BIOLIFE SOLUTIONS INC
Form 10-Q
November 16, 2009

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2009**

**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** | **94-3076866** |
|---|---|
| ***(State or Other*** | ***(IRS Employer*** |
| ***Jurisdiction of Incorporation)*** | ***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 þ 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 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 ¨ | Accelerated Filer ¨ |
| Non-Accelerated Filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company þ |

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

The registrant had 69,639,854 shares of Common Stock, $0.001 par value per share, outstanding as of October 31, 2009.

**BIOLIFE SOLUTIONS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

1

Balance Sheets as of September 30, 2009 (unaudited) and December 31, 2008

1

Statements of Operations (unaudited for the three-month and nine-month periods ended September 30, 2009 and 2008

2

Statements of Cash Flows (unaudited for the nine-month periods ended September 30, 2009 and 2008

3

Notes to Financial Statements (unaudited)

4

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

9

Item 4T. Controls and Procedures

13

**PART II. OTHER INFORMATION**

Item 6. Exhibits

14

Signatures

15

Index to Exhibits

16

**PART I. FINANCIAL INFORMATION**

**Item 1.**

**Financial Statements**

**BioLife Solutions, Inc.**

**Balance Sheets**
**(unaudited)**

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 95,814 | $ 98,724 |
| Accounts receivable, trade, net of allowance for doubtful accounts of $5,000 and $29,000 at September 30, 2009 and December 31, 2008, respectively | 369,329 | 279,192 |
| Inventories | 237,651 | 625,291 |
| Prepaid expenses and other current assets | 138,814 | 19,483 |
| Total current assets | 841,608 | 1,022,690 |
| | | |
| Property and equipment | | |
| Leasehold improvements | 202,270 | |
| Furniture and computer equipment | 164,964 | 109,753 |
| Manufacturing and other equipment | 319,224 | 210,558 |
| Subtotal | 686,458 | 320,311 |
| Less: Accumulated depreciation and amortization | (254,224 ) | (190,214 ) |
| Net property and equipment | 432,234 | 130,097 |
| Long term deposits | 36,166 | 17,835 |
| Total assets | $ 1,310,008 | $ 1,170,622 |
| | | |
| **Liabilities and Stockholders Equity (Deficiency)** | | |
| Current liabilities | | |
| Accounts payable | $ 211,825 | $ 659,133 |
| Accrued expenses | 196,284 | 242,182 |
| Deferred revenue | 25,833 | 25,833 |
| Promissory notes payable, related parties | 7,588,127 | |

| | | | | |
|---|---|---|---|---|
| Accrued interest, related parties | | 632,372 | | |
| Total current liabilities | | 8,654,441 | | 927,148 |
| | | | | |
| Long term liabilities | | | | |
| Promissory notes payable, related parties | | | | 5,063,127 |
| Accrued interest, related parties | | | | 278,961 |
| Deferred revenue, long term | | 154,167 | | 72,500 |
| Total liabilities | | 8,808,608 | | 6,341,735 |
| | | | | |
| Commitments and Contingencies | | | | |
| | | | | |
| Stockholders' equity (deficiency) | | | | |
| Common stock, $0.001 par value; 100,000,000 shares authorized, 69,639,854 issued and outstanding at September 30, 2009 and December 31, 2008 | | 69,640 | | 69,640 |
| Additional paid-in capital | | 42,287,747 | | 42,202,117 |
| Accumulated deficit | | (49,855,987 ) | | (47,442,870 ) |
| Total stockholders' equity (deficiency) | | (7,498,600 ) | | (5,171,113 ) |
| Total liabilities and stockholders' equity (deficiency) | $ | 1,310,008 | $ | 1,170,622 |

See accompanying notes.

