

BIOLIFE SOLUTIONS INC  
Form 10-Q  
August 12, 2013

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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 June 30, 2013

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

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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  Smaller reporting company   
(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 70,035,710 shares of Common Stock, \$0.001 par value per share, outstanding as of August 1, 2013.

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BIOLIFE SOLUTIONS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2013

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

|  |    |
|--|----|
| <u>Item 1. Financial Statements</u>  | 3  |
| <u>Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012</u>                                  | 3  |
| <u>Statements of Operations (unaudited) for the three and six month periods Ended June 30, 2013 and 2012</u> | 4  |
| <u>Statements of Cash Flows (unaudited) for the six month periods Ended June 30, 2013 and 2012</u>           | 5  |
| <u>Notes to Financial Statements (unaudited)</u>   | 6  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>         | 10 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>                                    | 15 |
| <u>Item 4. Controls and Procedures</u>   | 15 |

PART II. OTHER INFORMATION

|                          |    |
|--------------------------|----|
| <u>Item 6. Exhibits</u>  | 16 |
| <u>Signatures</u>        | 17 |
| <u>Index to Exhibits</u> | 18 |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

BIOLIFE SOLUTIONS, INC.  
Balance Sheets  
(unaudited)

|  | June 30,<br>2013 | December 31,<br>2012 |
|--|------------------|----------------------|
| Assets   |                  |                      |
| Current assets   |                  |                      |
| Cash and cash equivalents  | \$ 76,205        | \$ 196,478           |
| Accounts receivable, trade, net of allowance for doubtful accounts of \$1,100 at June 30, 2013 and December 31, 2012 | 980,974          | 600,153              |
| Inventories  | 593,138          | 656,397              |
| Prepaid expenses and other current assets  | 165,292          | 174,731              |
| Total current assets   | 1,815,609        | 1,627,759            |
| Property and equipment   |                  |                      |
| Leasehold improvements   | 1,121,362        | 919,035              |
| Furniture and computer equipment   | 296,832          | 288,725              |
| Manufacturing and other equipment  | 757,060          | 741,771              |
| Subtotal   | 2,175,254        | 1,949,531            |
| Less: Accumulated depreciation   | (733,347)        | (615,085)            |
| Net property and equipment   | 1,441,907        | 1,334,446            |
| Long term deposits   | 36,166           | 36,166               |
| Deferred financing costs, net  | 143,399          | 171,458              |
| Total assets   | \$ 3,437,081     | \$ 3,169,829         |
| Liabilities and Shareholders' Equity (Deficiency)  |                  |                      |
| Current liabilities  |                  |                      |
| Accounts payable   | \$ 1,041,717     | \$ 862,492           |
| Accrued expenses and other current liabilities   | 51,820           | 8,495                |
| Accrued compensation   | 218,405          | 363,101              |
| Deferred rent  | 111,250          | 111,250              |
| Deferred revenue   | —                | 20,000               |
| Total current liabilities  | 1,423,192        | 1,365,338            |
| Long term liabilities  |                  |                      |
| Promissory notes payable, related parties  | 10,603,127       | 10,603,127           |
| Accrued interest, related parties  | 3,130,501        | 2,759,391            |
| Deferred rent, long term   | 942,955          | 838,829              |
| Deferred revenue, long term  | —                | 89,167               |
| Total liabilities  | 16,099,775       | 15,655,852           |
| Commitments and Contingencies (Note 10)  |                  |                      |
| Shareholders' equity (deficiency)  |                  |                      |
|  | 70,036           | 69,680               |

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Common stock, \$0.001 par value; 100,000,000 shares authorized, 70,035,710 and 69,679,854 shares issued and outstanding at June 30, 2013 and December 31, 2012

|   |              |              |
|---|--------------|--------------|
| Additional paid-in capital                              | 43,368,029   | 43,255,374   |
| Accumulated deficit                                     | (56,100,759) | (55,811,077) |
| Total shareholders' equity (deficiency)                 | (12,662,694) | (12,486,023) |
| Total liabilities and shareholders' equity (deficiency) | \$ 3,437,081 | \$ 3,169,829 |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Table of Contents

