

BIOLIFE SOLUTIONS INC  
Form 10-Q  
November 10, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

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**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2016

**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 001-36362

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**BioLife Solutions, Inc.**

*(Exact name of registrant as specified in its charter)*

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**DELAWARE**                      **94-3076866**  
(State or other jurisdiction of    (IRS Employer

incorporation or organization) Identification No.)

**3303 MONTE VILLA PARKWAY, SUITE 310, BOTHELL, WASHINGTON, 98021**

(Address of registrant's principal executive offices, Zip Code)

**(425) 402-1400**

(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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (S232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post said files). 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. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of November 9, 2016, 12,877,888 shares of the registrant's common stock were outstanding.

**BIOLIFE SOLUTIONS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

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**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements****BioLife Solutions, Inc.****Consolidated Balance Sheets****(Unaudited)**

|  | September<br>30,<br>2016 | December<br>31,<br>2015 |
|--|--------------------------|-------------------------|
| Assets   |                          |                         |
| Current assets   |                          |                         |
| Cash and cash equivalents  | \$1,368,583              | \$2,173,258             |
| Short term investments   | —                        | 1,651,341               |
| Accounts receivable, trade, net of allowance for doubtful accounts of \$0 at<br>September 30, 2016 and December 31, 2015 | 1,311,006                | 929,289                 |
| Inventories  | 1,903,759                | 1,834,635               |
| Prepaid expenses and other current assets  | 381,883                  | 384,414                 |
| Total current assets   | 4,965,231                | 6,972,937               |
| Property and equipment   |                          |                         |
| Leasehold improvements   | 1,284,491                | 1,284,491               |
| Furniture and computer equipment   | 677,734                  | 557,666                 |
| Manufacturing and other equipment  | 922,647                  | 1,025,521               |
| Subtotal   | 2,884,872                | 2,867,678               |
| Less: Accumulated depreciation   | (1,585,914 )             | (1,421,279 )            |
| Net property and equipment   | 1,298,958                | 1,446,399               |
| Internal use software  | 2,250,638                | 1,698,735               |
| Intangible asset   | 2,215,385                | 2,215,385               |
| Long term deposits   | 36,166                   | 36,166                  |
| Total assets   | \$10,766,378             | \$12,369,622            |
| Liabilities and Shareholders' Equity   |                          |                         |
| Current liabilities  |                          |                         |
| Accounts payable   | \$1,085,723              | \$1,029,373             |
| Note payable, related party, net of discount of \$249,593 at September 30, 2016  | 1,750,407                | —                       |
| Accrued interest, related party  | 39,524                   | —                       |
| Accrued expenses and other current liabilities   | 50,614                   | 146,438                 |

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|   |               |               |
|---|---------------|---------------|
| Accrued compensation  | 408,004       | 419,766       |
| Deferred rent   | 130,216       | 130,216       |
| Total current liabilities   | 3,464,488     | 1,725,793     |
| Deferred rent, long term  | 713,751       | 784,458       |
| Total liabilities   | 4,178,239     | 2,510,251     |
| Commitments and contingencies (Note 9)  |               |               |
| Shareholders' equity  |               |               |
| Common stock, \$0.001 par value; 150,000,000 shares authorized, 12,768,513 and 12,448,391 shares issued and outstanding at September 30, 2016 and December 31, 2015 | 12,769        | 12,447        |
| Additional paid-in capital  | 74,027,593    | 72,823,398    |
| Accumulated other comprehensive loss  | —             | (451 )        |
| Accumulated deficit   | (67,878,835)  | (64,326,923)  |
| Total BioLife Solutions, Inc. shareholders' equity  | 6,161,527     | 8,508,471     |
| Total non-controlling interest equity   | 426,612       | 1,350,900     |
| Total shareholders' equity  | 6,588,139     | 9,859,371     |
| Total liabilities and shareholders' equity  | \$ 10,766,378 | \$ 12,369,622 |

**BioLife Solutions, Inc.****Consolidated Statements of Operations****(unaudited)**

|  | <b>Three Months</b>        |                | <b>Nine Months</b>         |                |
|--|----------------------------|----------------|----------------------------|----------------|
|  | <b>Ended September 30,</b> |                | <b>Ended September 30,</b> |                |
|  | <b>2016</b>                | <b>2015</b>    | <b>2016</b>                | <b>2015</b>    |
| Product sales  | \$2,135,197                | \$1,631,926    | \$5,977,202                | \$4,629,407    |
| Cost of product sales  | 920,935                    | 658,542        | 2,564,775                  | 1,954,752      |
| Gross profit   | 1,214,262                  | 973,384        | 3,412,427                  | 2,674,655      |
| Operating expenses   |                            |                |                            |                |
| Research and development   | 496,874                    | 329,527        | 1,600,144                  | 953,026        |
| Sales and marketing  | 816,025                    | 677,033        | 2,399,131                  | 1,819,778      |
| General and administrative   | 1,039,223                  | 1,263,272      | 3,637,333                  | 3,514,678      |
| Total operating expenses   | 2,352,122                  | 2,269,832      | 7,636,608                  | 6,287,482      |
| Operating loss   | (1,137,860 )               | (1,296,448 )   | (4,224,181 )               | (3,612,827 )   |
| Other income (expenses)  |                            |                |                            |                |
| Interest income  | 30                         | 4,729          | 2,394                      | 18,448         |
| Loss on disposal of property and equipment   | (1,213 )                   | —              | (1,213 )                   | —              |
| Interest expense, related party  | (33,334 )                  | —              | (41,667 )                  | —              |
| Amortization of debt discount  | (93,598 )                  | —              | (124,797 )                 | —              |
| Write-off of deferred financing costs  | —                          | —              | (86,736 )                  | —              |
| Total other income (expenses)  | (128,115 )                 | 4,729          | (252,019 )                 | 18,448         |
| Net loss   | (1,265,975 )               | (1,291,719 )   | (4,476,200 )               | (3,594,379 )   |
| Net loss attributable to non-controlling interest  | 296,974                    | 223,031        | 924,288                    | 499,830        |
| Net loss attributable to BioLife Solutions, Inc.   | \$(969,001 )               | \$(1,068,688 ) | \$(3,551,912 )             | \$(3,094,549 ) |
| Basic and diluted net loss per common share attributable to BioLife Solutions, Inc.          | \$(0.08 )                  | \$(0.09 )      | \$(0.28 )                  | \$(0.26 )      |
| Basic and diluted weighted average common shares used to calculate net loss per common share | 12,699,419                 | 12,157,575     | 12,575,560                 | 12,134,474     |