**BioLife Solutions, Inc.**

**Statements of Operations**
**(unaudited)**

| | Three-month Period Ended September 30, | | Nine-month Period Ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Revenue | | | | |
| Product sales | $ 441,526 | $ 296,620 | $ 1,080,999 | $ 869,716 |
| Licensing revenue | 5,834 | 11,250 | 20,001 | 33,750 |
| Total revenue | 447,360 | 307,870 | 1,101,000 | 903,466 |
| Cost of product sales | 329,545 | 133,770 | 778,673 | 519,532 |
| Gross profit | 117,815 | 174,100 | 322,327 | 383,934 |
| Operating expenses | | | | |
| Research and development | 73,267 | 94,133 | 348,837 | 308,813 |
| Sales and marketing | 132,163 | 80,400 | 466,783 | 252,900 |
| General and administrative | 345,270 | 481,771 | 1,178,517 | 1,459,731 |
| Manufacturing start-up costs | | 106,294 | 385,205 | 106,294 |
| Total operating expenses | 550,700 | 762,598 | 2,379,342 | 2,127,738 |
| Operating loss | (432,885 ) | (588,498 ) | (2,057,015 ) | (1,743,804 ) |
| Other income (expenses) | | | | |
| Interest income | 168 | 1,052 | 1,043 | 5,791 |
| Other income | | | | 10,495 |
| Interest expense | (128,292 ) | (75,379 ) | (353,412 ) | (199,579 ) |
| Loss on disposal of property and equipment | (1,612 ) | | (3,734 ) | |
| Amortization of deferred financing costs | | | | (43,750 ) |
| Total other income (expenses) | (129,736 ) | (74,327 ) | (356,103 ) | (227,043 ) |
| Net Loss | $ (562,621 ) | $ (662,825 ) | $ (2,413,118 ) | $ (1,970,847 ) |
| Basic and diluted net loss per common share | $ (0.01 ) | $ (0.01 ) | $ (0.03 ) | $ (0.03 ) |
| Basic and diluted weighted | 69,639,854 | 69,639,854 | 69,639,854 | 69,628,865 |

average common
shares used to calculate net loss
per common share

See accompanying notes.

**BioLife Solutions, Inc.**

**Statements of Cash Flows**
**(unaudited)**

| | Nine-month Period Ended September 30, | |
|---|---|---|
| | **2009** | **2008** |
| Cash flows from operating activities | | |
| Net loss | $ (2,413,118 ) | $ (1,970,847 ) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 66,879 | 20,722 |
| Loss on disposal of property and equipment | 3,734 | |
| Amortization of deferred financing costs | | 43,750 |
| Share-based compensation expense | 85,630 | 53,903 |
| Change in operating assets and liabilities | | |
| (Increase) Decrease in | | |
| Accounts receivable, trade | (90,137 ) | (61,640 ) |
| Inventories | 387,639 | (488,664 ) |
| Prepaid expenses and other assets | (137,663 ) | (19,742 ) |
| Increase (Decrease) in | | |
| Accounts payable | (447,308 ) | 557,487 |
| Accrued expenses | (45,896 ) | 32,867 |
| Accrued interest, related parties | 353,412 | 199,579 |
| Deferred revenue | 81,667 | 101,250 |
| Net cash used in operating activities | (2,155,160 ) | (1,531,335 ) |
| | | |
| Cash flows from investing activity | | |
| Purchase of property and equipment | (372,750 ) | (42,425 ) |
| Net cash used in investing activity | (372,750 ) | (42,425 ) |
| | | |
| Cash flows from financing activities | | |
| Proceeds from promissory notes payable, related parties | 2,525,000 | 1,600,000 |
| Proceeds from exercise of options | | 2,333 |
| Net cash provided by financing activities | 2,525,000 | 1,602,333 |
| | | |
| Net increase (decrease) in cash and cash equivalents | (2,910 ) | 28,573 |
| | | |
| Cash and cash equivalents - beginning of period | 98,724 | 56,497 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents - end of period | $ | 95,814 | $ | 85,070 |
| Non-cash items: | | | | |
| Transfer of accrued interest to promissory notes payable | $ | | $ | 113,127 |

See accompanying notes.

**BioLife Solutions, Inc.**

**Notes to Financial Statements**
**(unaudited)**

**1.**

**Nature of the Business**

BioLife Solutions, Inc. ("BioLife or the Company ) 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. Its proprietary HypoThermosol® ,CryoStor,™and BloodStor™ biopreservation media products are marketed to companies, laboratories, and academic institutions engaged in research and commercial clinical applications. The Company's line of serum-free and protein-free biopreservation solutions 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 improvement in biologic source material shelf life and also post-thaw isolated cell, tissue, and organ viability and function.

**2.**

**Financial Condition and Going Concern**

The Company has been unable to generate sufficient income from operations in order to meet its operating needs and has an accumulated deficit of approximately $50 million at September 30, 2009. This raises substantial doubt about the Company s ability to continue as a going concern.