BIOLIFE SOLUTIONS, INC.  
Statements of Operations  
(unaudited)

|   | Three Months<br>Ended June 30, |                      | Six Months<br>Ended June 30, |                      |
|---|--------------------------------|----------------------|------------------------------|----------------------|
|   | 2013                           | 2012                 | 2013                         | 2012                 |
| <b>Revenue</b>  |                                |                      |                              |                      |
| Product sales   | \$ 2,330,018                   | \$ 1,092,409         | \$ 3,880,863                 | \$ 1,923,289         |
| Licensing revenue   | —                              | 5,000                | 609,167                      | 10,000               |
| <b>Total revenue</b>  | <b>2,330,018</b>               | <b>1,097,409</b>     | <b>4,490,030</b>             | <b>1,933,289</b>     |
| Cost of product sales   | 1,501,575                      | 641,748              | 2,536,103                    | 987,877              |
| <b>Gross profit</b>   | <b>828,443</b>                 | <b>455,661</b>       | <b>1,953,927</b>             | <b>945,412</b>       |
| <b>Operating expenses</b>   |                                |                      |                              |                      |
| Research and development  | 94,908                         | 126,627              | 200,876                      | 243,148              |
| Sales and marketing   | 214,762                        | 160,658              | 417,520                      | 234,039              |
| General and administrative  | 601,617                        | 475,006              | 1,226,044                    | 954,119              |
| <b>Total operating expenses</b>   | <b>911,287</b>                 | <b>762,291</b>       | <b>1,844,440</b>             | <b>1,431,306</b>     |
| <b>Operating income (loss)</b>  | <b>(82,844 )</b>               | <b>(306,630 )</b>    | <b>109,487</b>               | <b>(485,894 )</b>    |
| <b>Other income (expenses)</b>  |                                |                      |                              |                      |
| Other income  | —                              | 5,981                | —                            | 94,253               |
| Interest expense  | (185,555 )                     | (183,543 )           | (371,110 )                   | (362,320 )           |
| Loss on disposal of property and equipment  | —                              | —                    | —                            | (63 )                |
| Amortization of deferred financing costs  | (14,107 )                      | (14,701 )            | (28,059 )                    | (41,746 )            |
| <b>Total other income (expenses)</b>  | <b>(199,662 )</b>              | <b>(192,263 )</b>    | <b>(399,169 )</b>            | <b>(309,876 )</b>    |
| <b>Net Loss</b>   | <b>\$ (282,506 )</b>           | <b>\$ (498,893 )</b> | <b>\$ (289,682 )</b>         | <b>\$ (795,770 )</b> |
| <b>Basic and diluted net loss per common share</b>  | <b>\$ (0.00 )</b>              | <b>\$ (0.01 )</b>    | <b>\$ (0.00 )</b>            | <b>\$ (0.01 )</b>    |
| <b>Basic and diluted weighted average common shares used to calculate net loss per common share</b> | <b>70,035,710</b>              | <b>69,679,854</b>    | <b>69,954,654</b>            | <b>69,679,854</b>    |

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Table of ContentsBIOLIFE SOLUTIONS, INC.  
Statements of Cash Flows

(unaudited)

|   | Six Month Period Ended |              |
|---|------------------------|--------------|
|   | June 30,               |              |
|   | 2013                   | 2012         |
| Cash flows from operating activities  |                        |              |
| Net loss  | \$ (289,682)           | \$ (795,770) |
| Adjustments to reconcile net loss to net cash provided by operating activities                            |                        |              |
| Depreciation  | 118,262                | 59,377       |
| Loss on disposal of property and equipment  | —                      | 63           |
| Stock-based compensation expense  | 87,553                 | 97,613       |
| Amortization of deferred financing costs  | 28,059                 | 41,746       |
| Lease incentives received from landlord, net of amortization of deferred rent related to lease incentives | 123,821                | 785,112      |
| Change in operating assets and liabilities  |                        |              |
| (Increase) Decrease in  |                        |              |
| Accounts receivable, trade  | (380,821)              | 187,953      |
| Inventories   | 63,259                 | (410,854)    |
| Prepaid expenses and other current assets   | 9,439                  | 13,787       |
| Increase (Decrease) in  |                        |              |
| Accounts payable  | 179,225                | 128,513      |
| Accrued compensation and other current liabilities  | (101,371)              | 67,430       |
| Accrued interest, related parties   | 371,110                | 362,320      |
| Deferred rent   | (19,695)               | —            |
| Deferred revenue  | (109,167)              | 148,717      |
| Net cash provided by operating activities   | 79,992                 | 686,007      |
| Cash flows from investing activities  |                        |              |
| Cash received from sale of property and equipment   | —                      | 700          |
| Purchase of property and equipment  | (225,723)              | (1,023,217)  |
| Net cash used in investing activities   | (225,723)              | (1,022,517)  |
| Cash flows from financing activities  |                        |              |
| Proceeds from exercise of common stock options  | 25,458                 | —            |
| Proceeds from notes payable   | —                      | 475,000      |
| Net cash provided by financing activities   | 25,458                 | 475,000      |
| Net increase (decrease) in cash and cash equivalents  |                        |              |
|   | (120,273)              | 138,490      |
| Cash and cash equivalents - beginning of period   |                        |              |
|   | 196,478                | 16,864       |
| Cash and cash equivalents - end of period   |                        |              |
|   | \$ 76,205              | \$ 155,354   |
| Non-cash financing activities   |                        |              |
| Deferred financing costs from issuance of warrants (See Note 7)   | —                      | \$ 137,955   |

