

OCTOBER 13, 2008

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

**THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT**

COMPANY INTERVIEW

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CryoPort, Inc.

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Founded 1963

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CryoPort, Inc. (CYRX)



PETER BERRY became the President, Chief Executive Officer and a member of the Board of Directors of CryoPort, Inc., in connection with the Share Exchange Agreement. Mr. Berry joined CryoPort Systems, Inc., as a consultant in 2002 and became its President, Chief Executive Officer, Chief Operating Officer and a member of its Board of Directors in 2003. Prior to joining the company, he was Vice President, Sales and Marketing for BOC Cryostar, AG, in Switzerland from 1996 to 2000 and principal of a private

consulting practice from 2001 to 2003. Mr. Berry has over 30 years' executive experience in cryogenic equipment with Union Carbide, BOC Group and MVE International. He also has business startup, turnaround, sales/marketing and operations background experience, both domestic and international, in manufacturing and service-based industries.



KENNETH CARLSON became Vice President of Sales and Marketing for CryoPort, Inc., in August 2005. Prior to joining the company, Mr. Carlson was Vice President, General Manager of Phoenix Life Solutions, LLC, a marketer of defibrillators and emergency response systems. From 2000 to 2003, Mr. Carlson was Vice President, Sales for Falcon Waterfree Technologies, LLC, and from 1999 to 2000 he served as Vice President, Sales for Titan Scan Corporation, a manufacturer of electron-beam sterilization systems for medical products. Mr. Carlson

has over 20 years of experience in sales, marketing and senior management roles for medical device and healthcare technology companies such as Johnson & Johnson and Zimmer, Inc. His background has involved strategic planning for startup and early stage companies, including product introduction and distribution planning. Mr. Carlson received his Bachelor of Science degree from the University of Southern California and his Master of Business Administration degree from Arizona State University.

SECTOR – MATERIALS & CONSTRUCTION

(AKT608) TWST: We would like to begin with a brief historical sketch of the company and a picture of the things you are doing right now

Mr. Berry: The company, over the past five to six years, has been engaged in product de-

velopment and improvement as well as relationship building with key team members such as Federal Express and Air Liquide. We are still a pre-revenue company, but we are at the cusp of beginning to get revenues moving. We produce a shipper that is used for the movement of temperature sensitive biological materials, specimens in clinical tri-

als, and the delivery of drugs to market. We received funding about 12 months ago and have had an infusion over the past 12 months of a little over \$4 million, which we believe will get us substantially toward first base, which is a breakeven point. The company will then be looking for additional capital to expand the infrastructure that it needs to become an established global company.

“We have taken a proven technology, called a liquid-nitrogen dry vapor shipper — it is a product that has been used for quite some time in human reproduction, animal reproduction, etc., to safely ship frozen materials around the world. We have used it and positioned it as an alternative to dry ice in the clinical trials space. In addition to our shipper, we have developed a Web portal order entry and tracking system that is tightly integrated with FedEx.”

TWST: Would you describe your shipper and also describe the things that make it different from and perhaps superior to previous products?

Mr. Carlson (VP, Sales & Marketing): We have taken a proven technology, called a liquid-nitrogen dry vapor shipper — it is a product that has been used for quite some time in human reproduction, animal reproduction, etc., to safely ship frozen materials around the world. We have used it and positioned it as an alternative to dry ice in the clinical trials space.

As an example, you’re probably aware that many of these clinical trials are being moved to areas of the world such as Asia Pacific and South America that present a lot of challenges for the companies developing the drugs. They need to keep these patient samples frozen when they’re shipped from a clinical site where a doctor takes the blood sample, then ships it to a diagnostic lab

for analysis either in the US or to a satellite lab somewhere on that same continent.

Right now with dry ice, typically it will only stay cold or frozen for one to two days without re-icing. So the concern has always been, how do we make sure it stays frozen if there is some type of weather hold up or, a more common occurrence, a customs interruption? Clinical research organizations (CROs) pay freight forwarders and specialty couriers a premium to make sure the package is re-iced if there is delay. Our shipper has a holding time of 10 to 12 days in transit compared to two to three days for dry ice. What that does is to dramatically mitigate the risk of losing the patient sample going from the doctor’s office to the lab.