In February, June and September, 2007, in order to secure capital necessary to continue its operations, the Company borrowed an aggregate of $2,750,000 in equal amounts, from Thomas Girschweiler, a director and stockholder of the Company, and Walter Villiger, an affiliate of the Company, each a non-U.S. Person (as defined in Regulation S of the Securities Act of 1933, as amended) (collectively, the Investors ). Each loan was evidenced by a Promissory Note (collectively, Notes ). Each Note, together with interest accrued thereon at the rate of 7% per annum (collectively, the Conversion Amount ), was due and payable in one lump sum on the earlier of (a), in the case of the February Notes, the second anniversary of the date thereof and, in the case of the June Notes and the September Notes, June 30, 2008 and September 30, 2008, respectively, (b) an Event of Default (as defined in the Notes) or (c) sale, merger or change in control of the Company, as defined. In addition, if any Note was outstanding at the time of any bona fide equity financing of the Company of at least $1,000,000 (a Financing ), then the Note holder was able to convert the Note into that number of shares or units of the equity securities of the Company sold in the Financing ( New Equity Securities ) as is equal to the Conversion Amount divided by, in the case of the February Notes, 85% of the per share or per unit purchase price of the New Equity Securities and, in the case of the June Notes and September Notes, 100% of the per share or per unit purchase price of the New Equity Securities.

On January 11, 2008, the Company entered into a two-year Secured Convertible Multi-Draw Term Loan Facility Agreement with each of the Investors, pursuant to which each Investor extended to the Company a secured convertible multi-draw term loan facility (the Facility ) of $2,500,000, which Facility (a) incorporates (i) a refinancing of the existing indebtedness of the Company to the Investor, represented by the Notes, and accrued interest thereon, in the aggregate amount of $1,431,563.30, (ii) a 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 ), 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, may 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, the Company received an additional $1,000,000 in total from the Investors pursuant to the Multi-Draw Term Loan Facility. 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, the Company received an additional $600,000 in total from the Investors pursuant to the amended Multi-Draw Term Loan Facilities. In January, May, July and August 2009, the

Company received an additional $2,525,000 in total from the Investors pursuant to the amended Multi-Draw Term Loan Facilities, which brought the Company s total principal balance owed under the Multi-Draw Term Loan Notes to $7,588,127, which leaves $1,411,873 left to draw from the Facilities at September 30, 2009. The Multi-Draw Term Loan Facility is due to be repaid on January 11, 2010 and the Company is in discussions with the Investors to grant an extension of the repayment date, until such time the Company becomes cash flow positive or is able to raise additional capital from other sources. The Company has analyzed the Facility in accordance with the authoritative literature with respect to derivative accounting related to the contingent conversion feature of the promissory notes at a variable exercise price. According to the Company s analysis, the resulting derivative is not material to the transaction or to the financial statements taken as a whole.

Management believes that continued access to the amended Multi-Draw Term Loan Facilities, and an extension of the due date thereof, in combination with cash generated from operations, will provide sufficient funds for the next nine months. However, the Company would require additional capital in the immediate short term if its ability to draw on the amended Multi-Draw Term Loan Facilities is restricted or terminated, or if the Investors do not extend the due date for repayment of January 11, 2010. Other factors that would negatively impact the Company s ability to finance its operations include (i) significant reductions in revenue, (ii) increased capital expenditures, (iii) significant increases in cost of goods and operating expenses, or; (iv) an adverse outcome resulting from current litigation. The Company expects that it may need additional capital to reach a sustainable level of positive cash flow. Although the Investors who have provided the amended Multi-Draw Term Loan 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, or that they will provide an extension of repayment date of January 11, 2010. If the Investors were to become unwilling to provide access to additional funds through the amended Multi-Draw Term Loan Facilities, or demand repayment on January 10, 2010, the Company 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 other stockholders. If the Company is unable to secure additional capital as circumstances require, it may not be able to continue its operations.

These financial statements assume that the Company will continue as a going concern. If the Company is unable to continue as a going concern, it may be unable to realize its assets and discharge its 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 the Company 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 on Form 10-K for the fiscal year ended December 31, 2008 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 (deficit).

***Recent Accounting Pronouncements***

In October 2009, the Financial Accounting Standards Board issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance (which does not have an impact on the Company s accounting). Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of a selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method

affects the timing and amount of revenue recognition. The authoritative guidance is to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. However, early adoption is allowable and the Company intends to adopt the guidance on January 1, 2010. The Company believes adoption of this new guidance will not have a material effect on its financial statements.