**BioLife Solutions, Inc.****Consolidated Statements of Comprehensive Loss****(unaudited)**

|  | <b>Three Months</b>        |               | <b>Nine Months</b>         |               |
|--|----------------------------|---------------|----------------------------|---------------|
|  | <b>Ended September 30,</b> |               | <b>Ended September 30,</b> |               |
|  | <b>2016</b>                | <b>2015</b>   | <b>2016</b>                | <b>2015</b>   |
| Net loss   | \$(1,265,975)              | \$(1,291,719) | \$(4,476,200)              | \$(3,594,379) |
| Other comprehensive income                                   |                            |               |                            |               |
| Unrealized gain on available-for-sale investments            | —                          | 789           | 451                        | 5,847         |
| Total other comprehensive income                             | —                          | 789           | 451                        | 5,847         |
| Comprehensive loss   | (1,265,975)                | (1,290,930)   | (4,475,749)                | (3,588,532)   |
| Comprehensive loss attributable to non- Controlling interest | 296,974                    | 223,031       | 924,288                    | 499,830       |
| Comprehensive loss attributable to BioLife Solutions, Inc.   | \$(969,001 )               | \$(1,067,899) | \$(3,551,461)              | \$(3,088,702) |

**BioLife Solutions, Inc.****Consolidated Statements of Cash Flows****(unaudited)**

|  | <b>Nine Month Period<br/>Ended</b> |               |
|--|------------------------------------|---------------|
|  | <b>September 30,</b>               |               |
|  | 2016                               | 2015          |
| Cash flows from operating activities                                       |                                    |               |
| Net loss   | \$(4,476,200)                      | \$(3,594,379) |
| Adjustments to reconcile net loss to net cash used in operating activities |                                    |               |
| Depreciation   | 276,346                            | 255,548       |
| Loss on disposal of property and equipment                                 | 1,213                              | —             |
| Stock-based compensation expense   | 583,847                            | 336,630       |
| Write-off of deferred financing costs                                      | 86,736                             | —             |
| Amortization of deferred rent related to lease incentives                  | (95,248 )                          | (95,250 )     |
| Amortization of debt discount  | 124,797                            | —             |
| Accretion and amortization on available for sale investments               | 1,792                              | 81,210        |
| Change in operating assets and liabilities                                 |                                    |               |
| (Increase) Decrease in   |                                    |               |
| Accounts receivable, trade   | (381,717 )                         | 109,349       |
| Inventories  | (69,124 )                          | (818,159 )    |
| Prepaid expenses and other current assets                                  | (29,692 )                          | (86,405 )     |
| Increase (Decrease) in   |                                    |               |
| Accounts payable   | 361,900                            | 253,647       |
| Accrued compensation and other current liabilities                         | (107,586 )                         | (175,482 )    |
| Accrued interest, related parties  | 39,524                             | —             |
| Deferred rent  | 24,541                             | 29,700        |
| Net cash used in operating activities                                      | (3,658,871)                        | (3,703,591)   |
| Cash flows from investing activities                                       |                                    |               |
| Sales of available-for-sale investments                                    | 1,650,000                          | 5,825,000     |
| Purchases of available-for-sale investments                                | —                                  | (1,409,695)   |
| Costs associated with internal use software development                    | (857,453 )                         | (895,062 )    |
| Purchase of property and equipment   | (130,118 )                         | (103,856 )    |
| Net cash provided by investing activities                                  | 662,429                            | 3,416,387     |
| Cash flows from financing activities                                       |                                    |               |
| Proceeds from related party debt   | 2,000,000                          | —             |
| Proceeds from exercise of common stock options and warrants                | 278,503                            | 99,986        |
| Deferred costs related to potential stock issuance                         | (86,736 )                          | —             |

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|   |             |             |
|---|-------------|-------------|
| Net cash provided by financing activities   | 2,191,767   | 99,986      |
| Net decrease in cash and cash equivalents   | (804,675 )  | (187,218 )  |
| Cash and cash equivalents - beginning of period   | 2,173,258   | 2,538,758   |
| Cash and cash equivalents - end of period   | \$1,368,583 | \$2,351,540 |
| Non-cash investing and financing activities   |             |             |
| Costs incurred for capitalized internal use software not paid as of quarter end (amounts are included in liabilities) | \$109,500   | \$291,960   |
| Debt discount related to warrants   | \$374,390   | \$—         |

**BioLife Solutions, Inc.**

**Notes to Consolidated Financial Statements**

**(unaudited)**

**1. Organization and Significant Accounting Policies**

***Business***

BioLife Solutions, Inc. ("BioLife," "us," "we," "our," or the "Company") is the leading developer, manufacturer and marketer of proprietary clinical grade cell and tissue hypothermic storage and cryopreservation freeze media and a related cloud hosted biologistics cold chain management app for smart shippers. Our proprietary HypoThermosol® and CryoStor® platform of solutions are highly valued in the biobanking, drug discovery, and regenerative medicine markets. Our biopreservation media products are serum-free and protein-free, fully defined, and are formulated to reduce preservation-induced cell damage and death. Our enabling technology provides commercial companies and clinical researchers significant improvement in shelf life and post-preservation viability and function of cells, tissues, and organs. Additionally, for our direct, distributor, and contract customers, we perform custom formulation, fill, and finish services.