As you’re probably aware, it is not simply a patient sample but also an extremely valuable data point that the pharmaceutical or biotech company needs to move toward approval of a particular drug.

In addition to our shipper, we have developed a Web portal order entry and tracking system that is tightly integrated with FedEx. Our system employs proprietary tracking algorithms to monitor the movement and status of all of our shippers. That removes a lot of the concerns logistically away from the clinical research organizations (CROs) and the drug companies. So not only do we reduce the risk through real time tracking, but we believe from an economic standpoint we help reduce the overall cost of the process.

Our business model is built around a rent and return service that provides the customer with a superior product in terms of hold-time and tracking, but at a lower cost compared to conventional dry-ice alternatives. We let the shipper go out for use one time, then it comes back to the reprocessing center rather like a Hertz rental car where we recondition it, test it, replace the packaging around it, and send it out again.

TWST: What is the technology that you use in place of dry ice?

Mr. Berry: We use a long established technology — liquid nitrogen containers. These products have been around for 40 years or more. The original vision of the company was to try to come up with a throwaway plastic cryogenic container, which is very, very difficult. When we engaged with customers, we found out that they didn't particularly like the idea of brand new, unproven technology. They wanted something that's well proven and reliable. They also were concerned about throwing shippers away in landfills from an EPA point of view. They didn't want to own a large fleet of shippers. Their expertise is either shipping drugs or moving specimens within a clinical trial. So we concluded that it makes no sense for us to continue trying to develop a plastic throw-away container, that we should take a well proven product and put it into a rent and return program. That way we mitigate all their objections; it's a proven technology, there is no need to throw it away, no need to own it and no need to manage the asset. It is available when you need it, where you need it and available ready refrigerated. It's what we call a cryogenic FedEx box; simply drop your specimen into it with nothing else to worry about. We became an end-to-end solution basically when we teamed up with Federal Express.

TWST: You spoke of building relationships and mentioned Federal Express. At what stage are you in a relationship-building phase?

Mr. Berry: We have a solid relationship with Federal Express. We have a collaborative marketing relationship with FedEx and we have been pleased with their support of our program. Providing everything continues in a positive direction, our intention would be to remain aligned with them. We have, in fact, put a lot in place

with them. The Web portal is an example where we have worked with a number of FedEx people to achieve a high level of integration with their "back-end" computer system. We have a pricing agreement with Federal Express and in some situations we will manage the invoice process for the total service to the customer, in others it will be FedEx

"We are just at the cusp of moving into revenue. But our uniqueness, our business model and our alliances can propel us a good ways forward, and I think that would be something that is important in today's market. We fit more closely to a bricks and mortar company profile even though we are technically a service offering."

Mr. Carlson: Just to go further on that, FedEx strategically is looking at "cold chain" as an expanding opportunity and we fit nicely in terms of the small package frozen segment in that market. From our standpoint, the reason FedEx makes so much sense for us is they are the world's largest integrator. They have the largest infrastructure and their own planes and logistical technology to support what we are doing. I'd say it's a very nice fit. From their standpoint, they are entering the market aligned with a company that has the latest and most cost-effective technology.

Mr. Berry: FedEx does not want to babysit packages. Their expertise, their core competence is moving the package and not having to worry whether the shipment is about to become a customer service problem because the dry ice is expended. We removed that issue completely and placed it onto our shoulders.

TWST: Have you been working on developing customers apart from the ones that you have via Federal Express?

Mr. Berry: Yes, we have with FedEx's knowledge and approval, but movement of the package would still be via FedEx. Our main focus right now has been and still is with FedEx toward a small group of key players in the CRO market place. These are very large companies, they are multi-billion in size and progress takes time. There are a lot of stakeholders involved in bringing change into place. We had to put a lot of elements in place from pricing to logistics to running pilots and so forth. We have been working on this entire spectrum with Federal Express most of this year.

"Driving the opportunity for us is almost a 'perfect storm' of trends that include the movement of clinical trials to challenging logistical areas, the pressure to manage the ever escalating costs of clinical trials, and the development of temperature sensitive live cell vaccines, often for cancer, that have to be shipped frozen."