***Fair Value of Financial Instruments***

The Company generally has 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, 2009 | December 31, 2008 |
|---|---|---|
| Product, Finished Goods | $ 143,885 | $ 502,089 |
| Product, Work in Progress | 38,310 | 113,382 |
| Raw Materials | 55,456 | 9,820 |
| Total Inventory | $ 237,651 | $ 625,291 |

**5.**

**Share-based Compensation**

During 1998, the Company adopted the 1998 Stock Option Plan. An aggregate of 4,000,000 shares of common stock are reserved for issuance upon the exercise of options granted under the plan. In September 2005, the shareholders approved an increase in the number of shares available for issuance 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, 2009, and subsequent to the expiration of the Company s 1998 Stock Option Plan, the Company issued, outside of its plans, non-incentive stock options for an aggregate of 1,765,000 shares of Company common stock to five directors and four employees. Options to purchase 750,000 shares were awarded to five outside directors which vest 100% on the first anniversary date of the awards. Options to purchase 1,015,000 shares were awarded to four 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.

The Company recorded stock compensation expense of $85,630 and $53,903 for the nine months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, the Company had approximately $124,250 of unrecognized compensation expense related to unvested stock options. The Company expects to recognize this compensation expense over a weighted average period of approximately two and one quarter years.

The Company uses 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 September 30, | | Nine-month Period Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Risk free interest rate | | | 1.78% | 2.67% |
| Dividend yield | | | 0.0% | 0.0% |
| Expected term (in years) | | | 6.4 | 7 |
| Volatility | | | 82.27% | 73.74% |

A summary of the Company s stock option activity and related information for the nine months ended September 30, 2009 is as follows:

| | Shares | Wgtd. Avg. Exercise Price |
|---|---|---|
| Outstanding at December 31, 2008 | 8,000,000 | $ 0.09 |
| Granted | 1,765,000 | 0.09 |
| Exercised | | |
| Forfeited/expired | (460,000 ) | 0.17 |
| Outstanding at September 30, 2009 | 9,305,000 | $ 0.07 |
| Outstanding options vested and exercisable at September 30, 2009 | 5,615,834 | $ 0.09 |

There were no option awards granted during the three months ended September 30, 2009 and 2008. The weighted average grant-date fair value of option awards granted was $.06 and $.04 per share during the nine months ended September 30, 2009 and 2008, respectively.

Information related to options outstanding at September 30, 2009 is as follows:

| Range of Exercise Prices | Number of Shares | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
|---|---|---|---|
| $ 0.04-$0.07 | 2,825,000 | 7.73 | $ 0.06 |
| $ 0.08-$0.09 | 5,665,000 | 7.67 | $ 0.08 |
| $ 0.10-$1.25 | 815,000 | 6.68 | $ 0.16 |
| | 9,305,000 | 5.22 | $ 0.07 |

**6.**

**Net Loss per Common Share**

Basic net income (loss) per common share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income (loss) by 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 ending September 30, 2009 and 2008 as the effect would be anti-dilutive. Common stock equivalents include stock options, warrants, and convertible debt.

**7.**

**Related Party Transactions**

The Company incurred $5,143 and $4,433 in legal fees during the three months ended September 30, 2009 and 2008, respectively, for services provided by a law firm in which a director and stockholder of the Company is a partner. Pursuant to a consulting agreement disclosed on the Company s 8-K filing dated November 19, 2007, the Company incurred $26,000 and $30,000 in consulting fees during the three months ended September 30, 2009 and 2008, respectively, for services provided by a director and stockholder of the Company.

During the nine months ended September 30, 2009 and 2008 the Company incurred $22,950 and $68,075 in legal fees for services provided by a law firm in which a director and stockholder of the Company is a partner. The Company incurred $86,000 and $90,000 in consulting fees during the nine months ended September 30, 2009 and 2008, respectively, for services provided by a director and stockholder of the Company.

Included in accounts payable and accrued expenses are $18,337 and $37,116 due to related parties for services rendered as of September 30, 2009 and December 31, 2008, respectively.

**8.**

**Subsequent Events**

The Company evaluated events occurring between the end of its fiscal quarter, September 30, 2009, and through November 13, 2009 when the financial statements were issued.

**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, estimat continue, anticipate, intend, expect, plan and similar expressions may identify forward-looking statements, b 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 its current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting it will be those that the Company 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, 2008 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, 2008 filed with the Securities and Exchange Commission.

We develop, manufacture, and market patented hypothermic storage and cryopreservation solutions for cells, tissues, and organs, and provide contracted research and development and consulting services related to optimization of biopreservation processes and protocols. Our proprietary HypoThermosol®, CryoStor,™ and BloodStor™ biopreservation media products are marketed to companies, laboratories, and academic institutions engaged in research and commercial clinical applications. Our line of serum-free and protein-free biopreservation solutions 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 improvement in biologic source material shelf life and also post-thaw isolated cell, tissue, and organ viability and function.

**Critical Accounting Policies and Significant Judgments and Estimates**

Management s discussion and analysis of the Company s financial condition and results of operations is based on its 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 the Company 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, it evaluates estimates, including those related to share-based compensation and expense accruals. The Company bases its estimates on historical experience and on other factors that it believes 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. The Company s 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 the Company s Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission.

**Liquidity and Capital Resources**

As of September 30, 2009, the Company had $95,814 in cash and cash equivalents. To date, the Company has financed its operations primarily through proceeds from debt instruments including the Secured Convertible Multi-draw Term Loan Facilities described in detail below.

On January 11, 2008, the Company entered into a Secured Convertible Multi-Draw Term Loan 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 (the Facility ) of $2,500,000, which Facility (a) incorporates (i) a refinancing of the existing indebtedness of the Company to the Investor, represented by the Notes, and accrued interest thereon, in the aggregate amount of $1,431,563.30, (ii) a 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 ), 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, may 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, the Company received an additional $1,000,000 in total from the Investors pursuant to the Multi-Draw Term Loan Facility. 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, the Company received an additional $600,000 in total from the Investors pursuant to the amended Multi-Draw Term Loan Facilities. In January, May, July and August 2009, the Company received an additional $2,525,000 in total from the Investors pursuant to the amended Multi-Draw Term Loan Facilities, which brought the Company s total principal balance owed under the Multi-Draw Term Loan Notes to $7,588,127, which leaves $1,411,873 left to draw from the Facilities at September 30, 2009. The Multi-Draw Term Loan Facility is due to be repaid on January 11, 2010 and the Company is in discussions with the Investors to grant an extension of the repayment date, until such time the Company becomes cash flow positive or is able to raise additional capital from other sources. The Company has analyzed the Facility in accordance with the authoritative literature with respect to derivative accounting related to the contingent conversion feature of the promissory notes at a variable exercise price. According to the Company s analysis, the resulting derivative is not material to the transaction or to the financial statements taken as a whole.

***Operating Capital and Capital Expenditure Requirements***

The Company believes that continued access to the Multi-Draw Term Loan Facilities, which requires an agreement to provide an extension of the Facility, in combination with cash generated from operations, will provide sufficient funds for the next nine months. However, the Company would require additional capital in the immediate short term if the Company s ability to draw on the Multi-Draw Term Loan Facilities is restricted or terminated. Other factors that would negatively impact the Company s ability to finance its operations include (i) significant reductions in revenue (ii) increased capital expenditures (iii) significant increases in cost of goods and operating expenses or; (iv) an adverse outcome resulting from current litigation. The Company expects that it may need additional capital to reach a sustainable level of positive cash flow. Although the Investors who have provided the Multi-Draw Term Loan Facilities have historically demonstrated a willingness to grant access to the Facilities, 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 Multi-Draw Term Loan Facilities, the Company will need to find immediate additional sources of capital and 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 other stockholders. If the Company is unable to secure additional capital, as circumstances require, it may not be able to continue its operations.

***Net Cash Used in Operating Activities***

For the nine month period ended September 30, 2009, net cash used in operating activities was $(2,155,160) as compared to net cash used in operating activities of $(1,531,335) for the nine month period ended September 30, 2008. The $623,825 increase in net cash used by operations primarily is reflected in the higher net loss for the year to date, partially offset by non-cash operating expenses including depreciation and 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, 2009, the aggregate investment in property and equipment was $(372,750), compared to $(42,425) for the nine month period ended September 30, 2008, primarily due to the manufacturing facility build-out.

***Net Cash Provided by Financing Activities***

Net cash provided by financing activities totaled $2,525,000 for the nine month period ended September 30, 2009, which resulted from the draws taken on the Multi-Draw Term Loan Facilities. Net cash provided by financing activities totaled $1,602,333 for the nine month period ended September 30, 2008 resulting primarily from draws taken on the Multi-Draw Term Loan Facilities.

**Results of Operations**

**Three- and Nine-Month Periods Ended September 30, 2009 compared to the Three- and Nine-Month Periods Ended September 30, 2008**

***Revenue***

Product sales for the three months ended September 30, 2009 increased $144,906, or 49%, to $441,526, compared to $296,620 for the three months ended September 30, 2008. Product sales for the nine months ended September 30, 2009 increased $211,283, or 24%, to $1,080,999, compared to $869,716 for the nine months ended September 30, 2008. This increase in revenue is primarily due to higher product sales to existing customers, the acquisition of new customers, and initial sales of our new product BloodStor™. Additionally, licensing revenue for the nine months ended September 30, 2009 was $20,001, compared to $33,750 for the nine months ended September 30, 2008 related to product license agreements.