***Basis of Presentation***

We have prepared the accompanying unaudited consolidated 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 consolidated 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 consolidated 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, 2015 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, 2015.

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

### ***Concentrations of credit risk and business risk***

In the three and nine months ended September 30, 2016, we derived approximately 25% of our product revenue from two customers and 12% of our product revenue from one customer, respectively. In each of the three and nine months ended September 30, 2015, we derived approximately 10% of our product revenue from one customer. No other customer accounted for more than 10% of revenue in the three or nine months ended September 30, 2016 or 2015. At September 30, 2016, two customers accounted for approximately 35% of total gross accounts receivable. At December 31, 2015, three customers accounted for approximately 53% of total gross accounts receivable.

Revenue from customers located in foreign countries represented 15% and 18% of total revenue in the three and nine months ended September 30, 2016, respectively, and 21% of total revenue during each of the three and nine months ended September 30, 2015.

### ***Recent Accounting Pronouncements***

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU-2016-09). The updated guidance simplifies and changes how companies account for certain aspects of share-based payment awards to employees, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of certain items in the statement of cash flows. Adoption of ASU 2016-09 is required for fiscal reporting periods beginning after December 15, 2016, including interim reporting periods within those fiscal years with early adoption being permitted. The Company is currently evaluating the potential impact of the pending adoption of ASU 2016-09 on its consolidated financial statements.

In February 2016, FASB issued Accounting Standards Update No. 2016-02, Leases: Topic 842 (ASU 2016-02) that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. Under the new guidance, leases will continue to be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Consolidated Statements of Operations. Lessor accounting is largely unchanged under ASU 2016-02. Adoption of ASU 2016-02 is required for fiscal reporting periods beginning after December 15, 2018, including interim reporting periods within those fiscal years with early adoption being permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the potential impact of the pending adoption of ASU 2016-02 on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities: Topic 825 (ASU 2016-01). The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. Adoption of ASU 2016-01 is required for fiscal reporting periods beginning after December 15, 2017, including interim reporting periods within those fiscal years. The Company is currently evaluating the potential impact of the pending adoption of ASU 2016-01 on its consolidated financial statements. The Company does not expect adoption of ASU 2016-01 to have a material impact on its consolidated financial statements.

In November 2015, FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes: Topic 740 (ASU 2015-17). Current GAAP requires the deferred taxes for each jurisdiction to be presented as a net current asset or liability and net noncurrent asset or liability. This requires a jurisdiction-by-jurisdiction analysis based on the classification of the assets and liabilities to which the underlying temporary differences relate, or, in the case of loss or credit carryforwards, based on the period in which the attribute is expected to be realized. Any valuation allowance is then required to be allocated on a pro rata basis, by jurisdiction, between current and noncurrent deferred tax assets. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance does not change the existing requirement that only permits offsetting within a jurisdiction. Adoption of ASU 2015-17 is required for fiscal reporting periods beginning after December 15, 2016, including interim reporting periods within those fiscal years, and either prospective or retrospective application is permitted. Early adoption of ASU 2015-17 is permitted. At the time of adoption, all of the Company's deferred tax assets and liabilities, along with any related valuation allowance, will be classified as noncurrent on its Consolidated Balance Sheet. The Company does not plan to early adopt ASU 2015-17. The Company does not expect adoption of ASU 2015-17 to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory: Topic 330 (ASU 2015-11). Topic 330 currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 requires that inventory measured using either the first-in, first-out (FIFO) or average cost method be

measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Adoption of ASU 2015-11 is required for fiscal reporting periods beginning after December 15, 2016, including interim reporting periods within those fiscal years. The Company does not expect adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

On May 28, 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, Topic 606, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for us in the first quarter of fiscal 2018. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

With the exception of the new standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to our Consolidated Financial Statements.

## 2. Accumulated Other Comprehensive Loss

The following table shows the changes in Accumulated Other Comprehensive Loss by component for the nine months ended September 30, 2016:

|   | <b>Nine<br/>Months<br/>Ended</b> |
|---|----------------------------------|
|   | <b>September<br/>30, 2016</b>    |
| Unrealized Loss on Investments, Beginning Balance | \$ (451 )                        |
| Unrealized Gain on Investments, Current Period    | 451                              |
| Unrealized Loss on Investments, Ending Balance    | \$ —                             |

## 3. Fair Value Measurement

In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures," ("ASC Topic 820"), the Company measures its cash and cash equivalents and short term investments at fair value on a recurring basis. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC Topic 820 establishes a three-tier value fair hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1 for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for



substantially the full term of the related assets or liabilities.

Level 3 – Unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

As of September 30, 2016 and December 31, 2015, the Company does not have liabilities that are measured at fair value.

