

BIOLIFE SOLUTIONS INC
Form 10-Q
November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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 0-18170

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

Delaware
(State or Other Jurisdiction
of Incorporation)

94-3076866
(IRS Employer
Identification No.)

3303 Monte Villa Parkway, Suite 310
Bothell, WA 98021
(Address of Principal Executive Offices, Including Zip Code)

(425) 402-1400
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large Accelerated Filer | <input type="radio"/> | Accelerated Filer | <input type="radio"/> |
| Non-Accelerated Filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

(Do not check if a smaller reporting company)

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

The registrant had 69,679,854 shares of Common Stock, \$0.001 par value per share, outstanding as of November 10, 2010.

BIOLIFE SOLUTIONS, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BioLife Solutions, Inc.
Balance Sheets
(unaudited)

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$298 | \$139,151 |
| Accounts receivable, trade, net of allowance for doubtful accounts of \$7,400 and \$550 at September 30, 2010 and December 31, 2009, respectively | 317,058 | 315,365 |
| Inventories | 499,450 | 358,219 |
| Prepaid expenses and other current assets | 69,837 | 79,635 |
| Total current assets | 886,643 | 892,370 |
| Property and equipment | | |
| Furniture and computer equipment | 166,243 | 164,964 |
| Manufacturing and other equipment | 534,828 | 521,494 |
| Subtotal | 701,071 | 686,458 |
| Less: Accumulated depreciation and amortization | (330,225) | (281,036) |
| Net property and equipment | 370,846 | 405,422 |
| Long term deposits | 36,166 | 36,166 |
| Total assets | \$1,293,655 | \$1,333,958 |
| Liabilities and Stockholders' Equity (Deficiency) | | |
| Current liabilities | | |
| Accounts payable | \$228,898 | \$192,834 |
| Accrued expenses | 88,867 | 51,251 |
| Accrued compensation | 102,108 | 92,588 |
| Promissory notes payable, related parties | 8,738,127 | - |
| Accrued interest, related parties | 1,199,601 | - |
| Deferred revenue | 20,000 | 20,000 |
| Total current liabilities | 10,377,601 | 356,673 |
| Long term liabilities | | |
| Promissory notes payable, related parties | - | 7,888,127 |
| Accrued interest, related parties | - | 766,973 |
| Deferred revenue, long term | 134,167 | 149,167 |
| Total liabilities | 10,511,768 | 9,160,940 |
| Commitments and Contingencies | | |
| Stockholders' equity (deficiency) | | |

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| | | |
|---|--------------|--------------|
| Common stock, \$0.001 par value; 100,000,000 shares authorized, 69,679,854 issued and outstanding at September 30, 2010 and December 31, 2009 | 69,680 | 69,680 |
| Additional paid-in capital | 42,436,420 | 42,314,560 |
| Accumulated deficit | (51,724,213) | (50,211,222) |
| Total stockholders' equity (deficiency) | (9,218,113) | (7,826,982) |
| Total liabilities and stockholders' equity (deficiency) | \$1,293,655 | \$1,333,958 |

See accompanying notes.

BioLife Solutions, Inc.
Statements of Operations
(unaudited)

| | Three-month Period Ended September 30, | | Nine-month Period Ended September 30, | |
|--|---|--------------|--|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | |
| Product sales | \$519,892 | \$441,526 | \$1,490,571 | \$1,080,999 |
| Licensing revenue | 5,000 | 5,834 | 15,000 | 20,001 |
| Total revenue | 524,892 | 447,360 | 1,505,571 | 1,101,000 |
| Cost of product sales | 300,047 | 329,545 | 856,453 | 778,673 |
| Gross profit | 224,845 | 117,815 | 649,118 | 322,327 |
| Operating expenses | | | | |
| Research and development | 98,350 | 73,267 | 246,784 | 348,837 |
| Sales and marketing | 91,354 | 132,163 | 331,399 | 466,783 |
| General and administrative | 321,337 | 345,270 | 1,149,813 | 1,178,517 |
| Manufacturing start-up costs | - | - | - | 385,205 |
| Total operating expenses | 511,041 | 550,700 | 1,727,996 | 2,379,342 |
| Operating loss | (286,196) | (432,885) | (1,078,878) | (2,057,015) |
| Other income (expenses) | | | | |
| Interest income | 27 | 168 | 140 | 1,043 |
| Interest expense | (150,563) | (128,292) | (432,628) | (353,412) |
| Loss on disposal of property and equipment | - | (1,612) | (1,626) | (3,734) |
| Total other income (expenses) | (150,536) | (129,736) | (434,114) | (356,103) |
| Net Loss | \$(436,732) | \$(562,621) | \$(1,512,992) | \$(2,413,118) |
| Basic and diluted net loss per common share | \$(0.01) | \$(0.01) | \$(0.02) | \$(0.03) |
| Basic and diluted weighted average common shares used to calculate net loss per common share | 69,679,854 | 69,639,854 | 69,679,854 | 69,639,854 |

See accompanying notes.

BioLife Solutions, Inc.

Statements of Cash Flows
(unaudited)

| | Nine-month Period Ended September 30, | |
|--|--|---------------|
| | 2010 | 2009 |
| Cash flows from operating activities | | |
| Net loss | \$(1,512,992) | \$(2,413,118) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 49,635 | 66,879 |
| Loss on disposal of property and equipment | 1,626 | 3,734 |
| Share-based compensation expense | 121,860 | 85,630 |
| Change in operating assets and liabilities | | |
| (Increase) Decrease in | | |
| Accounts receivable, trade | (1,693) | (90,137) |
| Inventories | (141,231) | 387,639 |
| Prepaid expenses and other current assets | 9,798 | (137,663) |
| Increase (Decrease) in | | |
| Accounts payable | 36,064 | (447,308) |
| Accrued expenses and compensation | 47,137 | (45,896) |
| Accrued interest, related parties | 432,628 | 353,412 |
| Deferred revenue | (15,000) | 81,667 |
| Net cash used in operating activities | (972,168) | (2,155,160) |
| Cash flows from investing activity | | |
| Purchase of property and equipment | (16,685) | (372,750) |
| Net cash used in investing activity | (16,685) | (372,750) |
| Cash flows from financing activity | | |
| Proceeds from promissory notes payable, related parties | 850,000 | 2,525,000 |
| Net cash provided by financing activity | 850,000 | 2,525,000 |
| Net decrease in cash and cash equivalents | (138,853) | (2,910) |
| Cash and cash equivalents - beginning of period | 139,151 | 98,724 |
| Cash and cash equivalents - end of period | \$298 | \$95,814 |

See accompanying notes.

BioLife Solutions, Inc.
Notes to Financial Statements
(unaudited)

1. Nature of the Business

Note: The terms “the Company,” “us,” “we” and “our” refer to BioLife Solutions, Inc.

BioLife Solutions, Inc. develops, manufactures, and markets patented hypothermic storage and cryopreservation solutions for cells, tissues, and organs, and provides contracted research and development and consulting services related to optimization of biopreservation processes and protocols. Our proprietary HypoThermosol®, CryoStor®, and generic BloodStor® biopreservation media products are marketed to cell therapy companies, pharmaceutical companies, cord blood banks, hair transplant surgeons, and suppliers of cells to the toxicology testing and diagnostic markets. All of our products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices using United States Pharmacopeia (“USP”) or the highest available grade components.

Our product line of serum-free and protein-free biopreservation media products are fully defined and formulated to reduce preservation-induced, delayed-onset cell damage and death. This platform enabling technology provides academic and clinical researchers significant extension in biologic source material shelf life and also improved post-thaw cell, tissue, and organ viability and function.

The discoveries made by our scientists and consultants relate to how cells, tissues, and organs respond to the stress of hypothermic storage, cryopreservation, and the thawing process, and enables the formulation of truly innovative biopreservation media products that protect biologic material from preservation related cellular injury, much of which is not apparent immediately post-thaw. Our enabling technology provides significant improvement in post-preservation viability and function of biologic material. This yield improvement can reduce research, development, and commercialization costs of new cell and tissue based clinical therapies.

2. Financial Condition and Going Concern

We have been unable to generate sufficient income from operations in order to meet our operating needs and have an accumulated deficit of approximately \$52 million at September 30, 2010. This raises substantial doubt about our ability to continue as a going concern.

On January 11, 2008, we entered into a Secured Convertible Multi-Draw Term Loan Facility Agreement (the “Facility Agreement”) with each of Thomas Girschweiler, a director and stockholder of the Company, and Walter Villiger, an affiliate of the Company (the “Investors”), pursuant to which each Investor extended to the Company a secured convertible multi-draw term loan facility of \$2,500,000, which Facility (a) incorporated (i) a refinancing of then existing indebtedness of the Company to the Investor, and accrued interest thereon, in the aggregate amount of \$1,431,563.30, (ii) a then current advance of \$300,000, and (iii) a commitment to advance to the Company, from time to time, additional amounts up to a maximum of \$768,436.70, (b) bears interest at the rate of 7% per annum on the principal balance outstanding from time to time, (c) is evidenced by a secured convertible multi-draw term loan note (the “Multi-Draw Term Loan Note”), which was due and payable, together with accrued interest thereon, the earlier of (i) January 11, 2010, or (ii) an Event of Default (as defined in the Multi-Draw Term Loan Note), (d) if outstanding at the time of any bona fide equity financing of the Company of at least Two Million Dollars (\$2,000,000) (a “Financing”), at the option of the Investor, could be converted into that number of fully paid and non-assessable shares or units of the equity security(ies) of the Company sold in the Financing (“New Equity Securities”) as is equal to the quotient

obtained by dividing the principal amount of the Facility outstanding at the time of the conversion plus accrued interest thereon by 85% of the per share or per unit purchase price of the New Equity Securities, and (e) is secured by all of the Company's assets.

In May and July 2008, we received an additional \$1,000,000 in total from the Investors pursuant to the Facilities. On October 20, 2008, each Facility was increased by \$2,000,000 to \$4,500,000 (an aggregate of \$9,000,000), and, on October 24, 2008, we received an additional \$600,000 in total from the Investors pursuant to the amended Facilities. In January, May, July, August, and November 2009, we received an additional \$2,825,000 in total from the Investors pursuant to the amended Facilities. In December 2009, the Investors granted an extension of the repayment date to January 11, 2011. In February, April, and August 2010, we received an additional \$850,000 in total from the Investors pursuant to the amended Facilities, which brought our total principal balance owed under the Multi-Draw Term Loan Notes to \$8,738,127, and left \$261,873 to draw from the Facilities at September 30, 2010. We analyzed the Facility in accordance with the authoritative literature with respect to derivatives related to the contingent conversion feature of the promissory notes at a variable exercise price that existed when the notes were first entered into. According to our analysis, the resulting derivatives were not material to the transaction or to the financial statements taken as a whole and, as a result, we did not record the derivative liabilities at each draw date. In December 2009, the Facility was amended such that the conversion feature was deleted in its entirety.

In October 2010, we received an additional \$250,000 in total from the Investors pursuant to the amended Facilities.

We believe that continued access to the amended Facilities, in combination with cash generated from customer collections, will provide sufficient funds through December 31, 2010. However, we would require additional capital in the immediate short term if our ability to draw on the amended Facilities is restricted or terminated. In November 2010, we entered into negotiations to extend and increase the Facilities and expect to secure an amendment to do so by November 30, 2010. Other factors that would negatively impact our ability to finance our operations include (a) significant reductions in revenue from our internal projections, (b) increased capital expenditures, (c) significant increases in cost of goods and operating expenses, or; (d) an adverse outcome resulting from current litigation. We expect that we may need additional capital to reach a sustainable level of positive cash flow. Although the Investors who have provided the amended Facilities historically have demonstrated a willingness to grant access to the Facilities and renegotiate terms of previous credit arrangements there is no assurance they will continue to do so in the future. If the Investors were to become unwilling to provide access to additional funds through the amended Facilities we would need to find immediate additional sources of capital. There can be no assurance that such capital would be available at all, or, if available, that the terms of such financing would not be dilutive to stockholders. If we are unable to secure additional capital as circumstances require, we may not be able to continue our operations.

These financial statements assume that we will continue as a going concern. If we are unable to continue as a going concern, we may be unable to realize our assets and discharge our liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited financial statements have been prepared by the Company according to the rules and regulations of the Securities and Exchange Commission (SEC), and, therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted.

In the opinion of management, the accompanying unaudited financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations and cash flows. These unaudited financial statements should be read in conjunction with the audited financial statements included in Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC.

Reclassifications

Certain prior period amounts in the financial statements have been reclassified to conform to current period presentation. There has been no impact on previously reported net loss or stockholders' equity (deficiency).

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standard Board ("FASB") issued an amendment regarding improving disclosures about fair value measurements. This new guidance requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance did not have an impact on our financial statements.

Fair Value of Financial Instruments

Generally, we have the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value based on the short-term nature of these financial instruments. The carrying value of notes payable approximate their fair value because interest rates of notes payable approximate market interest rates.

4. Inventories

| | September 30, 2010 | December 31, 2009 |
|---------------------------|-----------------------|----------------------|
| Product, Finished Goods | \$ 326,418 | \$ 185,448 |
| Product, Work in Progress | - | 49,350 |
| Raw Materials | 173,032 | 123,421 |
| Total Inventory | \$ 499,450 | \$ 358,219 |

5. Share-based Compensation

In September 2005, the shareholders approved an increase in the number of shares available for issuance under our 1998 Stock Option Plan (“the Plan”) from an aggregate of 4,000,000 shares of common stock to 10,000,000 shares. The purchase price of the common stock underlying each option may not be less than the fair market value at the date the option is granted (110% of fair market value for optionees that own more than 10% of the voting power of the Company). The Plan expired on August 31, 2008. The options are exercisable for up to ten years from the grant date.

During the nine month period ended September 30, 2010, we issued, outside of the Plan, non-incentive stock options for an aggregate of 5,324,815 shares of Company common stock to five directors and eleven employees. Options to purchase an aggregate of 750,000 shares were awarded to five outside directors which vest 100% on the first anniversary date of the awards. Options to purchase 4,574,815 shares were awarded to one director and eleven employees which vests as follows: twenty-five percent on the first anniversary date of the award, and then one-thirty sixth of the remaining balance in each of the ensuing thirty-six months following the first anniversary date of the award.

We recorded stock compensation expense of \$42,639 and \$26,315 for the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009 we recorded stock compensation expense of \$121,860 and \$85,630, respectively. This expense is included in general and administrative expenses on the statements of operations.

As of September 30, 2010, we had approximately \$373,566 of unrecognized compensation expense related to unvested stock options. We expect to recognize this compensation expense over a weighted average period of approximately two and three quarter years.

We use the Black-Scholes options-pricing model (Black-Scholes model) to value share-based employee and non-employee director stock option awards. The determination of fair value of stock-based payment awards using an option-pricing model requires the use of certain estimates and assumptions that affect the reported amount of share-based compensation cost recognized in the Statements of Operations. Among these are expected term of options, estimated forfeitures, expected volatility of the Company’s stock price, expected dividends and risk-free interest rate.

The fair value of share-based payments made to employees and non-employee directors was estimated on the measurement date using the Black-Scholes model using the following weighted average assumptions:

| | Three-month Period Ended | | Nine-month Period Ended | | |
|-------------------------|-----------------------------|------|-------------------------|--------|---|
| | September 30, 2010 | 2009 | September 30, 2010 | 2009 | |
| Risk free interest rate | - | - | 2.22 | % 1.78 | % |

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| | | | | | | |
|--------------------------|---|---|-------|---|-------|---|
| Dividend yield | - | - | 0.0 | % | 0.0 | % |
| Expected term (in years) | - | - | 6.8 | | 6.4 | |
| Volatility | - | - | 87.76 | % | 82.27 | % |

Management applies an estimated forfeiture rate that is derived from historical employee termination data. The estimated forfeiture rate applied for the three and nine months ended September 30, 2010 and 2009 was 7.48% and 9.57%, respectively.

A summary of the Company's stock option activity and related information for the nine months ended September 30, 2010 is as follows:

| | Shares | Wgt. Avg. Exercise Price |
|--|------------|--------------------------------|
| Outstanding at December 31, 2009 | 9,265,000 | \$0.09 |
| Granted | 5,324,815 | 0.10 |
| Exercised | - | - |
| Forfeited/expired | (25,000) | 1.25 |
| Outstanding at September 30, 2010 | 14,564,815 | \$0.09 |
| Outstanding options vested and exercisable at September 30, 2010 | 7,608,073 | \$0.09 |

There were no option awards granted during the three months ended September 30, 2010 and 2009. The weighted average grant-date fair value of option awards granted was \$.08 and \$.06 per share during the nine months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, there was \$92,300 of aggregate intrinsic value of outstanding stock options, including \$56,488 of aggregate intrinsic value of exercisable stock options. Intrinsic value is the total pretax intrinsic value for all "in-the-money" options (i.e., the difference between the Company's closing stock price on the last trading day of September 30, 2010 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options as of September 30, 2010. This amount may change, based on the fair market value of the Company's stock.

6. Warrants

The following table summarizes warrant activity for the nine months ended September 30, 2010:

| | Period Ended September 30, 2010 | Wgt. Avg. Exercise Price |
|--|------------------------------------|--------------------------------|
| | Shares | |
| Outstanding at December 31, 2009 | 2,218,750 | \$ 0.12 |
| Exercised | — | — |
| Forfeited | — | — |
| Outstanding at September 30, 2010 | 2,218,750 | \$ 0.12 |
| Warrants exercisable at September 30, 2010 | 2,218,750 | \$ 0.12 |

The outstanding warrants have expiration dates between May 2012 and December 2013.

7. Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding plus dilutive common stock equivalents outstanding during the period. Common stock equivalents are excluded for the periods ended September 30, 2010 and 2009 since the effect is anti-dilutive due to the Company's net losses. Common stock equivalents include stock options, warrants, and convertible debt (2009 only, as

the conversion feature was eliminated in December of 2009).

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Basic weighted average common shares outstanding, and the potentially dilutive securities excluded from loss per share computations because they are anti-dilutive, are as follows for the periods ended September 30, 2010 and 2009:

| | Three-month and Nine-month Periods Ended September 30, | |
|--|---|------------|
| | 2010 | 2009 |
| Basic and diluted weighted average common stock shares outstanding | 69,679,854 | 69,639,854 |
| Potentially dilutive securities excluded from loss per share computations: | | |
| Common stock options | 14,564,815 | 9,305,000 |
| Common stock purchase warrants | 2,218,750 | 2,218,750 |

8. Related Party Transactions

During the three months ended September 30, 2010 and 2009 we incurred \$1,641 and \$5,143, respectively, in legal fees for services provided by a law firm in which a director and stockholder of the Company is a partner. During the nine months ended September 30, 2010 and 2009 we incurred \$18,326 and \$22,950, respectively, in legal fees for services provided by a law firm in which a director and stockholder of the Company is a partner. Pursuant to a consulting agreement, we incurred \$24,000 and \$26,000, in consulting fees during the three months ended September 30, 2010 and 2009, for services provided by a director and stockholder of the Company. During the nine months ended September 30, 2010 and 2009 we incurred \$72,000 and \$86,000, respectively, in consulting fees for services provided by a director and stockholder of the Company.

Included in accounts payable and accrued expenses are \$15,641 and \$23,895 due to related parties for services rendered as of September 30, 2010 and December 31, 2009, respectively.

9. Subsequent Event

In October 2010, we received an additional \$250,000 in total from Messrs. Girschweiler and Villiger pursuant to the amended Facilities described in Note 2.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements contained in this Quarterly Report on Form 10-Q, including under the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding the Company management's expectations, hopes, beliefs, intentions or strategies regarding the future. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plan" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on the Company's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting the Company will be those that it has anticipated. These forward-looking statements involve a number of risks, uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include those factors described in greater detail in the risk factors disclosed in our Form 10-K for the fiscal year ended December 31, 2009 filed with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those anticipated in these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Overview

Management's discussion and analysis provides additional insight into BioLife Solutions, Inc. and is provided as a supplement to, and should be read in conjunction with, its annual report on Form 10-K for the fiscal year ended December 31, 2009 filed with the Securities and Exchange Commission.

BioLife Solutions, Inc. develops, manufactures, and markets patented hypothermic storage and cryopreservation solutions for cells, tissues, and organs, and provides contracted research and development and consulting services related to optimization of biopreservation processes and protocols. Our proprietary HypoThermosol®, CryoStor®, and generic BloodStor® biopreservation media products are marketed to cell therapy companies, pharmaceutical companies, cord blood banks, hair transplant surgeons, and suppliers of cells to the toxicology testing and diagnostic markets. All of our products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices using United States Pharmacopeia ("USP") or the highest available grade components.

Our product line of serum-free and protein-free biopreservation media products are fully defined and formulated to reduce preservation-induced, delayed-onset cell damage and death. This platform enabling technology provides academic and clinical researchers significant extension in biologic source material shelf life and also improved post-thaw cell, tissue, and organ viability and function.

The discoveries made by our scientists and consultants relate to how cells, tissues, and organs respond to the stress of hypothermic storage, cryopreservation, and the thawing process, and enables the formulation of truly innovative biopreservation media products that protect biologic material from preservation related cellular injury, much of which is not apparent immediately post-thaw. Our enabling technology provides significant improvement in post-preservation viability and function of biologic material. This yield improvement can reduce research, development, and commercialization costs of new cell and tissue based clinical therapies.

Critical Accounting Policies and Significant Judgments and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting. The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported revenues and expenses during the reporting periods presented. On an ongoing basis, we evaluate estimates, including those related to share-based compensation and expense accruals. We base our estimates on historical experience and on other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. Our critical accounting policies and estimates have not changed significantly from those policies and estimates disclosed under the heading "Critical Accounting Policies and Estimates" under Item 7 in our Form 10-K for the fiscal year ended December 31, 2009, filed with the Securities and Exchange Commission.

Liquidity and Capital Resources

As of September 30, 2010, we had \$298 in cash and cash equivalents. To date, we have financed our operations primarily through proceeds from debt instruments including the Secured Convertible Multi-draw Term Loan Facilities described in detail below.

On January 11, 2008, we entered into a Secured Convertible Multi-Draw Term Loan Facility Agreement (the "Facility Agreement") with each of Thomas Girschweiler, a director and stockholder of the Company, and Walter Villiger, an affiliate of the Company (the "Investors"), pursuant to which each Investor extended to the Company a secured convertible multi-draw term loan facility of \$2,500,000, which Facility (a) incorporated (i) a refinancing of then existing indebtedness of the Company to the Investor, and accrued interest thereon, in the aggregate amount of \$1,431,563.30, (ii) a then current advance of \$300,000, and (iii) a commitment to advance to the Company, from time to time, additional amounts up to a maximum of \$768,436.70, (b) bears interest at the rate of 7% per annum on the principal balance outstanding from time to time, (c) is evidenced by a secured convertible multi-draw term loan note (the "Multi-Draw Term Loan Note"), which was due and payable, together with accrued interest thereon, the earlier of (i) January 11, 2010, or (ii) an Event of Default (as defined in the Multi-Draw Term Loan Note), (d) if outstanding at the time of any bona fide equity financing of the Company of at least Two Million Dollars (\$2,000,000) (a "Financing"), at the option of the Investor, could be converted into that number of fully paid and non-assessable shares or units of the equity security(ies) of the Company sold in the Financing ("New Equity Securities") as is equal to the quotient obtained by dividing the principal amount of the Facility outstanding at the time of the conversion plus accrued interest thereon by 85% of the per share or per unit purchase price of the New Equity Securities, and (e) is secured by all of the Company's assets.

In May and July 2008, we received an additional \$1,000,000 in total from the Investors pursuant to the Facilities. On October 20, 2008, each Facility was increased by \$2,000,000 to \$4,500,000 (an aggregate of \$9,000,000), and, on October 24, 2008, we received an additional \$600,000 in total from the Investors pursuant to the amended Facilities. In January, May, July, August, and November 2009, we received an additional \$2,825,000 in total from the Investors pursuant to the amended Facilities. In December 2009, the Investors granted an extension of the repayment date to January 11, 2011. In February, April, and August 2010, we received an additional \$850,000 in total from the Investors pursuant to the amended Facilities, which brought our total principal balance owed under the Multi-Draw Term Loan Notes to \$8,738,127, and left \$261,873 to draw from the Facilities at September 30, 2010. We analyzed the Facility in accordance with the authoritative literature with respect to derivatives related to the contingent conversion feature of the promissory notes at a variable exercise price that existed when the notes were first entered into. According to our analysis, the resulting derivatives were not material to the transaction or to the financial

statements taken as a whole and, as a result, we did not record the derivative liabilities at each draw date. In December 2009, the Facility was amended such that the conversion feature was deleted in its entirety.

In October 2010, we received an additional \$250,000 in total from the Investors pursuant to the amended Facilities.

Operating Capital and Capital Expenditure Requirements

We believe that continued access to the amended Facilities, in combination with cash generated from customer collections, will provide sufficient funds through December 31, 2010. However, we would require additional capital in the immediate short term if our ability to draw on the amended Facilities is restricted or terminated. In November 2010, we entered into negotiations to extend and increase the Facilities and expect to secure an amendment to do so by November 30, 2010. Other factors that would negatively impact our ability to finance our operations include (a) significant reductions in revenue from our internal projections, (b) increased capital expenditures, (c) significant increases in cost of goods and operating expenses, or; (d) an adverse outcome resulting from current litigation. We expect that we may need additional capital to reach a sustainable level of positive cash flow. Although the Investors who have provided the amended Facilities historically have demonstrated a willingness to grant access to the Facilities and renegotiate terms of previous credit arrangements there is no assurance they will continue to do so in the future. If the Investors were to become unwilling to provide access to additional funds through the amended Facilities we would need to find immediate additional sources of capital. There can be no assurance that such capital would be available at all, or, if available, that the terms of such financing would not be dilutive to stockholders. If we are unable to secure additional capital as circumstances require, we may not be able to continue our operations.

Net Cash Used in Operating Activities

For the nine month period ended September 30, 2010, net cash used in operating activities was \$(972,168) as compared to net cash used in operating activities of \$(2,155,160) for the nine month period ended September 30, 2009. The \$1,182,992 decrease in net cash used by operations primarily is reflected in the lower net loss for the year to date, partially offset by non-cash operating expenses including share-based compensation, and changes in operating assets and liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities consisted of purchases of property and equipment. For the nine month period ended September 30, 2010, the aggregate investment in property and equipment was \$(16,685), compared to \$(372,750) for the nine month period ended September 30, 2009, primarily due to the manufacturing facility build-out that took place in the first quarter of 2009.

Net Cash Provided by Financing Activities

Net cash provided by financing activities totaled \$850,000 for the nine month period ended September 30, 2010, which resulted from the draws taken on the Facilities. Net cash provided by financing activities totaled \$2,525,000 for the nine month period ended September 30, 2009 resulting primarily from draws taken on the amended Facilities.

Results of Operations

Three- and Nine-Month Periods Ended September 30, 2010 compared to the Three- and Nine-Month Periods Ended September 30, 2009

Revenue

Product sales for the three months ended September 30, 2010 increased \$78,366, or 18%, to \$519,892, compared to \$441,526 for the three months ended September 30, 2009. Product sales for the nine months ended September 30, 2010 increased \$409,572, or 38%, to \$1,490,571, compared to \$1,080,999 for the nine months ended September 30, 2009. This increase in revenue primarily is due to higher product sales, including our BloodStor™ cord blood stem cell

freeze media introduced in the third quarter of 2009, to existing customers and new customers. Additionally, licensing revenue which is comprised of two agreements with one customer was \$5,000 and \$5,834 for the three months ended September 30, 2010 and 2009, respectively. We expect to recognize licensing revenue ratably over the term of the agreements through September 2019.

Cost of Product Sales

Cost of product sales for the three months ended September 30, 2010 decreased by \$29,498, or 9%, to \$300,047, compared to \$329,545 for the three months ended September 30, 2009. Gross margin as a percentage of revenue increased to 43%, compared to 26% for the same period in 2009. The decrease in cost of product sales primarily is the result of lower indirect overhead costs as compared to the same period in 2009. The gross margin increase reflects the transition from a contract manufacturer to internal manufacturing which began in May 2009, and higher levels of revenue relative to our fixed manufacturing cost structure.

Cost of product sales for the nine months ended September 30, 2010 increased by \$77,780, or 10%, to \$856,453, compared to \$778,673 for the nine months ended September 30, 2009. Gross margin as a percentage of revenue for the nine month period ended September 30, 2010 was 43% as compared to 29% for the same period in 2009. The increase in cost of product sales primarily is the result of increased production costs associated with the increase in product sales. The gross margin increase reflects the transition from a contract manufacturer to internal manufacturing which began in May 2009, and higher levels of revenue relative to our fixed manufacturing cost structure.

Research and Development Expenses

Expenses relating to research and development for the three months ended September 30, 2010 increased \$25,083, or 35%, to \$98,350, compared to \$73,267 for the three months ended September 30, 2009. The increase primarily is due to higher consulting fees related to outside services, offset by a decrease in personnel related costs as a result of a reduction in workforce that took place at the end of July 2009.

For the nine months ended September 30, 2010, research and development expenses decreased \$102,053, or 30%, to \$246,784, compared to \$348,837 for the nine months ended September 30, 2009. The decrease primarily is due to lower personnel related costs as a result of a reduction in workforce that took place at the end of July 2009, a decrease in legal fees associated with the Company's intellectual property portfolio, offset by an increase in consulting fees related to outside services.

Sales and Marketing Expenses

For the three months ended September 30, 2010, sales and marketing expenses decreased \$40,809, or 31%, to \$91,354, compared to \$132,163 for the three months ended September 30, 2009. The decrease primarily is the result of lower personnel related costs due to a reduction in workforce that took place at the end of July 2009.

For the nine months ended September 30, 2010, sales and marketing expenses decreased \$135,384, or 29%, to \$331,399, compared to \$466,783 for the nine months ended September 30, 2009. The decrease primarily is due to lower personnel related costs, a decrease in market research expenses, and lower trade show costs due to timing of the Company's attendance at key trade shows.

General and Administrative Expenses

For the three months ended September 30, 2010, general and administrative expenses decreased \$23,933, or 7%, to \$321,337, compared to \$345,270 for the three months ended September 30, 2009. The decrease primarily is due to lower personnel related costs as a result of staff salary reductions that took place in August 2009, offset by an increase of approximately \$16,000 in non-cash stock based compensation expenses.

For the nine months ended September 30, 2010, general and administrative expenses decreased \$28,704, or 2%, to \$1,149,813, compared to \$1,178,517 for the nine months ended September 30, 2009. The decrease primarily is due to lower personnel related costs, offset by an increase of approximately \$36,000 in non-cash stock based compensation expenses.

Manufacturing Start-up Costs

There were no manufacturing start-up costs for the nine months ended September 30, 2010. In the third quarter of 2008, to reduce cost of product sales and enhance production flexibility, we decided to transition our manufacturing process in-house. The first production run was completed half way through the second quarter in May 2009 at which

time costs were no longer classified as manufacturing start-up. Manufacturing start-up costs were \$385,205 for the nine months ended September 30, 2009.

Interest Expense

Interest expense increased to \$150,563 for the three months ended September 30, 2010 compared to \$128,292 for the three months ended September 30, 2009. For the nine months ended September 30, 2010, interest expense increased to \$432,628, compared to \$353,412 for the same period ended September 30, 2009. The increase is due to a higher average debt balance.

Contractual Obligations

We did not have any off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that we are able to collect the information required to be disclosed in the reports that are filed with the SEC, and to record, process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this report conducted by the Company's management, with the participation of the Company's Chief Executive/Chief Financial Officer, the Chief Executive/Chief Financial Officer concluded that these controls and procedures are effective.

There were no changes in our internal control over financial reporting during the third quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: Other Information

ITEM 6. EXHIBITS

See accompanying Index to Exhibits included after the signature page of this report for a list of exhibits filed or furnished with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIOLIFE SOLUTIONS, INC.

Dated: November 15, 2010

/s/ Michael Rice
Michael Rice
President and Chief Executive Officer
(Principal Executive and Financial Officer)

BioLife Solutions, Inc.

INDEX TO EXHIBITS

| Exhibit No. | - | Description |
|----------------|---|---|
| <u>31.1*</u> | | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32.1*</u> | | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

*Filed herewith