, 2006 as compared to \$588,374 for the six month period ended September 30, 2005 due mainly to: (i) an increase in compensation expense related to warrants granted to consultants and employees offset by, (ii) a decrease in sales and marketing costs of \$128,043 (64%) related to decreased trade shows, travel and consultant expenses, and (iii) a decrease in general and administrative costs of \$56,719 (15%) related to decreased regulatory costs including decreased legal and accounting fees related to the prior year's share exchange agreement and public filing costs.

**Research and Development Expenses.** Research and development expenses decreased by \$105,493 (73%) to \$39,059 for the six month period ended September 30, 2006 as compared to \$144,552 for the six month period ended September 30, 2005 related to the significant decrease in the development activity on the one-way product which was experienced in the prior year.

**Net Loss.** As a result of the factors described above, the net loss for the six months ended September 30, 2006 increased by \$496,337 (56%) to \$1,380,188 or (\$0.05) per share compared to \$883,851 or (\$0.03) per share for the six months ended September 30, 2005.

#### **Assets and Liabilities**

At September 30, 2006, the Company had total assets of \$252,225 compared to total assets of \$293,505 at March 31, 2006, a decrease of \$41,280 (14%). Cash was \$10,562 as of September 30, 2006, an increase of \$5,839 (124%) from \$4,723 in cash on hand as of March 31, 2006. During the six month period ended September 30, 2006, cash provided by financing activities of \$263,790 was offset by cash used in operations of \$257,951. As of November 13, 2006, the Company's cash on hand was approximately \$15,500.

Net accounts receivable at September 30, 2006 was \$4,375, a decrease of \$17,931 (80%) from \$22,306 at March 31, 2006. This decrease is due to the decreased sales during the six months ended September 30, 2006 in addition to the collection of customer balances over 90 days. These decreases in accounts receivable were partially offset by a decrease to the bad debt reserve.

Net inventories decreased \$15,135 (8%), to \$175,186 as of September 30, 2006, from \$190,321 as of March 31, 2006. The decrease in inventories is due to the slow down of production activities due to the expected introduction of the new one-way shipper.

Net fixed assets decreased to \$45,801 at September 30, 2006 from \$57,520 at March 30, 2006 as a result of depreciation in the amount of \$11,719 for the six months ended September 30, 2006. No new fixed assets were acquired during the six months ended September 30, 2006.

Intangible assets decreased to \$7,031 at September 30, 2006 from \$9,365 at March 30, 2006 as a result of amortization in the amount of \$2,334 for the six months ended September 30, 2006.

Total liabilities at September 30, 2006 were \$2,680,828, an increase of \$237,287 (10%) from \$2,443,541 as of March 31, 2006. Accounts payable was \$301,053 at September 30, 2006, an increase of \$77,983 (35%) from \$223,070 at March 31, 2006. The accounts payable increase is primarily due to the increased consultant, legal and accounting fees payable resulting from delays in payments due to cash restrictions which were partially offset by decreased payables due to material suppliers affected by the payment cycle of trade payables relating to the decrease in inventory. Accrued expenses decreased \$14,716 (13%) to \$97,345 at September 30, 2006 from \$112,061 at March 31, 2006, resulting from the payment of accrued legal expenses. Accrued warranty costs decreased \$1,377 (2%) to \$58,155 at September 30, 2006 from \$59,532 due to \$3,000 of product replacement costs charged to the accrual offset by \$1,623 charged to the accrual for product sales during the six month period ended September 30, 2006. Accrued salaries were \$352,425 at September 30, 2006, an increase of \$51,233 (17%) from \$301,192 at March 31, 2006. This is due to the increase in deferred salaries for management during the six months ended September 30, 2006.

In May 2006, the Company signed a loan agreement for short term funding of up to \$175,000 for a period of 90 days in anticipation of securing more significant long-term funding. Subsequently, on November 9, 2006, the terms of the note were extended for an additional 90 days. As of September 30, 2006, the Company had borrowed \$80,000 against this short-term note and accrued related interest of \$6,710.

Current portion of related party notes payable increased \$37,500 to \$82,500 at September 30, 2006 due to the delay in payment of the scheduled payments for July, August and September 2006, as well as the scheduled increase in the payments on these notes beginning April 1, 2007 as specified in the terms of the notes. On October 27, 2006, the Company paid the July 2006 payments due on these notes prior to the 120 day payment default date per the terms of the notes. Current portion of notes payable of \$24,000 at September 30, 2006 had no change from March 31, 2006. Long-term related party notes payable decreased \$46 to \$1,643,200 at September 30, 2006 from \$1,643,246 at March 31, 2006 due to interest accrued of \$44,954 for the six month period ended September 30, 2006 offset by payments made of \$7,500 against the notes and by the \$37,500 increase in the amount allocated to the current portion of related party notes payable. Long-term notes payable remained unchanged at \$35,440 from March 31, 2006 to September 30, 2006.

### **Liquidity and Capital Resources**

As of September 30, 2006, the Company's current liabilities of \$786,600 exceeded its current assets of \$199,393 by \$587,407. Approximately 14% of current liabilities represent accrued salaries for executives who have opted to defer taking salaries until the Company has achieved positive operating cash flows.

Total assets decreased to \$252,225 at September 30, 2006 from \$293,505 at March 31, 2006 as a result of funds used in operating activities, partially offset by cash received from the short term loan proceeds and the proceeds from the sale of common stock.

The Company's total outstanding indebtedness increased to \$2,680,828 at September 30, 2006 from \$2,443,541 at March 31, 2006 primarily from the additional short-term note payable secured during the six months ended September 30, 2006, increases in accrued interest for notes payable, increased accrued salaries, and the increase in accounts payable related to deferred consultant fees.

The Company does not expect to incur any material capital expenditures until management is able to secure more significant long-term funding for the launch of the new one-way product line or sales increase materially.

In April 2006, the Company entered into an agency agreement with a broker to raise funds in a private placement offering of common stock under Regulation D. In connection with this agreement, and as of September 30, 2006, 205,000 shares of the Company's common stock were sold to investors at an average price of \$1.06 per share for proceeds of \$188,790 to the Company, net of issuance costs of \$28,210.

### **Item 3. Controls and Procedures**

As of September 30, 2006, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to September 30, 2006.

(a) Evaluation of Disclosure Controls and Procedures. The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the CEO and CFO concluded that as of September 30, 2006, our disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company (or the Company's consolidated subsidiaries) required to be included in the Company's periodic filings with the SEC, subject to the various limitation on effectiveness set forth below under the heading , "LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROLS," such that the information relating to the Company, required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There has been no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### LIMITATIONS ON THE EFFECTIVENESS OF INTERNAL CONTROLS

The Company's management, including the CEO and CFO, does not expect that our disclosure controls and procedures on our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, and/or the degree of compliance with the policies or procedures may deteriorate.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Inapplicable.

### Item 2. Unregistered Sales of Equity Securities

In April 2006, 8,333 warrants were exercised at a price of \$0.30 per share.

In April 2006, the Company entered into an Agency Agreement with a broker to raise funds in a private placement offering of common stock under Regulation D. During the six months ended September 30, 2006, in connection with this agreement, 205,000 shares of the Company's common stock were sold to investors at an average price of \$1.06 per share for proceeds of \$188,790 to the Company, net of issuance costs of \$28,210.

In August 2006, the Company issued 846,750 warrants to purchase shares of the Company's common stock to various consultants, board members, and employees. The fair market value of the warrants of \$839,755, based on the Black-Scholes pricing model, is included in selling, general and administrative expenses for the three and six months ended September 30, 2006.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Submission of Matters to a Vote of Security Holders

None

### Item 5. Other Information

None



**Item 6. Exhibits**

Exhibit Index

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1 Certification Pursuant to 18 U.S.C. §1350 of Chief Executive Officer

32.2 Certification Pursuant to 18 U.S.C. §1350 of Chief Financial Officer

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CryoPort, Inc.

Dated: November 14, 2006

By: /s/ Peter Berry

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PETER BERRY, CEO, President

Dated: November 14, 2006

By: /s/ Dee S. Kelly

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DEE S. KELLY, Vice President, Finance

**CERTIFICATIONS**

I, Peter Berry, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Cryoport, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects, the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 14, 2006

/s/ Peter Berry

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PETER BERRY  
CEO, President

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**CERTIFICATIONS**

I, Dee S. Kelly, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Cryoport, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects, the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
  - c) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - d) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
  - e) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 14, 2006

/s/ Dee S. Kelly

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DEE S. KELLY  
Vice President, Finance

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**CERTIFICATION PURSUANT TO**

**18 U.S.C. §1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of the Cryoport, Inc. (the "Company") on Form 10 QSB for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Berry, CEO, President of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Peter Berry

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PETER BERRY  
CEO, President  
November 14, 2006

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**CERTIFICATION PURSUANT TO**

**18 U.S.C. §1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of the Cryoport, Inc. (the "Company") on Form 10 QSB for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dee s. Kelly, Vice President, Finance of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dee S. Kelly

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DEE S. KELLY  
Vice President, Finance  
November 14, 2006

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