The following tables set forth the Company's financial assets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, based on the three-tier fair value hierarchy:

| As of September 30, 2016  | Level 1     | Level<br>2 | Total       |
|---------------------------|-------------|------------|-------------|
| Bank deposits             | \$1,315,199 | \$ —       | \$1,315,199 |
| Money market funds        | 53,384      | —          | 53,384      |
| Cash and cash equivalents | 1,368,583   | —          | 1,368,583   |
| Total                     | \$1,368,583 | \$ —       | \$1,368,583 |

| <b>As of December 31, 2015</b> | Level 1     | Level<br>2 | Total       |
|--------------------------------|-------------|------------|-------------|
| Bank deposits                  | \$440,809   | \$ —       | \$440,809   |
| Money market funds             | 1,732,449   | —          | 1,732,449   |
| Cash and cash equivalents      | 2,173,258   | —          | 2,173,258   |
| Corporate debt securities      | 1,401,453   | —          | 1,401,453   |
| Commercial paper               | 249,888     | —          | 249,888     |
| Short term investments         | 1,651,341   | —          | 1,651,341   |
| Total                          | \$3,824,599 | \$ —       | \$3,824,599 |

The fair values of bank deposits, money market funds, corporate debt securities and commercial paper classified as Level 1 were derived from quoted market prices as active markets for these instruments exist. The Company has no level 2 or level 3 financial assets. The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2016 and the twelve months ended December 31, 2015.

**4. Inventory**

Inventory consists of the following at September 30, 2016 and December 31, 2015:

|                  | September<br>30, 2016 | December<br>31, 2015 |
|------------------|-----------------------|----------------------|
| Raw materials    | \$450,735             | \$299,952            |
| Work in progress | 384,264               | 666,124              |
| Finished goods   | 1,068,760             | 868,559              |
| Total            | \$1,903,759           | \$1,834,635          |

**5. Deferred Rent**

Deferred rent consists of the following at September 30, 2016 and December 31, 2015:

|  | September<br>30, 2016 | December<br>31, 2015 |
|--|-----------------------|----------------------|
| Landlord-funded leasehold improvements | \$1,124,790           | \$1,124,790          |
| Less accumulated amortization          | (470,778 )            | (375,530 )           |
| Total                                  | 654,012               | 749,260              |
| Straight line rent adjustment          | 189,955               | 165,414              |
| Total deferred rent                    | \$843,967             | \$914,674            |

During the three and nine month periods ended September 30, 2016, the Company recorded \$31,749 and \$95,248, respectively, in deferred rent amortization of these landlord funded leasehold improvements. During the three and nine month periods ended September 30, 2015, the Company recorded \$31,750 and \$95,250, 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**

*Stock Options*

The following is a summary of stock option activity for the nine month period ended September 30, 2016, and the status of stock options outstanding at September 30, 2016:

|   | Nine Month Period<br>Ended<br>September 30, 2016 |                                   |
|---|--|-----------------------------------|
|   | Options  | Wtd.<br>Avg.<br>Exercise<br>Price |
| Outstanding at beginning of year                | 2,555,263  | \$ 1.80                           |
| Granted   | 734,000  | \$ 1.81                           |
| Exercised                                       | (103,308 )                                       | \$ 1.22                           |
| Forfeited                                       | (446,209 )                                       | \$ 2.14                           |
| Expired   | (172,418 )                                       | \$ 1.33                           |
| Outstanding at September 30, 2016               | 2,567,328  | \$ 1.79                           |
| Stock options exercisable at September 30, 2016 | 1,297,061  | \$ 1.65                           |

As of September 30, 2016, there was \$600,548 of aggregate intrinsic value of outstanding stock options, including \$559,855 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 September 30, 2016. This amount will change based on the fair market value of the Company’s stock. During the three and nine months ended September 30, 2016 intrinsic value of awards exercised was \$5,635 and \$51,302, respectively. Weighted average grant date fair value for options granted during the three and nine months ended September 30, 2016 was \$1.32 and \$1.26 per share, respectively and \$1.90 and \$1.75 for the three and nine months, respectively, ended September 30, 2015.

The fair value of share-based payments made with stock options 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<br>Period Ended<br>September<br>30,<br>2016 |        | Nine Month<br>Period Ended<br>September<br>30,<br>2015 |        |
|--------------------------|---|--------|--|--------|
| Risk free interest rate  | 1.33 %  | 1.77 % | 1.51 %   | 1.77 % |
| Dividend yield           | 0.0 %   | 0.0 %  | 0.0 %  | 0.0 %  |
| Expected term (in years) | 7   | 7      | 7  | 7      |
| Volatility               | 75 %  | 105 %  | 75 %   | 105 %  |

Management applies an estimated forfeiture rate that is derived from historical employee termination data. The estimated forfeiture rate applied for the three and nine month periods ended September 30, 2016 and 2015 was approximately 8.1% and 7.0%, respectively.

As of September 30, 2016, we had \$1,743,879 of unrecognized compensation expense related to unvested stock options. We expect to recognize this compensation expense over a weighted average period of approximately 3.0 years.

### ***Restricted Stock***

The following is a summary of restricted stock activity for the nine month period ended September 30, 2016, and the status of unvested restricted stock outstanding at September 30, 2016:

|                                  | Nine Month Period<br>Ended<br>September 30, 2016 |                       |
|----------------------------------|--|-----------------------|
|                                  | Number   | Grant-Date            |
|                                  | of   | Restricted Fair Value |
|                                  | Shares   |                       |
| Outstanding at beginning of year | —  | \$ N/A                |
| Granted                          | 200,000  | \$ 1.90               |

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|                                   |           |         |
|-----------------------------------|-----------|---------|
| Vested                            | (73,958 ) | \$ 1.90 |
| Forfeited                         | (16,667 ) | \$ 1.90 |
| Outstanding at September 30, 2016 | 109,375   | \$ 1.90 |

The aggregate fair value of the awards granted during the three and nine months ended September 30, 2016 was \$0 and \$380,000, respectively, which represents the market value of BioLife common stock on the date that the restricted stock awards were granted. The aggregate fair value of the restricted stock awards that vested for the three and nine months ended September 30, 2016 was \$22,217 and \$138,921, respectively.