The accompanying Notes to Financial Statements are an integral part of these financial statements.



Table of Contents

BIOLIFE SOLUTIONS, INC.

Notes to Financial Statements  
(unaudited)

1. Business

BioLife Solutions, Inc. ("BioLife," "us," "we," "our," or the "Company") develops, manufactures and markets patented hypothermic storage and cryopreservation solutions for cells and tissues. The Company's proprietary HypoThermosol® and CryoStor® platform of solutions are marketed to academic and commercial organizations involved in the biobanking, drug discovery, and regenerative medicine markets. BioLife's products are serum-free and protein-free, fully defined, and are formulated to reduce preservation-induced, delayed-onset cell damage and death. BioLife's enabling technology provides academic and clinical researchers significant improvements in post-thaw cell, tissue, and organ viability and function. Additionally, for our direct, distributor, and contract customers, we perform custom formulation, fill, and finish services.

2. Liquidity

We have incurred annual operating losses since inception, and may continue to incur operating losses. As of June 30, 2013, our accumulated deficit was \$56.1 million. We may not be able to successfully achieve or sustain profitability. Successful transition to profitable operations is dependent upon achieving a level of revenues adequate to support our cost structure.

3. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full year. These financial statements and accompanying notes should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2012 on file with the SEC.

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in the financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

Fair value of financial instruments

The carrying value of cash and cash equivalents approximate their fair value (determined based on level 1 inputs in the fair value hierarchy) based on the short-term nature of these financial instruments. The carrying values of notes payable and accrued interest approximate their fair value (determined based on level 3 inputs in the fair value hierarchy) because interest rates of notes payable approximate market interest rates.

Revenue recognition – license revenue

Revenue related to licensing agreement activity is recognized over the estimated term of the service period or when no further performance obligations exist. Payments received in advance of the related licensing agreement period are recorded as deferred revenue and recognized when earned. During the first quarter of 2013, we negotiated a new intellectual property license agreement that provides one customer with limited access to our intellectual property under certain conditions. This customer paid upfront fees for the specific rights and there are no future performance obligations. The upfront fee of \$500,000 was recognized as revenue during the quarter and \$109,167 in deferred revenue associated with this customer was recognized as all future performance obligations associated with the previous license agreements were cancelled with the agreement signed in the first quarter of 2013.

#### Concentrations of credit risk and business risk

In the three and six months ended June 30, 2013, we derived approximately 60% and 50%, respectively, of our product revenue from our relationship with one contract manufacturing customer. No other customer accounted for more than 10% of revenue in the three or six months ended June 30, 2013. At June 30, 2013, one contract manufacturing customer accounted for 50% of gross accounts receivable and one other customer accounted for 20% of gross accounts receivable. In the three and six months ended June 30, 2012, we derived approximately 31% and 18%, respectively, of our product revenue from our relationship with one contract manufacturing customer, which we commenced deliveries to in the second quarter of 2012. At December 31, 2012, one contract manufacturing customer accounted for 36% of gross accounts receivable and one other customer accounted for 11% of gross accounts receivable. All license revenue recognized in the six months ended June 30, 2013 and 2012 was derived from one customer.

Table of Contents

## Recent Accounting Pronouncements

There have been no new accounting pronouncements during the six month period ended June 30, 2013, as compared to our Annual Report on Form 10-K for the year ended December 31, 2012, that are of significance, or potential significance, to us.

## 4. Inventory

Inventory consists of the following at June 30, 2013 and December 31, 2012:

|                  | June 30,<br>2013 | December 31,<br>2012 |
|------------------|------------------|----------------------|
| Raw materials    | \$ 392,220       | \$ 398,510           |
| Work in progress | 107,004          | 116,319              |
| Finished goods   | 93,914           | 141,568              |
| Total            | \$ 593,138       | \$ 656,397           |

During the six months ended June 30, 2012, the Company recorded a nonreciprocal, non-monetary receipt of inventory in the amount of \$87,215. This amount was also recorded as Other Income in the Statement of Operations during the six month period ended June 30, 2012. The transaction was accounted for at fair value on the date the inventory was received.

## 5. Deferred Rent

Deferred rent consists of the following at June 30, 2013 and December 31, 2012:

|  | June 30,<br>2013 | December 31,<br>2012 |
|--|------------------|----------------------|
| Landlord-funded leasehold improvements | \$ 1,070,815     | \$ 900,989           |
| Less accumulated amortization          | (85,192)         | (39,187)             |
| Total (current portion \$111,250)      | 985,623          | 861,802              |
| Straight line rent adjustment          | 68,582           | 88,277               |
| Total deferred rent                    | \$ 1,054,205     | \$ 950,079           |

During the six month period ended June 30, 2013, the Company recorded an additional \$191,583 in deferred rent relating to leasehold improvements funded by the Company's landlord as incentives under the facility lease, offset by payments to the landlord of \$21,757. During the three and six month periods ended June 30, 2013, the Company recorded \$23,632 and \$46,005, respectively, in deferred rent amortization of these landlord funded leasehold improvements.

Straight line rent adjustment represents the difference between cash rent payments and the recognition of rent expense on a straight-line basis over the terms of the lease.

## 6. Share-based Compensation

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. The Company did not issue stock options during the six month period ended June 30, 2013.

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|                          | Three Month Period Ended |         | Six Month Period Ended |         |
|--------------------------|--------------------------|---------|------------------------|---------|
|                          | June 30,                 |         | June 30,               |         |
|                          | 2013                     | 2012    | 2013                   | 2012    |
| Risk free interest rate  | —                        | 0.76%   | —                      | 0.80%   |
| Dividend yield           | —                        | 0.0%    | —                      | 0.0%    |
| Expected term (in years) | —                        | 7       | —                      | 6.5     |
| Volatility               | —                        | 104.95% | —                      | 103.12% |

We recorded stock compensation expense for the three and six month periods ended June 30, 2013 and 2012, as follows:

|                                  | Three Month Period Ended |           | Six Month Period Ended |           |
|----------------------------------|--------------------------|-----------|------------------------|-----------|
|                                  | June 30,                 |           | June 30,               |           |
|                                  | 2013                     | 2012      | 2013                   | 2012      |
| Research and development costs   | \$ 6,954                 | \$ 7,119  | \$ 13,908              | \$ 13,487 |
| Sales and marketing costs        | 630                      | 210       | 1,260                  | 210       |
| General and administrative costs | 1,378                    | 38,523    | 49,314                 | 75,822    |
| Cost of product sales            | 11,209                   | 5,073     | 23,071                 | 8,094     |
| Total                            | \$ 20,171                | \$ 50,925 | \$ 87,553              | \$ 97,613 |

Table of Contents

Management applies an estimated forfeiture rate that is derived from historical employee termination data. The estimated forfeiture rate applied for the three and six month periods ended June 30, 2013 and 2012 was approximately 7% and 8%, respectively.

As of June 30, 2013, there was \$5,389,589 of aggregate intrinsic value of outstanding stock options, including \$4,492,875 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 the quarter 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 on June 30, 2013. This amount will change based on the fair market value of the Company’s stock.

As of June 30, 2013, we had approximately \$263,181 of unrecognized compensation expense related to unvested stock options. We expect to recognize this compensation expense over a weighted average period of approximately 2.5 years.

The following is a summary of stock option activity for the six month period ended June 30, 2013, and the status of stock options outstanding at June 30, 2013:

|  | Six Month Period Ended<br>June 30, 2013 |                                |
|--|---|--------------------------------|
|  | Shares                                  | Wtd. Avg.<br>Exercise<br>Price |
| Outstanding at beginning of year           | 20,379,602                              | \$ 0.09                        |
| Granted                                    | —                                       | —                              |
| Exercised                                  | (355,855)                               | (0.08)                         |
| Forfeited                                  | (200,000)                               | (0.16)                         |
| Outstanding at June 30, 2013               | 19,823,747                              | \$ 0.09                        |
| Stock options exercisable at June 30, 2013 | 16,236,389                              | \$ 0.08                        |

There were no options granted during the six month period ended June 30, 2013. Weighted average fair value of options granted was \$0.07 per share for the three and six month periods ended June 30, 2012.

## 7. Warrants

At June 30, 2013, we had 7,718,750 warrants outstanding and exercisable with a weighted average exercise price of \$0.07. There were no warrants issued, exercised, or forfeited in the six month period ended June 30, 2013. The outstanding warrants have expiration dates between November 2013 and May 2017.

During the quarter ended June 30, 2012, the Company issued a total of 2,000,000 warrants to the current note holders as consideration for restructuring of their existing promissory notes. The warrants were valued using the Black-Scholes option pricing model resulting in a total value of \$137,995 which was recorded as Deferred Financing Costs on the Balance Sheet and is being amortized to expense over the revised term of the notes.

During the three and six month periods ended June 30, 2013, the Company recorded \$14,107 and \$28,059, respectively, in amortization of deferred financing costs. During the three and six month periods ended June 30, 2012, the Company recorded \$14,701 and \$41,746, respectively, in amortization of deferred financing costs.

8. 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 three and six month periods ended June 30, 2013 and 2012, respectively, since the effect is anti-dilutive due to the Company's net losses. Common stock equivalents include stock options and warrants.

Table of Contents

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 as of June 30, 2013 and 2012, respectively:

|  | Three Month Period Ended<br>June 30, |            | Six Month Period Ended<br>June 30, |            |
|--|--------------------------------------|------------|------------------------------------|------------|
|  | 2013                                 | 2012       | 2013                               | 2012       |
| Basic and diluted weighted average common stock shares outstanding         | 70,035,710                           | 69,679,854 | 69,954,654                         | 69,679,854 |
| Potentially dilutive securities excluded from loss per share computations: |                                      |            |                                    |            |
| Common stock options   | 19,823,747                           | 19,748,227 | 19,823,747                         | 19,748,227 |
| Common stock purchase warrants   | 7,718,750                            | 7,718,750  | 7,718,750                          | 7,718,750  |

## 9. Related Party Transactions

We incurred \$7,131 and \$14,333 in legal fees during the three and six month periods ended June 30, 2012, for services provided by Breslow & Walker, LLP in which Howard S. Breslow, a director and stockholder of the Company, is a partner. Mr. Breslow resigned from his position as a Director in February of 2013.

## 10. Commitments &amp; Contingencies

## Legal Proceedings

We are a party in a number of legal matters filed in the state of New York by the Company or John G. Baust, the Company's former Chief Executive Officer, and members of his extended family, that are described more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. During the six months ended June 30, 2013, there were no significant developments related to these complaints. We have not made any accrual related to future litigation outcomes as of June 30, 2013 and December 31, 2012.

## Leases

In November of 2012 we signed an amended lease agreement, which expanded the premises leased by us from the landlord to approximately 26,000 rentable square feet. The term of the lease was extended to July 31, 2021. The amendment includes two (2) options to extend the term of the lease, each option is for an additional period of five (5) years, with the first extension term commencing, if at all, on August 1, 2021, and the second extension term commencing, if at all, immediately following the expiration of the first extension term. In accordance with the amended lease agreement, our monthly base rent increased to approximately \$46,000 effective August 1, 2013, with scheduled annual increases each August. We will be required to pay an amount equal to our proportionate share of certain taxes and operating expenses.

Table of Contents

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

Forward Looking Statements

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, 2012 filed with the SEC. 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 the Company and is provided as a supplement to, and should be read in conjunction with, our annual report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC.

BioLife Solutions, Inc. ("BioLife" or the "Company"), was originally incorporated in Delaware in 1987 under the name Trans Time Medical Products, Inc. In 2002, the Company, then known as Cryomedical Sciences, Inc., and engaged in manufacturing and marketing cryosurgical products, completed a merger with its wholly-owned subsidiary, BioLife Solutions, Inc., which was engaged as a life sciences tools provider. Following the merger, the Company changed its name to BioLife Solutions, Inc.

Our product offerings include:

- Patented biopreservation media products for cells, tissues, and organs
- Generic formulations of blood stem cell freezing media products
- Custom product formulation and custom packaging services
- Contract aseptic manufacturing formulation, fill, and finish services of liquid media products

Our proprietary HypoThermosol®, CryoStor®, and generic BloodStor® biopreservation media products are marketed to the biobanking, drug discovery, and regenerative medicine markets, including hospital-based stem cell transplant centers, pharmaceutical companies, cord blood and adult stem cell banks, hair transplant centers, and suppliers of cells to the drug discovery, 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 ("cGMP") using United States Pharmacopeia ("USP")/Multicompendial or the highest available grade components.



Our patented biopreservation media products are formulated to reduce preservation-induced, delayed-onset cell damage and death. Our platform enabling technology provides our customers significant shelf life extension of biologic source material and final cell products, and also greatly improved post-preservation cell, tissue, and organ viability and function. We believe that our products have been incorporated into the manufacturing, storage, shipping, freezing, and clinical delivery processes of over 50 clinical trial stage regenerative medicine products and therapies.

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. These discoveries enabled the formulation of innovative biopreservation media products that protect biologic material from preservation-related cellular injury, much of which is not apparent immediately after return to normothermic body temperature. Our product formulations have demonstrated notable reduction in apoptotic (programmed) and necrotic (pathologic) cell death mechanisms and are enabling the clinical and commercial development of dozens of innovative regenerative medicine products.

Table of Contents

## Results of Operations

## Summary of Achievements for the Second Quarter of 2013

Total revenue of \$2.3 million marked twelve consecutive quarters of record revenue with an increase of 112% over the second quarter of 2012 and 8% over the first quarter of 2013.

Core product revenue was \$0.9 million, setting a new record for the Company, driven by demand from the regenerative medicine market segment.

We announced a strategic relationship with HemaCare Corporation, (OTCPK:HEMA), wherein HemaCare will market BioLife's HypoThermosol® and CryoStor® biopreservation media products and HemaCare's blood derived cells to the research and clinical communities.

We were named by Seattle Business Magazine as one of the best places to work in Washington State.

## Comparison of Results of Operations for the Three and Six Month Periods Ended June 30, 2013 and 2012

Percentage comparisons have been omitted within the following table where they are not considered meaningful.

## Revenue and Gross Margin

|                                 | Three Month Period<br>Ended<br>June 30, |            | % Change |
|---------------------------------|---|------------|----------|
|                                 | 2013                                    | 2012       |          |
| Revenue:                        |   |            |          |
| Product revenue                 |   |            |          |
| Direct                          | \$ 811,167                              | \$ 497,255 | 63%      |
| Indirect                        | 130,401                                 | 253,872    | (49)%    |
| Core product sales              | 941,568                                 | 751,127    | 25%      |
| Contract manufacturing services | 1,388,450                               | 341,282    | 307%     |
| Licensing revenue               | —                                       | 5,000      |          |
| Total revenue                   | 2,330,018                               | 1,097,409  | 112%     |
| Cost of sales                   | 1,501,575                               | 641,748    | 134%     |
| Gross profit                    | \$ 828,443                              | \$ 455,661 | 82%      |
| Gross margin %                  | 35.6%                                   | 41.5%      |          |

|                                 | Six Month Period Ended<br>June 30, |              | % Change |
|---------------------------------|------------------------------------|--------------|----------|
|                                 | 2013                               | 2012         |          |
| Revenue:                        |                                    |              |          |
| Product revenue                 |                                    |              |          |
| Direct                          | \$ 1,421,190                       | \$ 1,235,422 | 15%      |
| Indirect                        | 290,511                            | 346,585      | (16)%    |
| Core product sales              | 1,711,701                          | 1,582,007    | 8%       |
| Contract manufacturing services | 2,169,162                          | 341,282      | 536%     |
| Licensing revenue               | 609,167                            | 10,000       |          |
| Total revenue                   | 4,490,030                          | 1,933,289    | 132%     |
| Cost of sales                   | 2,536,103                          | 987,877      | 157%     |

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|                |              |            |      |
|----------------|--------------|------------|------|
| Gross profit   | \$ 1,953,927 | \$ 945,412 | 107% |
| Gross margin % | 43.5%        | 48.9%      |      |

Table of Contents

**Core Product Sales.** Our core products are sold through both direct and indirect channels. Sales to our direct customers in the three and six months ended June 30, 2013 increased compared to the same periods in 2012 due primarily to higher direct product sales to the regenerative medicine market and continued growth in the hair restoration market segment. Sales to the regenerative medicine segment are uneven due to the pace of product evaluation, adoption, and clinical trials. We continue to gain new customers in this growing field. Sales to distributors in the three and six months ended June 30, 2013 decreased compared to the same periods in 2012 due reduced sales to certain key distributor customers.

**Contract Manufacturing Services.** Contract manufacturing services in 2013 represents sales of product to one significant customer. Contract manufacturing services revenue increased in the three and six months ended June 30, 2013 due to the ramp up of business after commencing in the second quarter of 2012.

**Licensing Revenue.** During the first quarter of 2013, we negotiated a new intellectual property license agreement that provides one customer with limited access to our intellectual property under certain conditions. This customer paid upfront fees for the specific rights and there are no future performance obligations. The upfront fee of \$500,000 was recognized as revenue during the quarter and \$109,167 in deferred revenue associated with this customer was recognized as all future performance obligations associated with the previous license agreements were cancelled with the agreement signed in the first quarter of 2013.

**Cost of Sales.** Cost of sales consists of raw materials, labor and overhead expenses. Cost of sales in the three and six months ended June 30, 2013 increased compared to the same periods in 2012 due primarily to the significant increase in sales to our contract manufacturing services customer.

**Gross Margin.** Gross margin as a percentage of revenue decreased in the three and six months ended June 30, 2013 compared to the same periods in 2012 due primarily to the increase in contract manufacturing product sales, which has a higher cost of sales, compared to core product sales. Gross margin in the six months ended June 30, 2013 includes the impact of recognition of significant license revenue during the quarter with no associated costs.

### Operating Expenses

Our operating expenses for the three and six month periods ended June 30, 2013 and 2012 were:

|                            | Three Month Period<br>Ended<br>June 30, |            |  |          |
|----------------------------|---|------------|--|----------|
|                            | 2013                                    | 2012       |  | % Change |
| Operating Expenses:        |   |            |  |          |
| Research and development   | \$ 94,908                               | \$ 126,627 |  | (25)%    |
| Sales and marketing        | 214,762                                 | 160,658    |  | 34%      |
| General and administrative | 601,617                                 | 475,006    |  | 27%      |
| Operating Expenses         | 911,287                                 | 762,291    |  | 20%      |
| % of revenue               | 39%                                     | 70%        |  |          |

|                          | Six Month Period Ended<br>June 30, |            |  |          |
|--------------------------|------------------------------------|------------|--|----------|
|                          | 2013                               | 2012       |  | % Change |
| Operating Expenses:      |                                    |            |  |          |
| Research and development | \$ 200,876                         | \$ 243,148 |  | (17)%    |
| Sales and marketing      | 417,520                            | 234,039    |  | 78%      |

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|                            |           |           |     |
|----------------------------|-----------|-----------|-----|
| General and administrative | 1,226,044 | 954,119   | 29% |
| Operating Expenses         | 1,844,440 | 1,431,306 | 29% |
| % of revenue               | 41%       | 74%       |     |

12

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## Table of Contents

**Research and Development.** Research and Development expenses consist primarily of salaries and other personnel expenses, consulting and other outside services, laboratory supplies, and other costs. We expense all R&D costs as incurred. R&D expenses for the three and six months ended June 30, 2013 decreased compared to the same periods in 2012 primarily due to lower spending on laboratory supplies and consulting.

**Sales and Marketing.** Sales and marketing expenses consist primarily of salaries and other personnel-related expenses, consulting, trade shows and advertising. The significant increase in the three and six months ended June 30, 2013 compared to the same periods in 2012 was due to primarily increased personnel costs which resulted from adding team members to this team, primarily in the second quarter of 2012.

**General and Administrative Expenses.** General and administrative expenses consist primarily of salaries and other personnel-related expenses, non-cash stock-based compensation for administrative personnel and non-employee members of the board of directors, professional fees, such as accounting and legal, corporate insurance and facilities costs. The increase in general and administrative expenses in the three and six months ended June 30, 2013 compared to the same periods in 2012 was due to approximately \$90,000 and \$150,000 in higher corporate costs, including higher director's fees, higher legal fees, higher consulting fees for investor relations, information technology and shareholder communication in the three and six months ended June 30, 2013, respectively, approximately \$35,000 and \$70,000 in higher personnel costs during the three and six months ended June 30, 2013, respectively, approximately \$20,000 and \$40,000 in higher depreciation and rent costs primarily related to the new facility during the three and six months ended June 30, 2013, and higher office related expenses.

### Other Income (Expenses)

**Other Income.** Other income is primarily the result of \$87,215 related to inventory received in a non-monetary transaction during the first quarter of 2012 and gains on the sale of equipment.

**Interest Expense.** The increase in interest expense in 2013 compared to 2012 is due to a higher debt balance related to additional borrowings of \$475,000 in 2012.

**Amortization of Deferred Financing Costs.** Amortization of deferred financing costs represents the cost of warrants issued which are being amortized over the life of the debt.

### Outlook

We continue to expect total 2013 revenue to be in the range of \$6.5 million to \$7.0 million, with gross margin as a percentage of revenue of approximately 38% - 41%, and increased operating expenses in 2013 of 10% - 20% over 2012. We continue to expect an improvement in operating and net income (loss) over 2012. We believe cash generated from customer collections will provide sufficient funds to operate our business.

### Liquidity

We have been unable to generate sufficient income from operations in order to meet our operating needs and have an accumulated deficit of approximately \$56 million at June 30, 2013. Of this amount, approximately \$18 million has accumulated since the merger of the Company in 2002.

We believe our current cash and cash provided by operations will satisfy our working capital requirements, debt obligations and capital expenditures for the foreseeable future. Our future capital requirements and the adequacy of our available funds will depend on many factors, including future profitable operations, debt repayment, and competing technological and market developments.

Our working capital factors, such as inventory turnover and days sales outstanding, fluctuate on a quarterly basis and, on an interim basis during the year, may require an influx of short-term working capital. The Company will continuously assess the most appropriate method of financing the Company's short and long term operations. While conditions of the credit market at any given time may impact our ability to obtain credit, the Company believes that it has the ability to raise funding, if needed, through public and private markets.

Future debt repayment or future acquisitions may be financed by a combination of cash on hand, our positive cash flow generation, a revolving credit facility, or an issuance of new debt or stock.

We have outstanding \$10.6 million principal amount of promissory notes due January 11, 2016 under the facilities held by our two most significant stockholders, secured by all of the assets of the Company (the "Facilities"). An event of default, including from the failure to observe or comply with any material covenant or condition in the promissory notes could, if not cured or waived, result in the acceleration of our outstanding indebtedness.

At June 30, 2013, we had cash and cash equivalents of \$76,205 compared to cash and cash equivalents of \$196,478 at December 31, 2012. At June 30, 2013, we had working capital of \$392,417, compared to working capital of \$262,421 at December 31, 2012. The increase in our working capital is due primarily to an increase in our accounts receivable, offset by a smaller increase in accounts payable.

## Table of Contents

### Net Cash Provided By Operating Activities

During the six months ended June 30, 2013, net cash provided by operating activities was \$79,992 compared to \$686,007 for the six months ended June 30, 2012. Cash provided by operating activities included an increase in deferred rent related to tenant improvements which were funded by our landlord, offset by payment to the landlord and amortization of deferred rent, of \$123,821 and \$785,112 during the six months ended June 30, 2013 and 2012, respectively. Cash provided by operating activities also includes the use of cash to fund net losses and changes in operating assets and liabilities, offset by non-cash compensation related to stock options and depreciation.

### Net Cash Used in Investing Activities

Net cash used in investing activities totaled \$225,723 and \$1,022,517 during the six months ended June 30, 2013 and 2012, respectively. Cash used in investing activities was primarily to the increase in tenant improvements related to our expanded manufacturing facility and the purchase of equipment.

### Net Cash Provided by Financing Activities

Net cash provided by financing activities of \$25,458 during the six months ended June 30, 2013 was the result of proceeds received from employee stock option exercises. Net cash provided by financing activities during the six months ended June 30, 2012, resulted from funding from two existing shareholders under the existing Facilities.

At June 30, 2013, the unused portion of the Facilities was approximately \$900,000.

### Off-Balance Sheet Arrangements

As of June 30, 2013, we did not have any off-balance sheet arrangements.

### 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 accounting principles generally accepted in the United States. The preparation of financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate estimates, including, but not limited to those related to accounts receivable allowances, determination of fair value of share-based compensation, contingencies, income taxes, 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 Significant Judgments and Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations" of our Form 10-K for the fiscal year ended December 31, 2012, filed with the Securities and Exchange Commission.





Table of Contents

Contractual Obligations

We previously disclosed certain contractual obligations and contingencies and commitments relevant to us within the financial statements and Management Discussion and Analysis of Financial condition and Results of Operations in our Annual report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on March 29, 2013. There have been no material changes to the disclosure under the heading “Contractual Obligations” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2012 Form 10-K. For more information regarding our current contingencies and commitments, see note 10 to the financial statements included above.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure. During the quarter ended June 30, 2013 we carried out an evaluation, under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, as required by the rules and regulations under the Exchange Act, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2013, our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Limitations on Effectiveness of Control.** Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected.

Table of Contents

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.

Table of Contents

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: August 12, 2013

By: /s/ Daphne Taylor  
Daphne Taylor  
Chief Financial Officer  
(Duly authorized officer and  
principal financial officer)

Table of Contents

BIOLIFE SOLUTIONS, INC.

INDEX TO EXHIBITS

| Exhibit<br>No. | Description   |
|----------------|---|
| <u>31.1</u> *  | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>31.2</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 |
| <u>32.2</u> *  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

\*Filed herewith