TWST: Would you sketch out the main items on your strategic agenda over the next three years?

Mr. Berry: Basically, the strategy we have right now is to remain focused on the clinical trials space. There are four or five very large companies, multi-billion dollar companies in the space we are focusing on currently. To give you an example, one of these annually ships hundreds of thousands of frozen packages a year. That translates into revenues for us in the \$20 million to \$25 million range. That's without counting in the Federal Express portion of the revenue stream. So you can see that by focusing just on the top four or five clinical trial companies, you can build a \$50 to \$100 million business.

A key market driver favoring our business is that the clinical trials market continues to move off shore, which means longer ship times and un-

avoidable customs delays. The market needs a shipper that can move drugs to market that can be kept frozen for extended periods perhaps by a factor of 2 or 3 times compared to conventional dry-ice shippers. And there is also an emergence of therapeutic drugs and cellular materials that not only will need to be kept frozen, but will need to be kept at cryogenic temperatures. They are basically cryo-preserved. Right now, we are the only shipper most effectively positioned to take that challenge on. So that would be our next strategic focus. Beyond that, we are looking two to three years out. We are right now focused only on the frozen space. We want to move into the other temperature ranges, slightly above freezing as well as the below freezing and cryogenic.

TWST: What about possible challenges or problems? What if anything might you worry about over the next few years?

Mr. Berry: That's a tough one to answer. We were talking the other day, for example, about the economy. Some people were asking us, do you see the recent events in the economy affecting your business? The way we answer that question is, no, not really. Using our service is not a capital decision. We are not asking a company to put \$1 million, \$10 million, \$20 million into what we offer. We're a service basically aligned with FedEx. So using our service is just an operating decision or an operating budget decision. We offer cost savings in most instances, so, if anything, with no capital involved and a cost savings, we are somewhat insulated, we believe, from the effects of the current economy. A bad economy is probably good news for what we are and what we offer.

The only other impact that would concern us is competitive entrants. Right now, we don't regard people who build cryogenic containers as our competitors. We believe that the partnerships

we have with Federal Express and the Web portal “technology” that we have developed plus our ability to track the package should insulate us for at least one to one and a half years against any incoming entrant, by which time we believe we’ll have positioned and established a new and different standard in the industry. We will also have built out the infrastructure to support our business globally, which will help sustain our position in the market. Ultimately, yes, we do see that we will have competition coming in but we think we will have a good insulation layer between us and that event occurring.

TWST: You were speaking of offering savings to your customers. Do you have an idea yet of how large those savings might be?

Mr. Berry: They can be considerable. I would like to be careful on how I express this but you can imagine a specialty carrier who babysits that package with a high infrastructure around the world will likely have a high cost basis. Typically, we’ve found that bringing a specimen from Asia Pacific to the US can cost in the region of \$600 via a specialty courier. We can do it effectively for about half that price.

TWST: What is the picture that you would like to see for the company in about three years?

Mr. Berry: Right now, we are at the starting point of revenue. We believe that through 2009 into the early part of 2010, we will be able to build this company into a \$20 million to \$25 million operating unit. We project that we can see a doubling of revenues easily going forward. This is a \$3 billion market in total, and right now we’ve only mapped out with FedEx a \$200 million business buildup over five years. So that is only about a 6%-7% market penetration. We did not want to be unrealistic in putting out a several hundred million dollar

business plan at this point. Two years down the road, we will have a better vision and greater visibility on how steeply this is going to be able to ramp up. So we certainly see meeting that five-year projection, hopefully, at this stage.

TWST: Is there a genuine problem that you are correcting or is it just an improvement?

Mr. Berry: I believe the use of dry ice has been long tolerated. It’s costly, hazardous, impractical, the logistics are difficult to deal with and not reliable. It adds cost to the clinical trial. It also can add time to the clinical trial. I believe that the recent statistics for bringing a drug to the market are something like \$1 billion. If we can help take time and cost out of that, then we are saving money and we are speeding up the drug to market process.