We recognized stock compensation expense, net of forfeiture credits of \$21,320 and \$144,671 related to restricted stock awards for the three and nine months ended September 30, 2016. As of September 30, 2016, there was \$204,661 in unrecognized compensation costs related to restricted stock awards. We expect to recognize those costs over 2.5 years.

We recorded stock compensation expense for the three and nine month periods ended September 30, 2016 and 2015, as follows:

|                                  | Three Month Period             |           | Nine Month Period              |           |
|----------------------------------|--------------------------------|-----------|--------------------------------|-----------|
|                                  | Ended<br>September 30,<br>2016 | 2015      | Ended<br>September 30,<br>2016 | 2015      |
| Research and development costs   | \$33,574                       | \$26,751  | \$118,409                      | \$53,109  |
| Sales and marketing costs        | 31,903                         | 26,746    | 150,150                        | 51,771    |
| General and administrative costs | 103,587                        | 93,955    | 323,465                        | 159,405   |
| Cost of product sales            | 12,020                         | 30,807    | (8,177 )                       | 72,345    |
| Total                            | \$181,084                      | \$178,259 | \$583,847                      | \$336,630 |

During the three and nine month periods ended September 30, 2016, we reversed stock compensation expense related to stock compensation expense previously recorded on unvested stock options that were forfeited upon termination of certain employees during the periods in the amount of \$98 and \$40,630 to cost of product sales, respectively and \$2,935 and \$54,965 to operating expenses, respectively.

## 7. Warrants

At September 30, 2016 and December 31, 2015, we had 7,603,141 and 7,195,997 warrants outstanding, respectively, and exercisable with a weighted average exercise price of \$4.46 and \$4.60, respectively. The outstanding warrants have expiration dates between May 2017 and May 2021.

## 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 nine month periods ended September 30, 2016 and 2015, since the effect is anti-dilutive due to the Company's net losses. Common stock equivalents include stock options and warrants.

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 September 30, 2016 and 2015, respectively:

|  | Three Month Period<br>Ended |            | Nine Month Period Ended |            |
|--|-----------------------------|------------|-------------------------|------------|
|  | September 30,<br>2016       | 2015       | September 30,<br>2016   | 2015       |
| Basic and diluted weighted average common stock shares outstanding         | 12,699,419                  | 12,157,575 | 12,575,560              | 12,134,474 |
| Potentially dilutive securities excluded from loss per share computations: |                             |            |                         |            |
| Common stock options   | 2,567,328                   | 2,590,357  | 2,567,328               | 2,590,357  |
| Common stock purchase warrants   | 7,603,141                   | 7,428,141  | 7,603,141               | 7,428,141  |
| Restricted stock unvested  | 109,375                     | —          | 109,375                 | —          |

## 9. Commitments & Contingencies

### *Leases*

We lease approximately 30,000 square feet in our Bothell, Washington headquarters. The term of our lease continues until July 31, 2021 with two options to extend the term of the lease, each of which is for an additional period of five 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 is approximately \$59,700, with scheduled annual increases each August and again in October for the most recent amendment. We are also required to pay an amount equal to the Company's proportionate share of certain taxes and operating expenses.

### *Employment agreements*

We have employment agreements with our Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Vice President of Operations, Vice President of Marketing, and Vice President of Sales. None of these employment agreements is for a definitive period, but rather each will continue indefinitely until terminated in accordance with its terms. The agreements provide for a base annual salary, payable in monthly (or shorter) installments. In addition, the agreement with the Chief Executive Officer provides for incentive bonuses at the discretion of the Board of Directors. Under certain conditions and for certain of these officers, we may be required to pay additional amounts upon terminating the officer or upon the officer resigning for good reason.

### *biologistex*

Our biologistex joint venture committed to purchase approximately \$2.4 million in Smart Containers from SAVSU Technologies, LLC, a Delaware limited liability company and our joint venture partner ("SAVSU"). As of September 30, 2016, the remaining purchase commitment is \$1.9 million.

### *Litigation*

From time to time, the Company is subject to various legal proceedings that arise in the ordinary course of business, none of which are currently material to the Company's business.





## 10. Credit Facility

On May 12, 2016 we entered into a \$4 million credit facility agreement with our largest shareholder WAVI Holding AG (“WAVI”). The agreement calls for WAVI to provide four \$1 million tranches at specified times throughout the 12 months from the commencement of the facility agreement. The promissory note carries an annual interest rate of 10%, matures on June 1, 2017, and is unsecured, but senior to any existing debt. In conjunction with the credit facility, we issued 550,000 detachable vested warrants at a \$1.75 exercise price, expiring May 12, 2021. On June 1, 2016, we received the first \$1 million tranche and on September 1, 2016, we received the second \$1 million tranche related to the credit facility agreement. The Company recorded a debt discount related to the value of the warrants in the amount of \$374,390. The debt discount amount recorded related to the warrants was determined based on the relative fair value of the note payable and the warrants. The debt discount will amortize monthly at a rate of \$31,199 per month until June 1, 2017. The fair value of the warrants was determined using the Black-Scholes model.

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

### *Forward Looking Statements*

This Quarterly Report on Form 10-Q contains "forward-looking statements". These forward-looking statements involve a number of risks and uncertainties. We caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. These statements are based on current expectations of future events. Such statements include, but are not limited to, statements about future financial and operating results, plans, objectives, expectations and intentions, costs and expenses, interest rates, outcome of contingencies, financial condition, results of operations, liquidity, business strategies, cost savings, objectives of management and other statements that are not historical facts. You can find many of these statements by looking for words like "believes," "expects," "anticipates," "estimates," "may," "should," "will," "plan," "intend," or similar expressions in this Quarterly Report on Form 10-Q. We intend that such forward-looking statements be subject to the safe harbors created thereby. Examples of these forward-looking statements include, but are not limited to:

- anticipated product developments, regulatory filings and related requirements;
- timing and amount of future contractual payments, product revenue and operating expenses;
- market acceptance of our products and the estimated potential size of these markets; and
- projections regarding liquidity, capital requirements and the terms of any financing agreements.