***Cost of Product Sales***

Cost of product sales for the three months ended September 30, 2009 increased by $195,775, or 146%, to $329,545, compared to $133,770 for the three months ended September 30, 2008, resulting in a gross margin as a percentage of revenue of 26% as compared to 57% for the same period in 2008.

Cost of product sales for the nine months ended September 30, 2009 increased by $259,141, or 50%, to $778,673, compared to $519,532 for the nine months ended September 30, 2008, resulting in a gross margin as a percentage of revenue of 29% as compared to 42% for the same period in 2008. The gross margin for both periods reflects the transition from a contract manufacturer to internal manufacturing which began in May 2009. The initial period of in-house production included lower factory utilization during the start-up phase, which resulted in gross margins less than we expect to realize in future periods.

***Research and Development Expenses***

Expenses relating to research and development for the three months ended September 30, 2009 decreased $20,866, or 22%, to $73,267, compared to $94,133 for the three months ended September 30, 2008. The decrease primarily is due to approximately $11,000 in personnel related cost due to the reduction in workforce at the end of July, and a decrease of approximately $8,000 in consulting and contract research expenses due to the timing of outside contracted research and development activities.

For the nine months ended September 30, 2009, research and development expenses increased $40,024, or 13%, to $348,837, compared to $308,813 for the nine months ended September 30, 2008. The increase primarily is due to

higher lab supplies and small equipment expenses related to the build-out of the research and development lab facility.

***Sales and Marketing Expenses***

For the three months ended September 30, 2009, sales and marketing expenses increased $51,763, or 64%, to $132,163, compared to $80,400 for the three months ended September 30, 2008. The increase primarily is due to approximately $48,000 in personnel related costs due to new hires in sales and marketing and an increase of approximately $4,000 in association dues and subscriptions, offset by a decrease of approximately $9,000 in trade show and travel related costs resulting from the timing of certain expenses.

For the nine months ended September 30, 2009, sales and marketing expenses increased $213,883, or 85%, to $466,783, compared to $252,900 for the nine months ended September 30, 2008. The increase primarily is due to higher personnel related costs and an increase in expenses associated with advertising, market research and attendance at trade shows.

***General and Administrative Expenses***

For the three months ended September 30, 2009, general and administrative expenses decreased $136,501, or 28%, to $345,270, compared to $481,771 for the three months ended September 30, 2008. The reduction primarily is due to lower costs of approximately $144,000 in professional and legal fees.

For the nine months ended September 30, 2009, general and administrative expenses decreased $281,214, or 19%, to $1,178,517, compared to $1,459,731 for the nine months ended September 30, 2008. The decrease primarily is due to lower litigation related legal fees.

***Manufacturing Start-up Costs***

There were no manufacturing start-up costs for the three months ended September 30, 2009. In the third quarter of 2008, to reduce cost of product sales and enhance its 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. For the nine months ended September 30, 2009, manufacturing start-up costs were $385,205.

***Interest Expense***

Interest expense increased to $128,292 for the three months ended September 30, 2009 compared to $75,379 for the three months ended September 30, 2008. The increase is due to a higher average debt balance.

For the nine months ended September 30, 2009, interest expense increased to $353,412, compared to $199,579 for the same period ended September 30, 2008. The increase is due to a higher average debt balance.

***Contractual Obligations***

The Company did not enter into any significant contractual obligations during the three month period ended September 30, 2009. It had no significant contractual obligations not fully recorded on its Balance Sheets or fully disclosed in the Notes to our Financial Statements in Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission. The Company did not have any off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

**Item 4T.**

**Controls and Procedures**

The Company maintains disclosure controls and procedures designed to ensure that it is 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 its disclosure controls and procedures as of the end of the period covered by this report conducted by its management, with the participation of the Company s Chief Executive/Chief Financial Officer, the Chief Executive/Chief Financial Officer believes that these controls and procedures are effective.

There were no changes in the Company s internal control over financial reporting during the third quarter of fiscal 2009 that have materially affected, or are reasonably likely to materially affect, its 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 13, 2009

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

**BioLife Solutions, Inc.**

**INDEX TO EXHIBITS**

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

*Filed herewith