Mr. Carlson: In addition to that, as Peter said, it can often take \$1 billion to bring a drug to market. We have been told by our customers that typically 30% to 50% of that cost is logistics. In other words, when you’ve got thousands of clinical sites shipping patient samples to labs from all over the world, it turns into a sizeable amount of life cycle cost that we can impact, but I’d also want to top off what Peter said related to dry ice. One of the more interesting things with dry ice in addition to the economics and the fact that holding time is an issue is that there are a lot of places in the world from a regulatory standpoint where it’s getting increasingly difficult to even bring dry ice into the country. There is also a limit on the amount of dry ice that can be carried in an aircraft cargo space.

In addition, a lot of the companies we deal with are very sensitive obviously to environmental issues and are developing green programs. Dry ice is solid carbon dioxide and that’s a negative for the environment moving forward and it is also toxic. So we’ve had a lot of people make positive com-

ments about our transition to liquid nitrogen, which is harmless since it represents 80% of the air that we breathe. So it is not even labeled as hazardous or toxic when we ship, unlike dry ice, which has to be labeled hazardous. So when you add up all of the regulatory issues, the holding time issue that people have to pay for, and the bottom line costs that we help avoid overall we have created a seamless, integrated capability to move patient samples and other biomaterials around the world more cost-effectively.

TWST: What is your feeling about mergers, acquisitions and being acquired?

Mr. Berry: We see obviously the need for acquisitions and mergers. For example, we do not need to be ultimately the manufacturer of the shipper and indeed to keep pace with market demand we anticipate we will need to outsource that through either a merger, an alliance, a partnership or an acquisition. Also the infrastructure we will need globally to re-process these shippers will throw up the need for some type of partnership, whether a franchise, a license, a wholly owned venture or a combination of the three, we will need to build that infrastructure to optimize both our costs and the service we offer to the customer. So clearly, we admit that going forward we will have to be actively looking for appropriate partners, mergers and appropriate acquisitions.

TWST: Would you tell us about your own background and expertise and the same for one of two of your key colleagues?

Mr. Berry: I will give you my background, and I will give you a bit about some of the other key folks we have here. My background is 30 plus years in the industrial gas business, mainly in the manufacturing side of cryogenic equipment. I have worked for the two leading cryogenic equipment companies. One is Union Carbide, which sold off

its cryogenic business to Taylor Wharton in the mid-1980s. I also worked for MVE, which is now owned by Chart-MVE, a publicly traded company I think currently about \$0.5 billion in size.

Most of my life I have lived and worked in Europe and the US. I have worked internationally in a variety of sales and marketing positions. I have been involved in business startup turnarounds, concerning manufacturing-based businesses both in private as well as public companies. Cryoport was somewhat of a surprise for me. I'd just come back from Europe on an assignment when I got involved consulting with this company. I thought the vision was extremely good, but the world didn't need another cryogenic manufacturer at the time. We looked at the vision and held that solid and went about putting everything else in place.

Mr. Carlson: My background is over 20 years in the medical device and healthcare industry. In addition to working for major manufacturers such as Johnson & Johnson and Bristol-Myers Squibb, like Peter, I found myself interested in getting involved in small companies and startups where I've had a chance from the ground up to build the global infrastructure necessary to be successful. In some of these cases, these products or the technologies introduced were new concepts that would change the way people do business like we have here. What's most exciting about this opportunity is we may not only positively impact global health through the efficient development of drugs, but we can do it in a way that will be environmentally sustainable.

Mr. Berry: Our Chief Technical Officer was with me in Union Carbide and he was the Director of Engineering. So we have some deep technology players on board. Our VP of Operations has high volume manufacturing experience with companies like Ingersoll Rand. The reason that is

important is we will have to build these shippers in quantities that they have not seen in the cryogenic industry, so we need to enable high volume manufacturing. Our CFO is well experienced in public companies. She is also from a medical products background. That is the key core team. We also have a good Board and Advisory Board in place.

TWST: You've mentioned building shippers. How large are they? Are they of several different sizes?

Mr. Berry: Right now we have two sizes; one is like a 5-liter drum size that fits in a box that is about 13 inches by 13 inches by 24 inches. We have a 1-liter version of that for small specimen loads. We anticipate that we will probably have ultimately maybe three or four sizes, but certainly not 100 to 200.

TWST: What is the company's cash situation now? How rapidly are you burning cash?

Mr. Berry: Although we were at a higher burn rate for last quarter, we are burning at a rate of about \$200,000 a month going into this next quarter. We filed our Q in late August. I think from memory at that time we were sitting on approximately \$2.4 million of cash.

TWST: Would you describe your investor base?

Mr. Berry: Basically, we received \$4.2 million through a private investment, private equity convertible debenture. I'm not at liberty to mention one of those funds, but I can tell you that the other is a company based in Alpharetta, Georgia, called Roswell Capital Partners.

TWST: What do you focus on most on a day-by-day basis?

Mr. Berry: Moving the ball forward over the goal line with our customers as far as getting revenues going, with Ken. Dealing with cash flow management making sure that our funding is well

applied and our needs are anticipated and identified well in advance before we reach any critical milestone in the future. Working with our investors and investor relations people and until we put the VP of Operations in place, I was effectively also running operations myself. Subsequently I have been able to take a good step back from operations with just a management oversight role in that area.

TWST: What would be the two or three best reasons for the long-term investor to look very closely at CryoPort?

Mr. Berry: I think we have a unique offering right now but, yes, we are still a risk company because we are just at the cusp of moving into revenue. But our uniqueness, our business model and our alliances can propel us a good ways forward, and I think that would be something that is important in today's market. We fit more closely to a bricks and mortar company profile even though we are technically a service offering. I believe we have a solid base at least in the industry that we are involved in and we have good solid alliance partners such as Federal Express.

TWST: What might be some year-by-year milestones that investors could look for?

Mr. Berry: Between now and the end of the year it would be the appearance of news mentioning significant companies that we have been working with. Next, the appearance of revenue starting this year but developing and growing next year, and then later in 2009, the quality of margin and quality of earnings improvement. We see next year as a revenue ramp-up year, not necessarily demonstrating quality earnings, but eventually those fundamentals will come into place. So it is really, let's say, beginning to see startup revenues this fourth calendar quarter, building revenues next year and later in the year building more fundamental quality in margin and earnings thereafter.

TWST: Is there anything that you would like to add?

Mr. Berry: There is a misconception held by some of our current shareholders regarding our speed to market. We are dealing with very, very large companies that don't move fast, they don't turn on dimes. We find ourselves quite often trying to co-ordinate some of the functional units within these companies to move forward at a faster pace. There are a number of stakeholders in these companies and they manage change very intensely. We can move at a much faster pace, being much smaller and more nimble. That can be frustrating not only for us but for our shareholders too. We are not a six-month return right now. We need investors who have a longer overview and a longer risk tolerance. I would say it is going to be one to two years before we are where we need to be to make this company truly successful.

TWST: Is there anything else that you would like to add?

Mr. Carlson: As a followup to what Peter just said, although the companies that we are working with are large, complex organizations we are making progress. The upside of this is once we've implemented our business model within these companies, as long as we execute and perform, we believe we are strongly insulated from competitors. In a broader context and driving the opportunity for us is almost a "perfect storm" of trends that include the movement of clinical trials to challenging logistical areas, the pressure to manage the ever escalating costs of clinical trials, and the development of temperature sensitive live cell vaccines, often for cancer, that have to be shipped frozen. So when you put that together, the opportunities are going to be there for today and will expand for tomorrow.

TWST: How difficult would it be for your competitors to switch from dry ice to liquid nitrogen?

Mr. Berry: It is not an immediate switch that can be made. The key elements we have in our business model are the fact that we ourselves know how to ship them. We do have some technology in the shipper that isn't currently available from other competitors, but that could be fairly easily caught up with. However, we are also teamed with FedEx in going to market and FedEx has the largest global reach today of any carrier. We also have developed what we call the Smart Pack, which is a Web portal coupled with IT tracking of the package and also temperature and state of health monitoring. We also have an alliance with Air Liquide, one of the largest industrial gas producers so that we can get access to liquid nitrogen availability and help with infrastructure globally. So a competitor will have to assemble all these elements to really become an equal to what Cryoport has become today. I think that would take anyone at least 12 to 18 months to accomplish.

TWST: Thank you. (MC)

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