These forward-looking statements are based on the current beliefs and expectations of our management and are subject to significant risks and uncertainties. If underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results may differ materially from current expectations and projections. 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, 2015 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.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or, in the case of documents referred to or incorporated by reference, the date of those documents.

All subsequent written or oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not

undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events, except as may be required under applicable U.S. securities law. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

## 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, 2015 filed with the SEC.

We were 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 our wholly-owned subsidiary, BioLife Solutions, Inc., which was engaged as a developer and marketer of biopreservation tools for cells and tissues. Following the merger, we changed our name to BioLife Solutions, Inc. We have one majority-owned subsidiary (52%), biologistex CCM, LLC, a Delaware limited liability company.

Our proprietary, clinical grade HypoThermosol® FRS and CryoStor® biopreservation media products are marketed to the regenerative medicine, biobanking and drug discovery 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 biopreservation media products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices (cGMP) using United States Pharmacopodia (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.

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.

On September 29, 2014, we entered into a limited liability company agreement with SAVSU to create a 20-year joint venture for the purpose of acquiring, developing, maintaining, owning, operating, marketing and selling an integrated platform of a cloud-based information service and precision thermal shipping products. The evo™ line is a new line of “smart shippers” designed for the shipment of materials, which must be maintained frozen, at 2-8°C and/or controlled room temperature temperatures and where near real time monitoring of temperature, location, and payload status information is necessary. A sophisticated electronics package embedded in the evo provides streaming data to the biologistex web-based application; where real time shipment status, history, and reports can be generated. Designed for small volume shipments; it fills a critical need in chain-of-custody scenarios for temperature sensitive shipments of cells, tissues, and other cell based products.

### ***Highlights for the Third Quarter of 2016***

Biopreservation media products revenue was \$2.1 million in the third quarter of 2016, an increase of 31% over the same period in 2015. For the first nine months of 2016, biopreservation media product revenue increased 32% as compared to last year. Third quarter revenue growth drivers include 39% higher direct sales to our regenerative medicine customers compared to the same period in 2015 as well as higher sales through our distribution network partially offset by a decline in sales to our hair transplantation customers.

Gross margin in the third quarter of 2016 was 57%, compared to 60% in the third quarter of 2015. For the first nine months of 2016, gross margin was 57%, compared to 58% in the first nine months of 2015. The slight margin decline over 2015 is due to higher overhead costs allocated per unit sold and change in product mix sold.

Consolidated net loss for the third quarter of 2016 was \$1.3 million and net loss attributable to BioLife was \$1.0 million or \$0.08/share compared to a consolidated net loss of \$1.3 million and net loss attributable to BioLife of \$1.1 million or \$0.09/share in the third quarter of 2015. The decrease in loss for the third quarter is primarily due to

SAVSU participation fees in 2015, offset by an increase in biologistex and biopreservation media development costs. Consolidated net loss for the nine months ended September 30, 2016 was \$4.5 million and net loss attributable to BioLife was \$3.6 million or \$0.28/share, compared to consolidated net loss of \$3.6 million and net loss attributable to BioLife was \$3.1 million or \$0.26/share in the nine months ended September 30, 2015. The increase in the loss for the nine month period is primarily the result of increased headcount and spending related to the development and launch activities of our biologistex joint venture.

- Supply Agreements: Executed 10 year Supply Agreements with Kite Pharma and Bellicum Pharmaceuticals.

Product Use Disclosures: Embedded in Cook MyoSite® phase 3 cell therapy clinical trial for stress urinary incontinence, integrated in Kolon Group's cell-mediated gene therapy for osteoarthritis, and used in the manufacturing process for Promethera Biosciences HepaStem cell-based treatment for liver disorders.

Customer Adoption: Management believes that BioLife products are now embedded in over 230 pre-clinical validation projects and human clinical trials for new cell and tissue-based regenerative medicine products and therapies, including 21 phase III trials.

## **Results of Operations**

Our revenue, results of operations and cash balances may fluctuate significantly from quarter-to-quarter. These fluctuations could be due to a number of factors, including the progress of our customers' clinical trials, where the pace of enrollment affects customer orders for our products. The majority of our net sales come from a relatively small number of customers and a limited number of market sectors. Each of these sectors is subject to macroeconomic conditions as well as trends and conditions that are sector specific. Any weakness in the market sectors in which our customers are concentrated could affect our business and results of operations.

*Comparison of Results of Operations for the Three and Nine Month Periods Ended September 30, 2016 and 2015*

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>September 30, |             | %<br>Change |    |
|-------------------------------------|--|-------------|-------------|----|
|                                     | 2016   | 2015        |             |    |
| Revenue:                            |  |             |             |    |
| Biopreservation media product sales | \$2,135,197                                  | \$1,631,926 | 31          | %  |
| Cost of sales                       | 920,935                                      | 658,542     | 40          | %  |
| Gross profit                        | \$1,214,262                                  | \$973,384   | 25          | %  |
| Gross margin %                      | 57   | % 60        |             | %  |
|                                     |  |             |             |    |
|                                     | Nine Month Period Ended<br>September 30,     |             | %<br>Change |    |
|                                     | 2016   | 2015        |             |    |
| Revenue:                            |  |             |             |    |
| Biopreservation media product sales | \$5,977,202                                  | \$4,542,526 | 32          | %  |
| Contract manufacturing services     | —  | 86,881      | (100)       | )% |
| Total revenue                       | 5,977,202                                    | 4,629,407   | 29          | %  |
| Cost of sales                       | 2,564,775                                    | 1,954,752   | 31          | %  |
| Gross profit                        | \$3,412,427                                  | \$2,674,655 | 28          | %  |
| Gross margin %                      | 57   | % 58        |             | %  |

