BIOLIFE SOLUTIONS INC
Form 10-Q
November 10, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended: **September 30, 2008**

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

**3303 Monte Villa Parkway, Suite 310, Bothell, WA 98021**

*(Address of Principal Executive Office) (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. ü Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | | | |
|---|---|---|---|
| Large accelerated filer | | Accelerated filer | |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company | ü |

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

The registrant had 69,639,854 shares of Common Stock, $0.001 par value per share, outstanding as of October 31, 2008.

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**BIOLIFE SOLUTIONS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

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**PART I. FINANCIAL INFORMATION**

**Item 1.**

**Financial Statements**

**BioLife Solutions, Inc.**

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

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 85,070 | $ 56,497 |
| Accounts receivable, trade, net of allowance for doubtful accounts of $5,000 at both September 30, 2008 and December 31, 2007 | 362,145 | 300,505 |
| Inventories | 587,726 | 99,062 |
| Prepaid expenses | 133,257 | 113,514 |
| Total current assets | 1,168,198 | 569,578 |
| | | |
| Property and equipment | | |
| Leasehold improvements | | 42,448 |
| Furniture and computer equipment | 105,418 | 93,425 |
| Manufacturing and other equipment | 210,558 | 180,197 |
| Subtotal | 315,976 | 316,070 |
| Less: Accumulated depreciation and amortization | (181,582 ) | (203,380 ) |
| Net property and equipment | 134,394 | 112,690 |
| Deferred financing costs, net | | 43,750 |
| | | |
| Total assets | $ 1,302,592 | $ 726,018 |
| | | |
| **Liabilities and Stockholders Equity (Deficiency)** | | |
| Current liabilities | | |
| Accounts payable | $ 654,625 | $ 97,138 |
| Accrued expenses | 265,879 | 233,012 |
| Accrued interest, related parties | | 107,325 |
| Deferred revenue | 109,583 | 8,333 |
| Total current liabilities | 1,030,087 | 445,808 |

| | | | | |
|---|---|---|---|---|
| Long term liabilities | | | | |
| Promissory notes payable, related parties | | 4,463,127 | | 2,750,000 |
| Accrued interest, related parties | | 193,778 | | |
| Total liabilities | | 5,686,992 | | 3,195,808 |
| | | | | |
| Commitments and Contingencies | | | | |
| | | | | |
| Stockholders' equity (deficiency) | | | | |
| Common stock, $0.001 par value; 100,000,000 | | | | |
| shares authorized, 69,639,854 and 69,606,520 shares issued and outstanding at | | | | |
| September 30, 2008 and December 31, 2007, respectively | | 69,640 | | 69,607 |
| Additional paid-in capital | | 42,184,559 | | 42,128,356 |
| Accumulated deficit | | (46,638,599 ) | | (44,667,753 ) |
| | | | | |
| Total stockholders' equity (deficiency) | | (4,384,400 ) | | (2,469,790 ) |
| | | | | |
| Total liabilities and stockholders' equity (deficiency) | $ | 1,302,592 | $ | 726,018 |

See accompanying notes.

**BioLife Solutions, Inc.**

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

| | Three-month Period Ended September 30, | | Nine-month Period Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Revenue | | | | |
| Product sales | $ 296,620 | $ 226,705 | $ 869,716 | $ 636,043 |
| Licensing revenue | 11,250 | 13,750 | 33,750 | 15,417 |
| Total revenue | 307,870 | 240,455 | 903,466 | 651,460 |
| Cost of product sales | 133,770 | 73,958 | 519,532 | 250,315 |
| Gross margin | 174,100 | 166,497 | 383,934 | 401,145 |
| Operating expenses | | | | |
| Research and development | 94,133 | 79,984 | 308,813 | 275,728 |
| Sales and marketing | 80,400 | 170,360 | 252,900 | 544,377 |
| General and administrative | 481,771 | 437,275 | 1,459,731 | 1,412,257 |
| Manufacturing start-up costs | 106,294 | 198,491 | 106,294 | 198,491 |
| Total operating expenses | 762,598 | 886,110 | 2,127,738 | 2,430,853 |
| Operating loss | (588,498 ) | (719,613 ) | (1,743,804 ) | (2,029,708 ) |
| Other income (expenses) | | | | |
| Interest income | 1,052 | 3,616 | 5,791 | 7,607 |
| Other income | | 97 | 10,495 | 1,497 |
| Interest expense | (75,379 ) | (36,324 ) | (199,579 ) | (63,378 ) |
| Amortization of deferred financing costs | | (9,375 ) | (43,750 ) | (21,875 ) |
| Total other income (expenses) | (74,327 ) | (41,986 ) | (227,043 ) | (76,149 ) |
| Net Loss | $ (662,825 ) | $ (761,599 ) | $ (1,970,847 ) | $ (2,105,857 ) |
| Basic and diluted net loss per common share | $ (0.01 ) | $ (0.01 ) | $ (0.03 ) | $ (0.03 ) |
| | 69,639,854 | 69,606,520 | 69,628,865 | 69,311,861 |

Basic and diluted weighted 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, | |
|---|---|---|
| | **2008** | **2007** |
| Cash flows from operating activities | | |
| Net loss | $ (1,970,847 ) | $ (2,105,857 ) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 20,722 | 23,543 |
| Amortization of deferred financing costs | 43,750 | 21,875 |
| Share-based compensation expense | 53,903 | 83,844 |
| Change in operating assets and liabilities | | |
| (Increase) Decrease in | | |
| Accounts receivable, trade | (61,640 ) | (110,999 ) |
| Inventories | (488,664 ) | (156,019 ) |
| Prepaid expenses and other current assets | (19,742 ) | (92,422 ) |
| Increase (Decrease) in | | |
| Accounts payable | 557,487 | 112,015 |
| Accrued expenses | 32,867 | 118,290 |
| Accrued interest, related parties | 199,579 | 58,805 |
| Deferred revenue | 101,250 | 19,583 |
| Net cash used in operating activities | (1,531,335 ) | (2,027,342 ) |
| | | |
| Cash flows from investing activity | | |
| Purchase of property and equipment | (42,425 ) | (87,646 ) |
| Net cash used in investing activity | (42,425 ) | (87,646 ) |
| | | |
| Cash flows from financing activities | | |
| Decrease in restricted cash | | 190,837 |
| Proceeds from promissory notes payable, related parties | 1,600,000 | 2,750,000 |
| Principal payments on note payable | | (197,477 ) |
| Proceeds from exercise of options | 2,333 | |
| Collection of stock subscriptions receivable | | 7,305 |
| Net cash provided by financing activities | 1,602,333 | 2,750,665 |

| | | | | |
|---|---|---|---|---|
| Net increase in cash and cash equivalents | | 28,573 | | 635,677 |
| Cash and cash equivalents - beginning of period | | 56,497 | | 118,674 |
| Cash and cash equivalents - end of period | $ | 85,070 | $ | 754,351 |
| Non-cash items: | | | | |
| Transfer of accrued interest to promissory notes payable | $ | 113,127 | $ | |
| Stock issued in consideration for financing fees related to | | | | |
| Promissory notes payable | $ | | $ | 75,000 |

See accompanying notes.

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**BioLife Solutions, Inc.**

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

## 1. Nature of the Business

BioLife Solutions, Inc. ("BioLife or the Company ) develops and markets patented biopreservation media products for cells, tissues, and organs. The Company's proprietary HypoThermosol® and CryoStor™ platform of hypothermic storage, transport, and cryopreservation 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 diagnostics markets. All of its products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices using only USP or the highest available grade components.

The discoveries made by the Company s scientists relate to how cells, tissues, and organs respond to the stress of hypothermic storage, cryopreservation, and the thawing process enabled 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. This enabling technology provides significant improvement in post-preservation viability and function of biologic material. The yield improvement can reduce research, development, and commercialization costs of new cell and tissue based clinical therapies.

## 2. Financial Condition

On January 11, 2008, the Company entered into a Secured Convertible Multi-Draw Term Loan Facility Agreement with each of Thomas Girschweiler and Walter Villiger (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 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 ), 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. As of September 30, 2008, the Company, contingent on the approval of the Investors, could access an aggregate of an additional $536,873 in capital under the Multi-Draw Term Loan Facility Agreements.

On October 20, 2008, each Facility was increased by $2,000,000 to $4,500,000 (an aggregate of $9,000,000). On October 24, 2008, the Company received an additional $600,000 in total from the Investors pursuant to the Facility. The Company believes that continued access to the Multi-Draw Term Loan Note, in combination with cash generated from operations, will provide sufficient funds through at least the next twelve 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 Note be 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 Note have historically demonstrated a willingness to grant access to the Facility, 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 Note, 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.

These financial statements assume that the Company will continue as a going concern. If the Company is unable to continue as a going concern, the Company 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-KSB for the fiscal year ended December 31, 2007 filed with the Securities and Exchange Commission (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 shareholders equity.

***Recent Accounting Pronouncements***

In May 2008, the FASB issued FASB FSP Accounting Principles Board ( APB ) ( FSP APB 14-1 ), Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement of the conversion option. FSP APB 14-1 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The liability component of the debt instrument is accreted to par using the effective yield method; accretion is reported as a component of interest expense. The equity component is not subsequently re-valued as long as it continues to qualify for equity treatment. FSP APB 14-1 must be applied retrospectively to previously issued cash-settleable convertible instruments as well as prospectively to newly issued instruments. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Though the Company does not believe FSP APB 14-1 will have an effect on its current financial position, the Company is currently evaluating the requirements of FSP APB 14-1 with respect to its recent convertible debt financing (see Note 2 above) and has not yet determined the impact on the Company s financial statements.

***Manufacturing Start-up Costs***

During the third quarter of 2007, as a result of relocating the Company from Owego, NY to Bothell, WA, the Company decided to outsource its manufacturing and entered into a contract with a Contract Manufacturing Organization ( CMO ). One-time start-up costs related to the outsourcing of its manufacturing were expensed as incurred and amounted to $198,490 for the period ended September 30, 2007. In the third quarter of 2008, in order to lower its cost of product sales, based on anticipated future sales volume, the Company has decided to transition to internal manufacturing and maintain its relationship with its CMO as a contingency for additional production capacity. One-time start-up costs related to the transition to internal manufacturing were expensed as incurred and amounted to $106,294 for the period ended September 30, 2008.

**4. Inventories**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| Product, Finished Goods | $ | 264,405 | $ | 89,242 |
| Product, Work in Progress | | 305,682 | | |
| Raw Materials | | 17,639 | | 9,820 |
| Total Inventory | $ | 587,726 | $ | 99,062 |

**5. Share-based Compensation**

At September 30, 2008 and December 31, 2007, the Company had one active share-based compensation plan, the 1998 Stock Option Plan (as amended through September 28, 2005), which is described more fully in Note 6 of the Company s Financial Statements included in its 2007 Form 10-KSB. Under Statement of Financial Accounting Standard SFAS 123R, the Company recorded stock compensation expense of $16,743 and $32,527 for the three months ended September 30, 2008 and 2007,

respectively. For the nine month periods ended September 30, 2008 and 2007 the company recorded stock compensation expense of $53,903 and $83,844, respectively.

As of September 30, 2008, the Company had approximately $117,000 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 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,** | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Risk free interest rate | | 4.60 % | 2.67 % | 4.70 % |
| Dividend yield | | 0.0 % | 0.0 % | 0.0 % |
| Expected term (in years) | | 7 | 7 | 6.3 |
| Volatility | | 76.20 % | 73.74 % | 74.57 % |

A summary of the Company s stock option activity and related information for the nine months ended September 30, 2008 is as follows:

| | **Shares** | **Wgtd. Avg. Exercise Price** |
|---|---|---|
| Outstanding at December 31, 2007 | 6,844,000 | $ 0.12 |
| Granted | 450,000 | 0.05 |

| | | | |
|---|---|---|---|
| Exercised | (33,334 ) | | 0.07 |
| Forfeited | (210,666 ) | | 0.66 |
| Outstanding at September 30, 2008 | 7,050,000 | $ | 0.07 |
| Outstanding options vested and exercisable at September 30, 2008 | 4,184,999 | $ | 0.10 |

The weighted average grant-date fair value of option awards granted was $.07 per share during the three months ended September 30, 2007. There was no option awards granted during the three months ended September 30, 2008. The weighted average grant-date fair value of option awards granted was $.04 and $.06 per share during the nine months ended September 30, 2008 and 2007, respectively.

The total intrinsic value of options exercised, determined as of the date of exercise, during the nine-month period ended September 30, 2008 was $334.

Exercise prices for options outstanding at September 30, 2008 are as follows:

| Range of Exercise Prices | Number Of Shares | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | |
|---|---|---|---|---|
| $0.05-$0.07 | 2,050,000 | 8.19 | $ | 0.07 |
| $0.08-$0.09 | 4,145,000 | 8.05 | $ | 0.08 |
| $0.10-$1.25 | 855,000 | 7.33 | $ | 0.21 |
| | 7,050,000 | 7.86 | $ | 0.09 |

**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, 2008 and 2007 as the effect would be anti-dilutive. Common stock equivalents include stock options, warrants, and convertible debt.

**7. Related Party Transactions**

The Company incurred $68,075 and $144,025 in legal fees during the nine months ended September 30, 2008 and 2007, 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 $90,000 and $30,000 in consulting fees during the nine months ended September 30, 2008 and 2007, respectively, for services provided by a director and stockholder of the Company.

Included in accounts payable and accrued expenses is $25,123 and $32,678 due to related parties for services rendered as of September 30, 2008 and December 31, 2007, respectively.

**8. Subsequent Event**

On November 4, 2008, the Company signed an amended 5-year lease to gain 5,798 square feet of additional clean room space for its manufacturing floor in a facility adjacent to its corporate office facility leased in Bothell, WA at an initial rental rate of $14,495 per month for the new space. Included in this amendment is the exercise of the renewal option for its current office and laboratory space to make the lease for such space coterminous with the new facility 5-year lease period. In July 2007, the Company originally signed a 4-year lease, commencing August 1, 2007, for 4,366 square feet of office and laboratory space in Bothell, WA at an initial rental rate of $6,367 per month.



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**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, l 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 is 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-KSB for the fiscal year ended December 31, 2007 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-KSB for the fiscal year ended December 31, 2007 filed with the Securities and Exchange Commission.

We develop and market patented biopreservation media products for cells, tissues, and organs. Our proprietary HypoThermosol® and CryoStor™ platform of hypothermic storage, transport, and cryopreservation 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 diagnostics markets. All of our products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices using USP or the highest available grade components.

The discoveries made by our scientists related to how cells, tissues, and organs respond to the stress of hypothermic storage, cryopreservation, and the thawing process enabled 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 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 6 in the Company s Form 10-KSB for the fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission.



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**Results of Operations**

**Three- and Nine-Month Periods Ended September 30, 2008 compared to the Three- and Nine-Month Periods Ended September 30, 2007**

***Revenue***

Product sales for the three months ended September 30, 2008 increased $69,915, or 31%, to $296,620, compared to $226,705 for the three months ended September 30, 2007. Product sales for the nine months ended September 30, 2008 increased $233,673, or 37%, to $869,716, compared to $636,043 for the nine months ended September 30, 2007. This increase in revenue was primarily due to higher product sales to existing customers and the acquisition of new customers in the cell therapy and cord blood markets. Additionally, the Company had revenue for the nine months ended September 30, 2008 of $33,750, compared to $15,417 for the nine months ended September 30, 2007 related to three license agreements.

***Cost of Product Sales***

Cost of product sales for the three months ended September 30, 2008 increased by $59,812, or 81%, to $133,770, compared to $73,958 for the three months ended September 30, 2007, resulting in a gross margin as a percentage of revenue of 57% as compared to 69% for the same period in 2007. Cost of product sales for the nine months ended September 30, 2008 increased by $269,217, or 108%, to $519,532, compared to $250,315 for the nine months ended September 30, 2007, resulting in a gross margin as a percentage of revenue of 43% as compared to 62% for the same period in 2007. The increase in cost of product sales is primarily attributable to the higher production costs at the company s CMO compared to the prior periods when products were manufactured internally. To reduce cost of product sales, and enhance its production flexibility, the Company has decided to transition to internal manufacturing and maintain its relationship with its contract manufacturer as a contingency for additional production capacity.

***Research and Development Expenses***

Expenses relating to research and development for the three months ended September 30, 2008 increased $14,149, or 18%, to $94,133, compared to $79,984 for the three months ended September 30, 2007. The increase was primarily due to an increase in headcount costs of $21,000 and ongoing research project costs of $18,000, offset by a decrease in Intellectual Property ( IP ) related legal expenses of $8,000, and travel and related expenses of $17,000.

For the nine months ended September 30, 2008 research and development expenses increased $33,085, or 12%, to $308,813, compared to $275,728 for the nine months ended September 30, 2007. The increase was due to year over year increase in IP related legal expenses and an increase in headcount costs.

***Sales and Marketing Expenses***

For the three months ended September 30, 2008, sales and marketing expenses decreased $89,960, or 53%, to $80,400, compared to $170,360 for the three months ended September 30, 2007. The decrease is primarily due to lower compensation and benefits expense of $47,000, a decrease of $14,000 in travel and related expenses, and a decrease of $17,000 in consultant fees, all of which are associated with lower headcount in sales and marketing.

For the nine months ended September 30, 2008, sales and marketing expenses decreased $291,477, or 54%, to $252,900, compared to $544,377 for the nine months ended September 30, 2007. The decrease is due to lower headcount and travel related costs.

***General and Administrative Expenses***

For the three months ended September 30, 2008, general and administrative expenses increased $44,496, or 10%, to $481,771, compared to $437,275 for the three months ended September 30, 2007. The increase is primarily due to an increase of $65,000 in legal fees associated with ongoing litigation, and an increase of $31,000 in professional and consulting services. Offsetting decreases include $25,000 in travel and related costs, $10,000 in facility lease and related office expenses, and a $16,000 decrease in stock-based compensation associated with the decrease in headcount and fully vested stock option grants.

For the nine months ended September 30, 2008, general and administrative expenses increased $47,474, or 3%, to $1,459,731, compared to $1,412,257 for the nine months ended September 30, 2007. The increase is primarily due to higher legal fees associated with ongoing litigation, offset by a decrease in facility lease cost.



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***Manufacturing Start-up Costs***

For the three and nine months ended September 30, 2008, manufacturing start-up costs were $106,294, compared to $198,491 for the three and nine months ended September 30, 2007. During the third quarter of 2007, as a result of relocating the Company from Owego, NY to Bothell, WA, the Company decided to outsource its manufacturing and entered into a contract with a Contract Manufacturing Organization ( CMO ). In the third quarter of 2008, to reduce cost of product sales and enhance its production flexibility, the Company has decided to transition to internal manufacturing and maintain its relationship with its CMO as a contingency for additional production capacity. These expenses are expected to trend higher in the fourth quarter as preparation in bringing the manufacturing process back in-house continue. One-time start-up costs related to these efforts were expensed as incurred.

***Interest Expense***

Interest expense increased to $75,379 for the three months ended September 30, 2008 from $36,324 for the three months ended September 30, 2007. The increase is due to a higher average debt balance.

For the nine months ended September 30, 2008, interest expense increased to $199,579, compared to $63,378 for the same period ended September 30, 2007. The increase is due to a higher average debt balance.

***Operating Expenses and Net Loss***

For the three months ended September 30, 2008, operating expenses (excluding product costs) decreased $123,512, or 14%, to $762,598, compared to $886,110 for the three months ended September 30, 2007. The Company reported a net loss of ($662,825) for the three months ended September 30, 2008, compared to a net loss of ($761,599) for the three months ended September 30, 2007.

For the nine months ended September 30, 2008, operating expenses (excluding product costs) decreased $303,115, or 12%, to $2,127,738, compared to $2,430,853 for the nine months ended September 30, 2007. The Company reported a net loss of ($1,970,847) for the nine months ended September 30, 2008, compared to the net loss of ($2,105,857) for the nine months ended September 30, 2007.

**Liquidity and Capital Resources**

As of September 30, 2008, the Company had $85,070 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 Facility 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 and Walter Villiger (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 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 ), 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. As of September 30, 2008, the Company, contingent on the approval of the Investors, could access an aggregate of an additional $536,873 in capital under the Multi-Draw Term Loan Facility Agreements. On October 20, 2008, each Facility was increased by $2,000,000 to $4,500,000 (an aggregate of $9,000,000). On October 24, 2008, the Company received an additional $600,000 in total from the Investors pursuant to the Multi-Draw Term Loan Facility.

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

For the nine month period ended September 30, 2008, net cash used in operating activities was $(1,531,335) as compared to net cash used in operating activities of $(2,027,342) for the nine month period ended September 30, 2007. The $496,007 decrease in

net cash used by operations primarily is reflected in the lower net loss for the quarter, partially offset by non-cash operating expenses including depreciation, amortization of deferred financing costs, share-based compensation, and changes in operating assets and liabilities.

***Net Cash Provided by Investing Activities***

Net cash used in investing activities consist of purchases of property and equipment. For the nine month period ended September 30, 2008, the aggregate investment in property and equipment was $(42,425), compared to $(87,646) for the nine month period ended September 30, 2007.

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

Net cash provided by financing activities totaled $1,602,333 for the nine month period ended September 30, 2008, which resulted primarily from the draws taken on the Multi-Draw Term Loan Note due to two shareholders. Net cash provided by financing activities totaled $2,750,665 for the nine month period ended September 30, 2007 resulting from the issuance of promissory notes.

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

The Company believes that continued access to the Multi-Draw Term Loan Note, in combination with cash generated from operations, will provide sufficient funds for at least the next twelve 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 Note be 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 Note have historically demonstrated a willingness to grant access to the Facility, 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 Note, 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.

These financial statements assume that the Company will continue as a going concern. If the Company is unable to continue as a going concern, the Company 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.

***Contractual Obligations***

The Company did not enter into any significant contractual obligations during the nine month period ended September 30, 2008. It had no significant contractual obligations not fully recorded on our Balance Sheets or fully disclosed in the Notes to our Financial Statements in Form 10-KSB for the fiscal year ended December 31, 2007, 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).

***Subsequent Event***

On November 4, 2008, the Company signed an amended 5-year lease to gain 5,798 square feet of additional clean room space for its manufacturing floor in a facility adjacent to its corporate office facility leased in Bothell, WA at an initial rental rate of $14,495 per month for the new space. Included in this amendment is the exercise of the renewal option for its current office and laboratory space to make the lease for such space coterminous with the new facility 5-year lease period. In July 2007, the Company originally signed a 4-year lease, commencing August 1, 2007, for 4,366 square feet of office and laboratory space in Bothell, WA at an initial rental rate of $6,367 per month.



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**Item 4.**

**Controls and Procedures**

The Company maintains disclosure controls and procedures designed to ensure that it is able to collect the information required to disclose 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 to ensure that it is able to collect, process and disclose the information required to disclose in the reports that are filed with the SEC within the required time periods.

There were no changes in the Company s internal control over financial reporting during the third quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.



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## 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.



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**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.

Dated: November 10, 2008

**BIOLIFE SOLUTIONS, INC.**

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

**BioLife Solutions, Inc.**

**INDEX TO EXHIBITS**

| **Exhibit No.** | **Description** |
| --- | --- |
| 10 | First Amendment to Lease, dated the 4th day of November, 2008, between the Company and Monte Villa Farms, LLC |
| 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 |