*Biopreservation Media Product Sales.* Our core products are sold through both direct and indirect channels to customers in the regenerative medicine, biobanking and drug discovery markets. Sales of our core proprietary products in the three and nine months ended September 30, 2016 increased 31% and 32%, respectively, compared to the same periods in 2015, due primarily to an increase in products sold and an increase in selling price per liter sold due to changes in product mix sold and customized biopreservation media formulations. Proprietary revenue growth in the current quarter was driven by a 39% increase in our regenerative medicine segment and 23% increase in our US and international distributors. The hair transplantation segment decreased 39% year over year due to the large orders placed in the third quarter of 2015. We expect to see continued growth in adoption and use of our proprietary

biopreservation media products, and estimate at least 25% growth in core product revenue for the full year over 2015.

*Contract Manufacturing Services.* We had no contract manufacturing revenue in the first three quarters of 2016. In 2015, the contract manufacturing revenue was the result of process validation work performed for one customer and sales of certain raw materials related to this customer.

*Cost of Sales.* Cost of sales consists of raw materials, labor and overhead expenses. Cost of sales in the three and nine months ended September 30, 2016 increased compared to the same periods in 2015 due to increased sales of our proprietary products and overhead costs.

*Gross Margin.* Gross margin as a percentage of revenue was 57% in the three and nine months ended September 30, 2016, compared to 60% and 58% in the three and nine months ended September 30, 2015. The margin is slightly lower due to an increase in raw material and overhead costs. For the full year, we expect gross margin to be in the range of 55% to 60% on core biopreservation media products.

*Revenue Concentration.* In the three and nine months ended September 30, 2016, we derived approximately 25% of our product revenue from two customers and 12% of our product revenue from one customer, respectively. In each of the three and nine months ended September 30, 2015, we derived approximately 10% of our product revenue from one customer. No other customer accounted for more than 10% of revenue in the three and nine months ended September 30, 2016 or 2015.

**Operating Expenses**

Our operating expenses for the three and nine month periods ended September 30, 2016 and 2015 were:

|                            | Three Month Period<br>Ended<br>September 30, |             | %<br>Change |    |
|----------------------------|--|-------------|-------------|----|
|                            | 2016   | 2015        |             |    |
| Operating Expenses:        |  |             |             |    |
| Research and development   | \$496,874                                    | \$329,527   | 51          | %  |
| Sales and marketing        | 816,025                                      | 677,033     | 21          | %  |
| General and administrative | 1,039,223                                    | 1,263,272   | (18)        | )% |
| Operating Expenses         | \$2,352,122                                  | \$2,269,832 | 4           | %  |
| % of revenue               | 110  | % 139       |             | %  |
|                            |  |             |             |    |
|                            | Nine Month Period Ended<br>September 30,     |             | %<br>Change |    |
|                            | 2016   | 2015        |             |    |
| Operating Expenses:        |  |             |             |    |
| Research and development   | \$1,600,144                                  | \$953,026   | 68          | %  |
| Sales and marketing        | 2,399,131                                    | 1,819,778   | 32          | %  |
| General and administrative | 3,637,333                                    | 3,514,678   | 3           | %  |
| Operating Expenses         | \$7,636,608                                  | \$6,287,482 | 21          | %  |
| % of revenue               | 128  | % 136       |             | %  |

**Research and Development.** Research and development expenses consist primarily of salaries and other personnel-related expenses, consulting and other outside services, laboratory supplies, and other costs. We expense all research and development costs as incurred, with the exception of certain costs associated with the development of customized internal-use software systems that are capitalizable. Research and development expenses for the three and nine months ended September 30, 2016 increased compared to the three and nine months ended September 30, 2015, due primarily to expensed costs related to customized internal-use software and costs associated with new media and biologistex product development.

**Sales and Marketing.** Sales and marketing expenses consist primarily of salaries and other personnel-related expenses, consulting, trade shows and advertising. The increase in the three and nine months ended September 30, 2016 compared to the same periods in 2015 was due primarily to higher personnel costs and costs related to marketing activities of our biologistex joint venture.



*General and Administrative Expenses.* General and administrative expenses consist primarily of personnel-related expenses, non-cash stock-based compensation for administrative personnel and members of the board of directors, professional fees, such as accounting and legal, corporate insurance, and participation fees to SAVSU related to the biologistex joint venture. The decrease in general and administrative expenses in the three months ended September 30, 2016 compared to the same period in 2015 is due to no joint venture participation fees in 2016. The increase in other general and administrative costs in the nine months ended September 30, 2016 compared to the same period in 2015 were due to higher personnel costs, including employee relocation expenses and severance expense for two former executives in the first quarter of 2016, and stock-based compensation related to new issuances of options and restricted stock grants in the first quarter of 2016 offset by SAVSU participation fees in 2015.

***Other Income (Expenses)***

*Interest Expense.* The interest expense in the three and nine months ended September 30, 2016 is due to the note payable related to the credit facility financing arrangement entered into in May 2016.

*Amortization of debt discount.* The amortization of short-term debt discount in the three and nine months ended September 30, 2016 is due to the amortization of the allocated value of the detachable warrants associated with the credit facility financing on arrangement entered into in May 2016.

*Write off of deferred financing costs.* The write off of deferred financing costs in the nine months ended September 30, 2016 is due to the write off of deferred capital costs related to Registration Statement on Form S-3 filed with the SEC on January 8, 2016.

*Loss on disposal of property and equipment.* The loss on asset disposal in the three and nine months ended September 30, 2016 is due to the disposal of property and equipment with net book value.

*Interest Income.* The reduction in interest income in the three and nine months ended September 30, 2016 compared to the same period in 2015 is due to the lower average short-term investments balance in 2016 compared to 2015.

## **Liquidity**

On September 30, 2016, we had \$1.4 million in cash and cash equivalents, compared to cash, cash equivalents and short-term investments of \$3.8 million at December 31, 2015.

On May 12, 2016, we entered into a \$4 million credit facility with our largest shareholder, WAVI Holding AG (“WAVI”), pursuant to which WAVI agreed to make a series of four \$1 million advances on June 1, 2016, September 1, 2016, December 1, 2016 and March 1, 2017 (each, an “Advance”). We entered into a promissory note (the “Note”) in favor of WAVI whereby we agreed to pay WAVI the principal amount of all Advances under the Note, plus interest. We also issued WAVI 5 year warrants to purchase 550,000 shares of common stock at a fixed exercise price of \$1.75 per share. The Note is unsecured, carries an annual interest rate of 10% and matures on June 1, 2017. WAVI is not obligated to pay any Advance if an event of default (as defined in the Note) has occurred or is occurring. In addition, if an event of default has occurred, WAVI may, at its option, declare the Note to be immediately due and payable, together with all unpaid interest, without further notice or demand. The Note also provides that we will not permit any liens on our assets, subject to certain exceptions. On June 1, 2016, we received the first \$1 million Advance and on September 1, 2016, we received the second \$1 million Advance.

We believe the remaining \$2 million of Advances, when combined with cash from operations, will be sufficient to reach positive cash flow from operations, which we expect next year. However, our funds from operations may not be sufficient to repay the Note on its maturity date. Accordingly, we may need to obtain additional debt or equity financing or negotiate with WAVI an amendment to the maturity date or terms of the Note prior to the existing maturity date. If we are unable to comply with the terms of the Note as of the date of any Advance, we may need to take such actions of an earlier date. We cannot assure you that we will be successful in doing so on favorable terms, or at all. See Part II, Item 1.A. Risk Factors.

We are continuously monitoring and evaluating opportunities to strengthen our balance sheet and competitive position over the long term. These actions may include acquisitions or other strategic transactions that we believe would generate significant advantages and substantially strengthen our business. The consideration we pay in such transactions may include, among other things, shares of our common stock, other equity or debt securities of our

Company or cash. We may elect to seek debt or equity financing in anticipation of, or in connection with, such transactions.

### ***Net Cash Used In Operating Activities***

During the nine months ended September 30, 2016, net cash used in operating activities was \$3.7 million compared to \$3.7 million for the nine months ended September 30, 2015. Cash used in operating activities did not change from the prior period because the use of cash to fund higher net losses was offset by changes in operating assets and liabilities.

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

Net cash provided by investing activities totaled \$0.7 million during the nine months ended September 30, 2016, which was the result of sales and maturities of short term investments, net of purchases of equipment and \$0.9 million of costs associated with internal use software development during the period. Cash provided by investing activities totaled \$3.4 million during the nine months ended September 30, 2015, which was the result of sales and maturities of short term investments, net of purchases of short term investments and purchases of equipment and \$0.9 million of costs associated with internal use software development during the quarter.

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

Net cash provided by financing activities was \$2.2 million and \$0.1 million in the nine months ended September 30, 2016 and 2015, respectively. Net cash provided by financing activities during the nine months ended September 30, 2016 was the result of proceeds received from our credit facility, warrant exercises and employee stock option exercises net of cash payments related to the filing of the Registration Statement on Form S-3. Net cash provided by financing activities in the nine months ended September 30, 2015 was the result of proceeds received from employee stock option exercises.

### **Off-Balance Sheet Arrangements**

As of September 30, 2016, 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 consolidated 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 consolidated 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, useful lives and impairment of intangible assets and internal use software, 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC.

### **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, 2015, as filed with the SEC on February 25, 2016. There have been no significant changes to these obligations in the nine months ended September 30, 2016. For more information regarding our current contingencies and commitments, see note 9 to the consolidated 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 September 30, 2016, 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 September 30, 2016, 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 that occurred during the quarter ended September 30, 2016 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.

## **PART II: Other Information**

### **Item 1.A. Risk Factors**

**We anticipate the need to obtain additional equity or debt financing or negotiate with WAVI an amendment to the maturity date or terms of the Note, which we may not obtain on favorable terms, or at all.**

We believe the remaining \$2 million of Advances when combined with cash from operations, will be sufficient to reach positive cash flow from operations, which we expect next year. However, we cannot assure you that we will receive the remaining Advances, or that our funds will be sufficient for this period. Our funds from operations may not be sufficient to pay the Note on its current maturity date. Accordingly, we expect we may need to obtain additional debt or equity financing or negotiate with WAVI an amendment to the maturity date or terms of the Note prior to the existing maturity date. Any new equity financing, including any equity issued in connection with debt

financings or amendments, may dilute our existing shareholders and may adversely affect our stock price. If we are unable to comply with the terms of the Note, obtain any required financing or comply with any amendment to the Note, our business and financial condition may be adversely affected.

**Item 6. Exhibits**

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

**SIGNATURES**

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

**BIOLIFE SOLUTIONS, INC.**

Dated: November 10, 2016 /s/ Roderick de Greef  
Roderick de Greef  
Chief Financial Officer  
(Duly authorized officer and principal  
financial and accounting officer)



**BioLife Solutions, Inc.**

**INDEX TO EXHIBITS**

Exhibit No. Description

|      |   |
|------|---|
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | 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 |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |