

PRESSURE BIOSCIENCES INC  
Form 10KSB/A  
May 22, 2006

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

**Form 10-KSB/A**

(Mark One)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act  
of 1934  
For the fiscal year ended December 31, 2005 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 000-21615

**PRESSURE BIOSCIENCES, INC.**  
(Name of Small Business Issuer in its Charter)

**Massachusetts**  
(State or Other Jurisdiction of Incorporation or  
Organization)

**04-2652826**  
(I.R.S. Employer Identification No.)

**321 Manley Street,**  
**West Bridgewater, Massachusetts**  
(Address of Principal Executive Offices)

**02379-1040**  
(zip code)

(508) 580-1818  
(Issuer's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**  
None

**Securities registered pursuant to Section 12(g) of the Act:**  
Common Stock, par value \$.01 per share

Preferred Share Purchase Rights  
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ..

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Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Pressure BioSciences Inc.'s revenues for the most recent fiscal year ended 2005 were \$105,526.

The aggregate market value of the voting and non-voting common stock held of the registrant at February 28, 2006 was \$9,333,128 based on the closing price of the common stock as quoted on the Nasdaq Capital Market on that date. As of February 28, 2006, there were 2,424,189 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Part III of this Form 10-KSB incorporates information by reference from the issuer's definitive proxy statement which will be filed no later than 120 days after the end of the fiscal year covered by this report.

Transitional Small Business Disclosure Format (check one): Yes  No

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## INTRODUCTORY NOTE

In connection with the preparation of our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2006, we completed an internal review of the tax liability associated with the 2004 sale of assets and certain liabilities of our former core businesses, referred to herein as the BBI Core Businesses, to SeraCare Life Sciences, Inc. As a result of this review, we concluded that the tax liability related to discontinued operations recorded in the third quarter of 2005 was understated by approximately \$220,000. Upon reexamining our 2005 accounting for income taxes in its entirety, we also determined to reduce by approximately \$60,000 the estimate of deferred tax liability for the unrealized gain from our investment in Panacos Pharmaceuticals, Inc., to increase by approximately \$23,000 the income tax provision from continuing operations, and to revise our calculation, and disclosure of, deferred tax assets. The adjustments to deferred tax assets had no impact on the financial statements because all deferred tax assets are fully reserved for. The total impact of all of these adjustments did not change our reported pre-tax results from continuing operations, but income from continuing operations after income taxes for the fiscal year ended December 31, 2005 was reduced from approximately \$873,000 to approximately \$850,000.

As a result of the tax review, on May 17, 2006 our senior management and the Audit Committee of the Board of Directors concluded that our consolidated financial statements for the year ended December 31, 2005 and for the quarter ended September 30, 2005 should no longer be relied upon, and decided to restate our financial statements for the year ended December 31, 2005 and to restate our financial statements for the quarter ended September 30, 2005. Our management and Audit Committee discussed this with Weinberg & Company, P.A., our independent registered public accounting firm.

As a result of the restatement, we have amended the following items of our Annual Report on Form 10-KSB for the year ended December 31, 2005:

- Part II, Item 6, Management's Discussion and Analysis or Plan of Operations, has been amended to:
  - o reflect our explanation of the increase in "Income Tax (provision) benefit from Continuing Operations" of \$(22,725) for the fiscal year ended December 31, 2005;
  - o revise the "Gain on Sale of Net Assets Related to Discontinued Operations"; the \$921,648 previously recorded in fiscal year ended December 31, 2005 has been reduced to \$703,269 to reflect the proper accounting for a deferred tax liability which was created by reflecting installment sale treatment in our 2004 federal corporate income tax return;
  - o reflect our explanation of the decrease in "Net Income"; the reduction in "Gain on Sale of Net Assets Related to Discontinued Operations" of \$218,379 and the additional income tax provision from continuing operations of \$(22,725) result in a dollar for dollar reduction in net income for fiscal year ended December 31, 2005; and
  - o revise our discussion of Liquidity and Financial Condition to reflect a decrease in working capital of \$241,105 from the previously reported amount of \$7,981,841, to \$7,740,736; this decrease in reported working capital is entirely due to adjustments to the income tax accounts.
  - o Revise our disclosure of "Critical Accounting Policies", to explain the change in the Deferred Tax Valuation Allowance;
  - o Revise our disclosure of "Recent Accounting Standards", to explain our adoption of SFAS 154, relative to the correction of the errors we found in our accounting for income taxes.
- Part II, Item 7, Financial Statements, has been amended to reflect the adjustment of our accounting for income taxes. Adjustments made impact the Consolidated Statements of Operations, Consolidated Balance Sheet, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Stockholders' Equity, Consolidated Statements of Cash Flows and Note 2 (iii) "Correction of Error", Note 2 (xii) "Computation of Earnings (loss) Per Share", Note 2 (xiv) "Recent Accounting Standards", Note 2 (xv) "Stock-based Compensation", Note 9, "Income Taxes" in the Notes to Consolidated Financial Statements.

We have also revised Part II, Item 8A, Controls and Procedures, to reflect the conclusion of our Chief Executive Officer and our Chief Financial Officer that our disclosure controls and procedures were not effective as of December 31, 2005. Lastly, we have revised Part III, Item 9, Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act, to add Edward H. Myles as an executive officer of the Company. Mr. Myles was appointed as Vice President of Finance & Chief Financial Officer effective April 3, 2006. Mr. Myles and Mr. Richard T. Schumacher, our President and Chief Executive Officer, have included new certifications under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, which are filed with the Form 10-KSB/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

### *Overview*

We are developing and marketing applications of our proprietary pressure cycling technology (PCT) for nucleic acid and protein extractions from various types of human, animal and plant samples in multiple industries and applications. Our pressure cycling technology uses an instrument that is capable of cycling pressure between ambient and high levels at controlled temperatures to rapidly and repeatedly control the interactions of biomolecules. PCT utilizes our Barocycler™ instrument and disposable PULSE™ Tubes (together, the PCT Sample Preparation System, or the PCT SPS) to release nucleic acids and proteins from plant/animal cells and tissues, as well as other organisms that are not easily disrupted by standard chemical and physical methods. We believe that our patented and proprietary pressure cycling technology employs a unique approach that has the potential for broad applications in a number of established and emerging fields, including genomics, proteomics, drug discovery and development, protein purification, pathogen inactivation, immunodiagnostics, food safety, and DNA sequencing.

To date, we have primarily applied PCT to the area of sample preparation for genomics and proteomics. We have also developed scientific collaborations with several leading laboratories and academic institutions in the United States, which we expect will remain ongoing in 2006 and beyond. We further expect that the data generated by our collaborators will be publicly released in scientific publications and presentations, and that this could have an important positive impact on future sales of our PCT products. We have investigated the use of PCT for the inactivation of pathogens in human blood plasma, therapeutics, and diagnostic reagents and believe we have demonstrated the technical feasibility of applying PCT to immunodiagnostics, protein purification, pathogen inactivation, food safety, and DNA sequencing. We have obtained thirteen US and four foreign patents containing multiple claims covering the foregoing areas.

In September 2002, we released for sale our first commercial PCT instrument, the Barocycler™ NEP2017. In 2002, we also released for sale PULSE™ Tubes, which are single-use, disposable processing and storage tubes that work in conjunction with the Barocycler™ NEP2017. From September 2002 until June 2005, sales of these products were extremely limited. During this time, we leased one and sold two PCT Sample Preparation Systems and a limited number of PULSE™ Tubes. We believe that sales of our pressure cycling technology products were adversely affected primarily as a result of the following factors: (1) the initial design and selling price of the Barocycler™ NEP2017, (2) the limited amount of research data available during that time demonstrating its capabilities and potential, (3) the absence of a strong sales and marketing management team, (4) the absence of a strong promotional campaign after the commercial release of the Barocycler™ NEP2017, (5) the inability to execute our sales plan as a result of financial constraints, (6) then current US economic conditions and uncertainties which negatively affected capital spending on laboratory instruments, (7) the financial condition of our Company during 2003 and 2004, (8) the focus of our resources on other projects, including the sale of our BBI Diagnostics, BBI Biotech, and the transfer of selected assets and liabilities of our laboratory instrumentation business units, a process that began in October 2002 and was completed in September 2004, (9) the time required to complete post-transaction issues related to the sale of BBI Diagnostics and BBI Biotech, and (10) the effort required during the first half of 2005 to restructure the Company, including the effort to build a new corporate infrastructure.

To address some of these factors associated with the disappointing sales of the Barocycler™ NEP2017, we developed a less expensive and smaller, bench top version of the Barocycler™, the NEP3229, which we expect facilitates an easier and quicker purchase decision by potential customers. We have also generated additional research data to support our sales efforts and this research effort will continue and expand in 2006 and the foreseeable future. We believe that the new bench top Barocycler™ will fill an immediate and growing need in the genomics and proteomics sample preparation market for a smaller, more affordable instrument that still provides the quality, reproducibility, and safety of the NEP 2017PCT SPS.

To increase market awareness of our products, in June 2005 we initiated a program to place up to twelve Barocyler™ NEP3229 units in selected strategic customer sites for trial periods of three months or longer, which we believe will provide potential customers with the opportunity to develop and collect independent and objective data and statistical information. We believe that we will be able to generate sales of our products from these customers after the customer experiences the performance, reliability, and safety of the sample preparation process provided by the PCT Sample Preparation System. After the trial period, it is our expectation that a number of users will either purchase or lease the PCT Barocyler™ instrument. During 2005, we placed nine bench top instruments under an “Evaluation Agreement”, whereby a “collaborating site” has full use of the instrument in their own facility, has agreed to purchase a certain number of PULSE™ Tubes over the trial period, and has further agreed to use the PCT Sample Preparation System to generate data for public dissemination. During the second half of 2005, we sold three PCT Sample Preparation Systems to customers involved in the Evaluation Program.

Following the closing of the sale of the assets and selected liabilities of BBI Diagnostics and BBI Biotech to SeraCare Life Sciences on September 14, 2004, the transfer of certain assets and liabilities of BBI Source Scientific, Inc. to Source Scientific, LLC and the subsequent sale of 70% of our ownership interests of Source Scientific, LLC in June 2004, our operations now consist primarily of our pressure cycling technology (PCT) business. The results of operations discussed herein focus on the PCT business activities and the corporate functions associated with being a public company. Operating results of BBI Source Scientific, Inc., excluding any PCT related activities, together with Source Scientific, LLC, are reported as “Other operating (charges), net” hereunder. The operating results of our BBI Diagnostics and BBI Biotech divisions prior to their sale on September 14, 2004, together with the results of the discontinued operations of our clinical laboratory testing services segment (sold in February 2001), are reported as “Discontinued Operations” hereunder. Certain amounts included in the prior period’s financial statements have been reclassified to conform to the current period’s presentation.

## ***CRITICAL ACCOUNTING POLICIES***

To prepare our consolidated financial statements in conformity with generally accepted accounting principles, management is required to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates were made in determining the gain on the disposition of our discontinued operations including post-closing adjustments, in estimating future cash flows to quantify impairment of assets, in estimates regarding the collectibility of accounts receivable, the realizability of a loan receivable together with associated accrued interest from our President and Chief Executive Officer and a director including sufficiency of collateral, current and deferred tax assets and liabilities, and the net realizable value of our inventory. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be 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 could differ from the estimates and assumptions used by management.

### ***Revenue Recognition***

We recognize revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue recognition in Financial Statements* ("SAB 101") and updated by Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104"). Revenue is recognized when realized or earned when all the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. Product revenue is generally recognized upon shipment of the products. In addition, product revenue includes revenue related to lease units. Lease revenue is recognized upon invoice.

Revenue from service contracts is earned as the related services are performed. Revenue arrangements where multiple products or services are sold together under one contract are evaluated to determine if each element represents a separate earnings process. In the event that an element of such multiple element arrangement does not represent a separate earnings process, revenue from this element is recognized over the term of the related contract. Revenue from service contracts and research and development contracts is recognized as the service and research and development activities are performed under the terms of the contracts.

### **Inventory**

Inventory is valued at the lower of cost or market. Inventories consist of finished goods and raw materials, and work in process. Certain factors may impact the realizable value of our inventory including, but not limited to, technological changes, market demand, changes in product mix strategy, new product introductions and significant changes to our cost structure. In addition, estimates of reserves are made for obsolescence based on the current product mix on hand and its expected net realizability. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by management, additional inventory write-downs or increases in obsolescence reserves may be required. We treat lower of cost or market adjustments and inventory reserves as adjustments to the cost basis of the underlying inventory. Accordingly, favorable changes in market conditions are not recorded to inventory in subsequent periods.

### **Intangible Assets**

We have classified as intangible assets those costs associated with the fair value of certain assets of businesses acquired. Intangible assets relate to the remaining value of acquired patents associated with PCT. The cost of these acquired patents is amortized on a straight-line basis over sixteen years. We annually review our intangible assets for

impairment. When impairment is indicated, any excess of carrying value over fair value is recorded as a loss. An impairment analysis of intangible assets as of December 31, 2005 concluded that such assets were not impaired.

*Long-Lived Assets and Deferred Costs*

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", if indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the carrying value of the asset to the fair value of the asset and record the impairment as a reduction in the carrying value of the related asset and a charge to operating results. While our current and historical operating losses and cash flow are indicators of impairment, we reviewed for impairment at December 31, 2005 and determined that such long-lived assets were not impaired.



*Deferred Tax Valuation Allowance*

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance was established in 2005 for the full amount of the deferred tax asset due to the uncertainty of realization. Although we realized taxable income generated from the sale of assets to SeraCare Life Sciences in September 2004, management believes that based upon its projection of future taxable income for the foreseeable future, it is more likely than not that we will not be able to realize the benefit of the deferred tax asset at December 31, 2005. The current valuation allowance is \$1,232,055. The valuation allowance as of January 1, 2005 was \$1,890,987. The net change in the valuation allowance during the year ended December 31, 2005 was a decrease of \$658,932.

*Discontinued Operations*

BBI Diagnostics and BBI Biotech Segments

On September 14, 2004, the Company completed the sale of substantially all of the assets and selected liabilities of its BBI Diagnostics and BBI Biotech divisions to SeraCare pursuant to the Asset Purchase Agreement, for a purchase price of \$30 million in cash of which \$27.5 million was paid at the closing and the remaining \$2.5 million was deposited in escrow pursuant to an escrow agreement expiring in March 2006. Following the release to SeraCare of \$1.4 million of the escrow funds to satisfy the final adjustment amount in February 2005, approximately \$1.1 million remained in escrow to secure our continuing indemnification obligations for breaches of representations and warranties, covenants or other agreements that remain in accordance with the terms of the Asset Purchase Agreement. These funds were released to PBI on March 15, 2006. The amounts associated with the sale of these assets and selected liabilities to SeraCare are reported as discontinued operations in the accompanying financial statements, in accordance with paragraphs 30 and 42 of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

Clinical Laboratory Testing Services Segment

In February 2001, the Company sold the business and certain assets and liabilities of its clinical laboratory business, BBI Clinical Laboratories, Inc. ("BBICL"), a wholly-owned subsidiary of the Company, to a third party for an adjusted purchase price of \$8,958,000. The Company retained certain other assets and liabilities of BBICL, primarily property, plant and equipment, together with the facility lease subsequent to the closing date. The Company wrote down all of the retained assets not otherwise redistributed to other business units to their estimated net realizable value. The Company's estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business is approximately \$8,160 as of December 31, 2005. The major component of this accrual relates to the long term record retention of medical and related records.

*Assets and Liabilities Transferred Under Contractual Arrangements*

In June 2004, PBI Source Scientific, Inc. transferred certain of its assets and liabilities to a newly formed limited liability company known as Source Scientific, LLC. At the time of the transfer, PBI Source Scientific, Inc. owned 100% of the ownership interests of Source Scientific, LLC. BBI Source Scientific, Inc. subsequently sold 70% of its ownership interests of Source Scientific, LLC to Mr. Richard Henson and Mr. Bruce A. Sargeant pursuant to a purchase agreement (the "Source Scientific Agreement"). As a result of the sale of 70% of PBI Source's ownership interests, Mr. Henson and Mr. Sargeant each own 35% and PBI Source owns the remaining 30% of Source Scientific, LLC. Under the Source Scientific Agreement, the Company received notes receivable in the aggregate amount of \$900,000 (the "Notes") payable at the end of three years bearing 8% interest. Despite the Company's intent to exit the laboratory instrumentation business, the Company may be viewed as having a continuing involvement in the business of Source Scientific, LLC due to the fact that the Company has the right to designate one or potentially three members

of the Board of Managers of Source Scientific, LLC. Because of this factor, even though the transaction is treated as a divestiture for legal purposes, the Company has not recognized the transaction as a divestiture for accounting purposes in accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) Topic 5E, *Accounting for Divestiture of a Subsidiary or Other Business Operation*. In accordance with SAB Topic 5E, the Company has recorded the assets and liabilities associated with the Source Scientific, LLC operation on the Company’s audited consolidated balance sheet as of December 31, 2005 under the captions “Assets transferred under contractual arrangements” and “Liabilities transferred under contractual arrangements” and has recorded a charge to income under the caption “Other operating (charges), net” in the Company’s audited consolidated statements of operations for the years ended December 31, 2005 and 2004 equal to the amount of the loss attributable to the business of Source Scientific for the respective periods presented. In accordance with SAB Topic 5E, the Company will continue this accounting treatment until circumstances have changed or until the net assets of the Source Scientific, LLC business have been written down to zero (or a net liability is recognized in accordance with U.S. GAAP).

*Loan Receivable from Director and Chief Executive Officer*

In January 2002, the Company pledged a \$1,000,000 interest bearing deposit at a financial institution to secure its limited guaranty of loans in the aggregate amount of \$2,418,000 from the financial institution to an entity controlled by Richard T. Schumacher, a Director and the Company's current President and Chief Executive Officer. In January 2003, the \$1,000,000 held in the interest bearing deposit account pledged to the financial institution to secure the Company's limited guaranty was used by the financial institution to satisfy its limited guaranty obligation to the financial institution. As of December 31, 2005, the Company maintained a \$1.0 million loan receivable from Mr. Schumacher. The Company previously maintained a junior security interest in collateral pledged by Mr. Schumacher to the financial institution. The collateral includes all of Mr. Schumacher's shares of PBI common stock. Following the payment in full by Mr. Schumacher of his loan to the financial institution in February 2005, the Company became the holder of a first priority security interest in Mr. Schumacher's shares of common stock of Pressure BioSciences to secure the repayment of the Company's \$1,000,000 loan receivable together with associated accrued interest from Mr. Schumacher. The collateral currently consists of 489,657 shares of PBI common stock. The collateral and personal assets of Mr. Schumacher may not be sufficient to permit the Company to fully recover the principal, interest and other costs associated with this loan receivable. If the value of the collateral decreases, the Company may have to write down or write off the loan receivable or any associated accrued interest. Therefore, the Company cannot be certain that it will collect the full amount of the loan receivable.

As of December 31, 2005, the Company evaluated the recoverability of the \$1,000,000 loan receivable from Mr. Richard T. Schumacher, which is reflected on the balance sheet in stockholders' equity as a loan receivable from Director / CEO as of December 31, 2005. In connection with the Company's evaluation of the recoverability of the loan receivable as of December 31, 2005 the Company performed a test for impairment of the loan receivable by analyzing the value of the collateral. This test included, among other things, a review of the current trading price of the Company's common stock after taking into account factors that may affect the Company's ability to sell such stock in the event it were to foreclose on the collateral to repay the loan receivable and any accrued and unpaid interest. After performing the impairment test, the Company determined that the loan receivable was not impaired. The ultimate value that the Company may recover is dependent on numerous factors including the Company's stock price, market conditions relative to the value of and ability to sell the collateral, and the financial status of the Company's President and Chief Executive Officer. Based on the Company's assessment as of December 31, 2005, the Company estimates that the value of the collateral is sufficient to collateralize the amount of the recorded loan receivable. If actual market conditions are less favorable, the Company's stock price declines, or other factors arise that are significantly different than those in existence as of December 31, 2005, an impairment of the loan receivable together with any associated accrued interest is likely to be required. The Company plans to continue to monitor and test the collateral for impairment due in large part to the relatively low trading volume of the Company's common stock and recent volatility in our stock price, ranging from a low of \$2.28 per share to a high of \$6.70 per share from January 1, 2005 to December 31, 2005.

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

Revenue

We had total revenue of \$105,526 in the year ended December 31, 2005, as compared to \$412,616 in the prior year, a decline of \$307,090 reflecting a decrease in grant revenues.

PCT Products, Services, Others: Product revenue totaled \$105,526 in the year ended December 31, 2005, compared to \$19,310 for the corresponding period of 2004. Product revenue in 2005 included the sale of three Barocylcer NEP 3229 PCT Sample Preparation Systems, lease payments from two other customers, and sales of PULSE™ Tubes to these customers and to collaboration sites. There were no sales of PCT Sample Preparation Systems in 2004. To increase market awareness of our products, our strategy is to place PCT Sample Preparation Systems with potential customers

for a trial evaluation period. Although we can provide no assurances, we believe that pursuing this strategy will enable potential customers to generate data and statistical information, which will lead to additional sales of our PCT Sample Preparation System. Of the three of PCT Sample Preparation Systems that we sold in 2005, two were purchased by the customer after a trial evaluation period.

Grant Revenues: There were no grant revenues in 2005. Grant revenue in 2004 of \$393,306 consisted predominately of the award of SBIR funding activity through the National Institutes of Health. The decrease in PCT grants and services revenue in 2005 was primarily related to the completion of work in 2004 on two Phase-II SBIR Grants.

Cost of PCT Products and Services

The cost of PCT products and services was \$177,350 for the year ended December 31, 2005 compared to \$572,323 for the comparable period in 2004. The decrease in 2005 was predominately driven by the decrease in grant activities which accounted for \$394,806 of the total decrease of \$394,973.

Research and Development

PCT related research and development expenditures increased to \$498,584 in the year ended December 31, 2005 from \$419,936 for the comparable period of 2004. This increase was primarily due to the increased level of research and development expenditures relating to various sample preparation applications for the PCT technology.

Selling and Marketing

PCT related selling and marketing expenses decreased to \$157,493 for the year ended December 31, 2005 from \$194,612 in 2004. This decrease was due to reduced headcount, a reduction in trade shows attended in first half of 2005 versus 2004, and lower production of marketing materials. Offsetting this decrease, in January 2005 we hired one sales executive. For the years ended December 31, 2005 and 2004, the Company did not incur any material advertising costs as it remained an early-stage company.

General and Administrative

General and administrative costs totaled \$1,691,214 in the year ended December 31, 2005, as compared to \$1,336,239 in the comparable period of 2004, an increase of \$354,975. The increase was primarily due to a compensation charge of \$400,000 relating to payments made to Mr. Schumacher (i) as a reimbursement of costs and expenses, as well as for lost wages and severance benefits, resulting from his termination of employment in February 2003, and (ii) as a bonus to reward Mr. Schumacher for his valuable contributions to the Company and our stockholders in the overall restructuring and repositioning of our company over the past two years. In addition, we provided reimbursement of \$94,985 in the first quarter of 2005 to Mr. Schumacher for certain legal bills incurred relative to his termination as Chairman and Chief Executive Officer of PBI on February 13, 2003. Those compensation and reimbursed expenses were favorably offset by lower infrastructure costs in the 2005 period.

Stock Based Compensation

In conjunction with the sale of assets and selected liabilities to SeraCare on September 14, 2004, our Board of Directors voted to extend the termination date of all stock options granted to employees of BBI Diagnostics and BBI Biotech to the later of 90 days from the closing of the SeraCare transaction or the termination of the contemplated tender offer. In accordance with the provisions of FASB Interpretation No. 44, we recognized non-cash stock-based compensation of \$281,737 for 2004. There were no charges for the twelve months ended December 31, 2005.

Operating Loss from Continuing Operations

The operating loss of the PCT business was \$2,419,115 in the year ended December 31, 2005 as compared to an operating loss of \$2,392,231 in 2004. While operating expenses decreased by \$280,206 in 2005 compared to 2004, the impact of lower grant activity in 2005 impacted operating performance.

Realized gain of sale of securities held for sale

For the twelve months ended December 31, 2005, we recorded a gain on the sale of 441,086 shares of our Panacos Pharmaceuticals shares. The shares sold in 2005 generated a gain of \$3,829,677. As of December 31, 2005, we had a total of 571,834 Panacos shares remaining, including 151,938 shares held in escrow. We continue to monitor the stock price and sales volume of Panacos, and may decide to sell additional shares from time to time.

Other Operating (Charges), net

The non-PCT related activities of PBI Source Scientific, Inc., which reflects the activity of Source Scientific, LLC, had an operating loss of \$477,154 for the year ended December 31, 2005, as compared to an operating loss of \$442,611 for the same period of 2004. See also Note 4 to the Consolidated Financial Statements included in Part II of Item 7 contained hereunder.

Interest Income

Interest income totaled \$269,535 for the year ended December 31, 2005 as compared to interest income of \$151,576 in 2004. The increase in net interest income was in part the result of interest earned on investments from proceeds associated with the sale of our BBI Core Businesses to SeraCare and interest earned on cash proceeds related to the sale of shares in Panacos Pharmaceuticals' stock. In addition, in 2005, we recognized the benefit of paid interest related to the Director / CEO's loan receivable. In 2004, accrued interest related to the loan receivable was not recognized.

*Income Tax (provision) benefit from Continuing Operations*

In the year 2005 we recorded a provision from continuing operations of \$352,694 compared to a benefit of \$941,350 in the comparable period in 2004. In the year 2005, we maintained a full valuation allowance for our deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109 and in consideration of three consecutive years of losses from continuing operations.

*Income (loss) from Discontinued Operations*

The amounts associated with the sale of our BBI Diagnostics and BBI Biotech business units to SeraCare are reported as discontinued operations in the accompanying financial statements, in accordance with paragraphs 30 and 42 of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" as previously described above.

For the year ended December 31, 2005, the net income from discontinued operations was \$50,574 as compared to a net loss of \$113,196 for the same period in 2004. The net income recorded in 2005 from discontinued operations is reflective of the reversal of excess accruals related to a tax audit for which the statute of limitation expired in October 2005.

*Gain on Sale of Net Assets Related to Discontinued Operations*

In 2005 we recorded a benefit of \$703,269 for the overpayment of 2004 tax estimates related to the sale of net assets to SeraCare in 2004. The impact resulted from the utilization of favorable treatment of tax credits, utilization of installment sale tax treatment related to sale of assets, and treatment of the sale of the Company's 70% interest in Source Scientific LLC. For the third quarter of 2004, we recorded a benefit from the sale of the BBI Diagnostics and BBI Biotech business units of \$14,567,697 net of tax estimates of \$4,354,809.

*Net Income (Loss)*

Overall, for 2005, we had net income of \$1,604,092 which included the gain of \$3,829,677 resulting from our sale of Panacos securities. This is compared to net income of \$12,712,585 that was primarily due to the sale of the BBI Diagnostics and BBI Biotech business units to SeraCare in September 2004.

***LIQUIDITY AND FINANCIAL CONDITION***

Our working capital position as of December 31, 2005 was approximately \$7,740,736. Our current working capital position was driven primarily by the sale in 2004 of substantially all of the assets and selected liabilities of our BBI Diagnostics and BBI Biotech business units to SeraCare for an aggregate purchase price of \$30 million in cash of which \$27.5 million was paid at the closing and \$2.5 million initially deposited in escrow pursuant to an escrow agreement expiring in March 2006. Since September 14, 2004, \$1,412,192 has been released from escrow to SeraCare pursuant to our settlement of final closing balance sheet claims, and the proceeds and gain from the sale have been reduced accordingly. On February 11, 2005, we completed an issuer tender offer and purchased from stockholders 5,210,001 shares of common stock for an aggregate purchase price of \$16.3 million, which included 761,275 shares issued upon exercise of stock options. As a result of the completion of the tender offer, immediately following payment for the tendered shares, we had 2,424,189 shares of common stock outstanding. In addition, working capital improved by the sale of Panacos shares, generating \$3,833,712 in cash during 2005.

Net cash used by continuing operations for the year ended December 31, 2005 was \$2,829,829. The cash used in operations for 2005 was primarily a result of losses incurred.

Net cash provided by investing activities totaled \$3,512,807. This was generated by the sale of 441,086 of the Company's holdings in Panacos Pharmaceutical stock generating \$3,833,712. This was offset by the purchase of approximately \$321,000 in capital equipment, which was primarily used for Barocyclers for collaboration sites.

Net cash used by financing activities for the year ended December 31, 2005 was \$16,303,863. This is largely reflective of the Company's use of cash related to the tender offer that was completed in February 2005.

Investment in Panacos Pharmaceuticals

On June 11, 2005, V.I. Technologies, Inc. ("Vitex") announced that it had closed its merger with Panacos Pharmaceuticals, Inc. ("Panacos"), pursuant to the Agreement and Plan of Merger dated as of June 2, 2004, as amended on November 5, 2004, November 28, 2004, December 8, 2004, and February 14, 2005 (the "Merger Agreement"). As a result of the merger and a subsequent reverse stock split, we received 1,012,920 shares of Vitex common stock in place of our Panacos capital stock. Fifteen percent of Vitex stock owned by former owners of Panacos stock, including fifteen percent of the Vitex common stock owned by us, is being held in escrow per the Merger Agreement. On August 18, 2005, V.I. Technologies formerly changed its company name to Panacos Pharmaceuticals Inc. and changed its trading symbol on the Nasdaq National Market to "PANC".

In 2005, we sold an aggregate of 441,086 shares of Vitex for which we received \$3,833,712 in cash proceeds, net of charges and commission. We continue to hold an additional 419,896 shares of Panacos and may receive an additional 151,938 shares that are being held in escrow until September 2006, per the terms of the March 10, 2005 merger between Vitex and Panacos Pharmaceuticals. On December 31, 2005, the closing price of Panacos common stock was \$6.93 per share as quoted on the Nasdaq National Market.



**CONTRACTUAL OBLIGATIONS**

The following is a summary of our future contractual obligations as of December 31, 2005:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>More than 1 year</b>
Lease for Maryland operating office (1)	\$ 29,425	\$ 29,425	\$ 0
Obligations relating to Discontinued Operations (2)	8,160	2,040	6,120
<b>Total Contractual Obligations</b>	<b>\$ 37,585</b>	<b>\$ 31,465</b>	<b>\$ 6,120</b>

(1) On May 5, 2005 we entered into a lease with Saul Holdings Limited Partnership for approximately 2,784 square feet of office space located at 209 Perry Parkway, Gaithersburg, Maryland 20877 for a term of twelve months. We will pay base annual rent in the amount of \$55,680, or \$4,640 per month during the initial term of the Lease, plus \$1,245 per month for operating expense.

(2) In December 2000, we exited the clinical laboratory testing services segment and in February 2001, we sold the assets of our wholly owned subsidiary, BBI Clinical Laboratories, Inc. to Specialty Laboratories, Inc. of Santa Monica, CA. Our estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business is \$8,160 as of December 31, 2005.

The table above excludes obligations of Source Scientific LLC associated with leased facilities in Irvine, CA. The term of the LLC leased facility commenced in April 2005 and runs through June 2010. In addition certain administrative support equipment lease arrangements were entered into commencing in January 2005 and ending in November 2006. They are as follows:

<b>Contractual Obligations</b>	<b>Total</b>	<b>1 year or less</b>	<b>More than 1 year</b>
Lease for Irvine, CA facility	\$ 1,075,922	\$ 226,952	\$ 848,970
Obligations relating equipment operating leases	5,681	2,964	2,717
<b>Total Contractual Obligations for Source, LLC</b>	<b>\$ 1,081,603</b>	<b>\$ 229,916</b>	<b>\$ 851,687</b>

**Related Party Transaction**

In January 2002, the Company pledged a \$1,000,000 interest bearing deposit at a financial institution to secure its limited guaranty of loans in the aggregate amount of \$2,418,000 from the financial institution to an entity controlled by Richard T. Schumacher, a Director and the Company's current President and Chief Executive Officer. In January 2003, the \$1,000,000 held in the interest bearing deposit account pledged to the financial institution to secure the Company's limited guaranty was used by the financial institution to satisfy its limited guaranty obligation to the financial institution. As of December 31, 2005, the Company maintained a \$1.0 million loan receivable from Mr. Schumacher. The Company previously maintained a junior security interest in collateral pledged by Mr. Schumacher to the financial institution. The collateral includes all of Mr. Schumacher's shares of PBI common stock. Following the payment in full by Mr. Schumacher of his loan to the financial institution in February 2005, the Company became the holder of a first priority security interest in Mr. Schumacher's shares of common stock of Pressure BioSciences to secure the repayment of the Company's \$1,000,000 loan receivable together with associated accrued interest from Mr. Schumacher and are held as collateral. The collateral currently consists of 489,657 shares of

Pressure BioSciences common stock. The collateral and personal assets of Mr. Schumacher may not be sufficient to permit the Company to fully recover the principal, interest and other costs associated with this loan receivable. If the value of the collateral decreases, the Company may have to write down or write off the loan receivable or associated accrued interest. Therefore, the Company cannot be certain that it will collect the full amount of the loan receivable.

As of December 31, 2005, the Company evaluated the recoverability of the \$1,000,000 loan receivable from Mr. Richard T. Schumacher, which is reflected on the balance sheet in stockholders' equity as a loan receivable. In connection with the Company's evaluation of the recoverability of the loan receivable as of December 31, 2005, the Company performed a test for impairment of the loan receivable by analyzing the value of the collateral. This test included, among other things, a review of the current trading price of the Company's common stock after taking into account factors that may affect the Company's ability to sell such stock in the event it were to foreclose on the collateral to repay the loan receivable and any accrued and unpaid interest. After performing the impairment test, the Company determined that the loan receivable was not impaired. The ultimate value that the Company may recover is dependent on numerous factors including the Company's stock price, market conditions relative to the value of and ability to sell the collateral, and the financial status of the Company's President and Chief Executive Officer. Based on the Company's assessment as of December 31, 2005, the Company estimates that the value of the collateral is sufficient to collateralize the amount of the recorded loan receivable. If actual market conditions are less favorable, the Company's stock price declines or other factors arise that are significantly different than those in existence as of December 31, 2005, an impairment of the loan receivable is likely to be required. The Company plans to continue to monitor and test the collateral for impairment due in large part to the relatively low trading volume of the Company's common stock and recent volatility in our stock price, ranging from a low of \$2.28 per share to a high of \$6.70 per share from January 1, 2005 to December 31, 2005.

### ***Recent Accounting Standards***

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123R). SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance and eliminates the alternative to use Opinion 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. SFAS 123(R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments (e.g. stock options and restricted stock) granted to employees. This applies to all transactions involving the issuance of our own equity in exchange for goods or services, including employee services. Upon adoption of SFAS 123(R), all stock option awards to employees will be recognized as expense in the income statement, typically over any related vesting period. SFAS 123(R) carried forward the guidance from SFAS 123 for payment transactions with non-employees. The Securities and Exchange Commission amended the compliance date on April 14, 2005, to require public companies to adopt the standard as of the beginning of the first annual period that begins after June 15, 2005. We will, therefore, be required to adopt SFAS 123(R) in the first quarter of 2006.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

1. Modified Prospective Method under which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
2. Modified Retrospective Method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

At this time, we have not determined which method of adoption we will use.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections", which replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and the reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is the required method for reporting a change in accounting principle and the reporting of a correction of an error. We have adopted SFAS 154 to correct an error made during the quarter ended September 30, 2005 and discovered during the quarter ended March 31, 2006.

On March 15, 2006, we received \$1,094,162 from Wells Fargo Corporate Trust Escrow Services, representing the remaining principal held in escrow from the 2004 sale of the assets and certain liabilities of our BBI Core Businesses to SeraCare Life Sciences Inc., ("SeraCare"), plus interest through February 28, 2006. The receipt of these funds triggered the recognition of taxable income, accounted for as an installment sale for federal income tax purposes. During the financial statement closing process for the quarter ended March 31, 2006, we determined that a deferred tax liability of approximately \$220,000 should have been established during the quarter ended September 30, 2005, the period in which we filed our federal income tax return. Upon reexamining our accounting for income taxes in its entirety, we further determined that the deferred tax liability in connection with the unrealized gain on Panacos should be reduced by approximately \$60,000, and that the income tax provision from continuing operations should be increased by \$23,000. We also adjusted our its deferred tax assets however there is no impact from these adjustments as deferred tax assets continue to be carried with a full valuation allowance. The total impact of all of these adjustments will not change the our reported pre-tax results from continuing operations, but income from continuing

operations after income taxes for the fiscal year ended December 31, 2005 will be reduced from approximately \$873,000 to approximately \$850,000.

For the year ended December 31, 2005, the impact to basic and diluted earnings per share from discontinued operations was a decrease from \$0.33 to \$0.25 and from \$0.31 to \$0.25, respectively. For the year ended December 31, 2005, the impact to basic earnings per share from continuing operations was less than one penny. The impact of these adjustments to diluted earnings per share from continuing operations was a decrease from \$0.28 to \$0.27.

The accompanying Consolidated Balance Sheet as of December 31, 2005 and related Consolidated Statements of Operations, Comprehensive Income, Changes in Stockholders' Equity, and Statement of Cash Flows for the year ended December 31, 2005 and Note 2 (iii) "Correction of Error", Note 2 (xii), "Computation of Earnings (Loss) Per Share", Note 2 (xiv) "Recent Accounting Standards", Note 2 (xv), Stock-Based Compensation, and Note 9, "Income Taxes" have been revised to reflect the appropriate adjustments to the income tax accounts

## **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report should be read as applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this report.

***We may require additional capital to further develop our pressure cycling technology products and services and cannot assure that additional capital will be available on acceptable terms or at all.***

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since its inception in 1997. Until September 2004, we funded our pressure cycling technology activities primarily from revenue generated from our BBI Diagnostics and BBI Biotech businesses (referred to in this report as the "BBI Core Businesses"), which we sold to SeraCare in September 2004. As of February 28, 2006, we had available cash of approximately \$6.2 million which excluded the escrow release from the SeraCare transaction of approximately \$1.1 million which was received on March 15, 2006.

We will need additional capital if we experience unforeseen costs or expenses, unanticipated liabilities or delays in implementing our business plan, developing our products and achieving commercial sales. We also believe that we will need substantial capital to accelerate the growth and development of our pressure cycling technology products and services. Our capital requirements will depend on many factors, including but not limited to:

- any payments we receive from Mr. Schumacher on our \$1.0 million loan receivable plus accrued interest;
- the amount, if any, we receive in payment of the \$900,000 in aggregate principal amount of promissory notes that we received in connection with the Source Scientific Agreement; to date, there have been no payments made;
- the problems, delays, expenses and complications frequently encountered by early-stage companies;
- market acceptance of our pressure cycling technology products and services;
- the success of our sales and marketing programs; and
- changes in economic, regulatory or competitive conditions of our planned business.

To satisfy our potential capital requirements if our current capital does not adequately cover the development of our pressure cycling technology products and services, we may need to raise additional funds in the public or private capital markets. Additional financing may not be available to us on a timely basis, if at all, or on terms acceptable to us. If adequate funds are not available or we fail to obtain acceptable additional financing, we may be required to:

- obtain financing with terms that may have the effect of diluting or adversely affecting the holdings or the rights of the holders of our common stock;

- obtain funds through arrangements with future collaborative partners or others that may require us to relinquish rights to some or all of our technologies or products; or
- otherwise reduce planned expenditures and forego other business opportunities, which could harm our business.

***Our business may be harmed if we encounter problems, delays, expenses and complications that typically affect early-stage companies.***

By selling our BBI Core Businesses to SeraCare in September 2004, we sold our business units that generated our most significant sources of revenue and profits. We are now primarily an early-stage company focused on the further development and commercialization of our pressure cycling technology products and services. Early-stage companies typically encounter problems, delays, expenses and complications, many of which may be beyond our control or may harm our business or prospects. These include, but are not limited to, unanticipated problems and costs relating to the development, testing, production, marketing and sale of our products, availability of adequate financing and competition. This increases our business risk because we are less diversified than before the sale of the BBI Core Businesses to SeraCare and because our remaining business is speculative. There can be no assurance that we will successfully complete the transition from an early-stage company to the successful commercialization of our pressure cycling technology products and services.

***Our business is dependent on the success of our pressure cycling technology products and services, which has a limited operating history and has generated substantial losses and only a limited amount of revenues to date.***

The BBI Core Businesses sold to SeraCare in September 2004 represented more than 90% of our annual revenue in each of the past two years. Our business following the sale to SeraCare leaves us dependent on the performance of our pressure cycling technology activities, which is our only operating business going forward. Our pressure cycling technology business has a limited operating history and has incurred significant losses to date. Our first products utilizing our pressure cycling technology, the Barocycler™ NEP2017 instrument and related disposable PULSE™ Tubes, were introduced for commercial sale in September 2002. To date we have invested approximately \$12.0 million towards the development of our pressure cycling technology since 1997 and we have generated only limited revenue from sales of our pressure cycling technology products and related services. We leased one and sold two Barocycler™ NEP2017 units since it was introduced in 2002, and we leased two and sold three Bench Top NEP 3229 Sample Preparation Systems since it was introduced in 2005. In fiscal year 2004 and 2005, respectively, we generated approximately \$413,000 and \$106,000 in revenue from sales of our pressure cycling technology products and services (including grants). Our failure to generate revenues from sales of our pressure cycling technology products and services will adversely affect our business and may affect our ability to stay in business.

***Our pressure cycling technology business has a history of operating losses.***

Our pressure cycling technology business has experienced significant operating losses since 1997. Our ability to achieve profitability will depend, among other things, on successfully completing the development and commercialization of additional pressure cycling technology products, establishing marketing, sales and manufacturing capabilities or collaborative arrangements with others who possess such capabilities and market acceptance of our products. We currently have only seven customers who have purchased or leased our pressure cycling technology products and services. Our ability to achieve profitability will also depend upon our ability to develop additional customers for our pressure cycling technology products and services. There can be no assurance that we will be able to achieve profitability or that profitability, if achieved, can be sustained.

***Our pressure cycling technology products and services are new and have limited market awareness or acceptance.***

Our pressure cycling technology products have limited market awareness. To date, we leased one and sold two PCT Barocycler™ NEP 2017 units since commercial introduction in 2002, and we leased two and sold three Bench Top NEP3229 PCT Sample Preparation Systems since commercial introduction in 2005. Our future success will be dependent in significant part on our ability to generate demand for our pressure cycling technology products and services and to develop additional commercial applications that incorporate our pressure cycling technology. To this end, we must increase market awareness and acceptance of our pressure cycling technology products to generate increased revenue. Our products and services require a sophisticated sales effort targeted to both the scientists who would use this technology and the senior management of our prospective customers. Currently, we have one employee focused on sales and marketing and another on business development. We cannot be certain that we will have sufficient funds in the future to hire any additional sales or marketing personnel. Our sales and marketing efforts will not be successful if we are unable to attract and retain qualified sales and marketing personnel. If we are not successful in building greater market awareness or acceptance and generating increased sales, our future results of operations will be adversely affected.

***The sales cycle of our pressure cycling technology products has been lengthy and as a result, we have incurred and may continue to incur significant expenses and we may not generate any significant revenue related to those products.***

Our current and potential customers have required several months, a much longer time than we had originally estimated, to test and evaluate our pressure cycling technology related products. This increases the possibility that a

customer may decide to cancel its order or otherwise change its plans, which could reduce or eliminate our sales to that potential customer. As a result of this lengthy sales cycle, we have incurred and may continue to incur significant research and development, selling, and general and administrative expenses, and we have not generated any significant related revenue for these products, and we may never generate the anticipated revenue if a customer cancels or changes its plans. Factors associated with this lengthy sales cycle include the initial selling price of the PCT Barocycler™ NEP2017 and the limited, though expanding, amount of research data presently available demonstrating the capabilities and potential of both the PCT Barocycler™ NEP2017 and our less expensive and smaller Bench Top NEP3229 PCT Sample Preparation System. There can be no assurance that either the PCT Floor Model Barocycler™ or the Bench Top model will be successful or that we will generate any significant revenue from sales of these products.



***If we are unable to protect our patents and other proprietary technology relating to our pressure cycling technology products, our business will be harmed.***

Our ability to further develop and successfully commercialize our products will depend, in part, on our ability to enforce our patents, preserve trade secrets and operate without infringing on the proprietary rights of third parties. We currently have thirteen United States patents issued and several pending patent applications for our pressure cycling technology. Several of these have been followed up with foreign applications, for which three patents have been issued in Europe and one patent has been issued in Australia. We expect to file additional foreign applications in the future relating to our pressure cycling technology. The patents which have been issued expire between 2015 and 2021.

There can be no assurance that:

- any patent applications filed by us will result in issued patents;
- patent protection will be secured for any particular technology;
- any patents that have been or may be issued to us will be valid or enforceable;
- any patents will provide meaningful protection to us;
- others will not be able to design around our patents; or
- that our patents will provide a competitive advantage or have commercial application.

The failure to obtain adequate patent protection would have a material adverse effect on us and may adversely affect our ability to enter into, or affect the terms of, any arrangement for the marketing or sale of any product.

There can be no assurance that patents owned by us will not be challenged by others. We could incur substantial costs in proceedings, including interference proceedings before the United States Patent and Trademark Office and comparable proceedings before similar agencies in other countries, in connection with any claims that may arise in the future. These proceedings could result in adverse decisions about the patentability of our inventions and products, as well as about the enforceability, validity or scope of protection afforded by the patents.

We also rely on trade secrets and other unpatented proprietary information in our product development activities. To the extent we rely on trade secrets and unpatented know-how to maintain our competitive technological position, there can be no assurance that others may not independently develop the same or similar technologies. We seek to protect trade secrets and proprietary knowledge, in part, through confidentiality agreements with our employees, consultants, advisors and contractors. Nevertheless, these agreements may not effectively prevent disclosure of our confidential information and may not provide us with an adequate remedy in the event of unauthorized disclosure of such information. If our employees, consultants, advisors or contractors develop inventions or processes independently that may be applicable to our products, disputes may arise about ownership of proprietary rights to those inventions and processes. Such inventions and processes will not necessarily become our property, but may remain the property of those persons or their employers. Protracted and costly litigation could be necessary to enforce and determine the scope of our proprietary rights. Failure to obtain or maintain trade secret protection, for any reason, could have a material adverse effect on us.

***If we infringe on the intellectual property rights of others, our business will be harmed.***

There can be no assurance that the manufacture, use or sale of our pressure cycling technology products or services will not infringe patent rights of others. We may be unable to avoid infringement of the patent or other intellectual property rights of others and may be required to seek a license, defend an infringement action or challenge the validity of the patents or other intellectual property rights in court. There can be no assurance that a license will be available to us on terms and conditions acceptable to us, if at all, or that we will prevail in any patent or other intellectual property rights litigation. Patent or other intellectual property rights litigation is costly and time-consuming, and there can be no assurance that we will have sufficient resources to bring any possible litigation related to such infringement to a successful conclusion. If we do not obtain a license under such patents or other intellectual property rights, or are found liable for infringement, or are not able to have such patents declared invalid, we may be liable for significant monetary damages, may encounter significant delays in successfully commercializing and developing our pressure cycling technology products or may be precluded from participating in the manufacture, use or sale of our pressure cycling technology products or services requiring such licenses.

***We may be unable to adequately respond to rapid changes in technology.***

The introduction of products and services embodying new technology and the emergence of new industry standards may render our existing pressure cycling technology products and related services obsolete and unmarketable if we are unable to adapt to change. We may be unable to allocate the funds necessary to improve our current products or introduce new products to address our customers' needs and respond to technological change. In the event that other companies develop more technologically advanced products, our competitive position relative to such companies would be harmed.

***We may not be able to compete successfully.***

A number of companies have developed, or are expected to develop, products that compete or will compete with our products. We will compete with companies that have existing technologies for the extraction of nucleic acids and proteins from "hard-to-lyse" cells and tissues, including methods such as mortar and pestle, sonication, rotor-stator homogenization, French press, bead beating, freezer milling, enzymatic digestion, and chemical dissolution. We will also compete with a number of companies that offer competitive sample extraction and purification technologies to the life sciences industry. We are aware that there are additional companies pursuing new technologies with similar goals to the products developed or being developed by us. Some of the companies with which we now compete or may compete in the future have or may have more extensive research, marketing and manufacturing capabilities, more experience in genomics and proteomics sample preparation, protein purification, pathogen inactivation, immunodiagnostics, and DNA sequencing and significantly greater technical, personnel and financial resources than we do, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. To compete, we must be able to demonstrate to potential customers that our products provide improved performance and capabilities. Our failure to compete successfully could harm our business and prospects.

***We currently have very few employees and our future success is dependent on the continued services of Richard T. Schumacher, our President and Chief Executive Officer.***

We currently have eight employees. Mr. Richard T. Schumacher, our founder, President and Chief Executive Officer, is involved in virtually all aspects of our business. Four of our other employees are involved in research and development, one in marketing and business development, one in technical support, and one is involved in sales. Although we believe that we currently do not need a large staff of employees at this time, we do believe we need additional sales personnel. Depending upon the availability of funds, we expect to hire additional sales personnel in 2006. If we do not have adequate funds, we will be unable to hire any additional personnel. Because of our limited staff and the knowledge and background necessary to successfully develop, market, and sell our pressure cycling technology products and services, we believe that our future success is dependent upon the continued services of Mr. Schumacher and our ability to engage and retain additional qualified sales and financial personnel. If we are unable to retain Mr. Schumacher or if we are unable to engage and retain additional qualified sales and financial personnel, we may be unable to implement our business plan, maintain our current products and service initiatives and successfully deliver new products and services in the future, and we may have difficulty staying in business.

***We rely on third parties for our manufacturing, engineering and other related services.***

Source Scientific, LLC, an instrumentation company in which we own a 30% interest, agreed to provide engineering, manufacturing, and other related services for our pressure cycling technology products until September 30, 2005. Under our agreement with Source Scientific, LLC, we agreed to pay Source Scientific, LLC not less than an average of \$25,000 per month for design, development and manufacturing services for our pressure cycling technology products through September 30, 2005. Since September 30, 2005, Source Scientific, LLC has continued to provide these services to us without a formal extension of our agreement. These services are integral to the success of our

business. Since we expect that Source Scientific, LLC will manufacture our products, our success will depend, in part, on the ability of Source Scientific, LLC to manufacture our products cost effectively, in sufficient quantities to meet our customer demand when and if such demand occurs, and in meeting our quality requirements. If Source Scientific, LLC experiences manufacturing problems or delays, or if Source Scientific, LLC decides not to continue to provide us with these services, our business may be harmed. While we believe other contract manufacturers are available to address our manufacturing and engineering needs, if we find it necessary to replace Source Scientific, LLC, there will be a disruption in our business and we could incur additional costs and delays that would have an adverse effect on our business.

***In connection with the sale of our BBI Core Businesses, we continue to be exposed to contingent liabilities up to an amount equal to the purchase price for the BBI Core Businesses, which could prevent us from pursuing our remaining business operations in the event an indemnification claim is brought against us.***

In connection with the sale of our BBI Core Businesses to SeraCare, pursuant to the Asset Purchase Agreement, we agreed to indemnify SeraCare for any losses from breaches of most of our representations, warranties, or covenants that occur prior to June 14, 2006. Our indemnification obligations for breaches of some representations and warranties, however, extend for a longer period of time. More specifically, our indemnification obligation for a breach of representations and warranties relating to compliance with environmental laws extend until September 14, 2009, representations and warranties relating to tax matters extend for the applicable statute of limitations period (which varies depending on the nature of claim), and representations and warranties relating to our due organization, subsidiaries, authorization to enter into and perform the transactions contemplated by the Asset Purchase Agreement, and brokers fees, extend indefinitely. Our indemnification obligations are limited by an overall cap equal to the \$30 million purchase price. On March 22, 2005, we received a claim for indemnification from SeraCare relating to testing and other services performed by us for the University of Pittsburgh prior to the sale of the BBI Core Businesses to SeraCare. The claim for indemnification is for an unspecified amount relating to the cost of retesting certain of the samples previously tested by us. If we are required to pay this claim for indemnification, or any other possible new claims for indemnification from SeraCare, we will have less cash available to fund our operations, our business may be harmed and, if we are subject to additional indemnification claims or unanticipated expenses or liabilities, it may be difficult to continue our business as planned unless we are able to obtain equity or debt financing.

***We may not be able to fully collect the \$900,000 in aggregate principal amount of promissory notes which we received in connection with the sale of 70% of the ownership interests in Source Scientific, LLC.***

In June 2004, we transferred certain assets and liabilities of our PBI Source Scientific, Inc. subsidiary to a newly formed limited liability company known as Source Scientific, LLC. At the time of the transfer we owned 100% of the ownership interests of Source Scientific, LLC. We subsequently sold 70% of our ownership interests of Source Scientific, LLC to Mr. Richard Henson and Mr. Bruce A. Sargeant pursuant to a purchase agreement (the "Source Scientific Agreement"). As a result of the sale of 70% of our ownership interests, Mr. Henson and Mr. Sargeant each own 35% and we own the remaining 30% of Source Scientific, LLC. We received secured promissory notes in the aggregate principal amount of \$900,000, which, together with accrued interest, are due on or before May 31, 2007. The aggregate principal amount of the notes could have been reduced to \$720,000 if the notes were paid in full by May 31, 2005 or may be reduced to \$810,000 if the notes are paid in full by May 31, 2006. The notes are secured by pledges of the purchasers' ownership interests in the newly formed limited liability company. Source Scientific, LLC may not be able to generate sufficient cash flow to enable the makers of the notes to pay the principal and interest on such notes. If we are unable to collect the principal and interest on the notes, we will have less cash available to run our pressure cycling technology business.

***We may not be able to fully collect the principal and interest due on a \$1,000,000 loan receivable from our President and Chief Executive Officer, which could harm our business and financial condition.***

We have a \$1,000,000 loan receivable from our President and Chief Executive Officer, Richard T. Schumacher. We previously maintained a junior security interest in collateral pledged by Mr. Schumacher to a financial institution. The collateral includes all of Mr. Schumacher's shares of our common stock. Following the payment in full by Mr. Schumacher of his loan to the financial institution in February 2006, we became the holder of a first priority security interest in all of Mr. Schumacher's common stock of Pressure BioSciences to secure the repayment of our \$1.0 million loan receivable together with associated accrued interest from Mr. Schumacher. The collateral and personal assets of Mr. Schumacher may not be sufficient to permit us to fully recover the principal, interest and other costs associated with this loan receivable. If the value of the collateral decreases, we may have to write down or write off the loan receivable or any associated accrued interest. Therefore, we cannot be certain that we will collect the full amount of the loan receivable or any associated accrued interest. Our failure to collect all or a portion of this loan receivable and any accrued interest could harm our business and financial condition.

***The market price for our common stock may fluctuate due to low trading volume, and it may be difficult for you to sell your stock at the prices and times you desire.***

Historically, the trading volume of our common stock on the Nasdaq National Market has been low compared with other Nasdaq listed companies. Our common stock commenced trading on the Nasdaq Capital Market on March 30, 2005 following the transfer of our common stock from the Nasdaq National Market. Due to the low trading volume of our common stock, the market price of our common stock may fluctuate significantly. Attempts to purchase or sell relatively small amounts of our common stock could cause the market price of our common stock to fluctuate. Low trading volume levels, which have continued following the completion of our issuer tender offer on February 11, 2005, due in part to the significant number of our outstanding shares of common stock that are owned by Mr. Schumacher, who is subject to trading restrictions imposed on affiliates under Rule 144 promulgated under the Securities Act, may also affect our remaining stockholders' ability to sell shares of our common stock quickly at the current market price. In addition, sales of substantial amounts of our common stock, or the perception that such sales could occur, could adversely affect the prevailing market prices for our common stock.

***Mr. Richard T. Schumacher controls a significant percentage of voting power and may exercise his voting power in a manner adverse to other stockholders' interests.***

Our President and Chief Executive Officer, Mr. Richard T. Schumacher, has voting control over approximately 25% of the outstanding shares of our common stock as of February 28, 2006. Because of his significant ownership percentage, Mr. Schumacher effectively controls stockholder votes for the election of directors, increasing the authorized capital stock, and authorizing mergers and sales of assets. Given Mr. Schumacher's potential ability to influence and control stockholder actions, it is possible that he may act in a manner that is adverse to your personal interests.

***Provisions in our charter and by-laws and our shareholders rights plan may discourage or frustrate stockholders' attempts to remove or replace our current management.***

In addition to the fact that Mr. Schumacher may be in a position to control stockholder votes on the election of directors and the approval of significant transactions, our Amended and Restated Articles of Organization, as amended, and Amended and Restated Bylaws, as amended, contain provisions that may make more difficult or discourage changes in our management that our stockholders may consider to be favorable. These provisions include:

- a classified board of directors;
- advance notice for stockholder nominations to the board of directors;
- limitations on the ability of stockholders to remove directors; and
- a provision that allows a majority of the directors to fill vacancies on the board of directors.

On February 27, 2003, our board of directors entered into a shareholders rights agreement. This agreement may also have the effect of discouraging or preventing a change in control.

These provisions could prevent or frustrate attempts to make changes in our management that our stockholders consider to be beneficial and could limit the price that our stockholders might receive in the future for shares of our common stock.

***The costs of compliance with the reporting obligations of the Securities Exchange Act of 1934, as amended, and with the requirements of the Sarbanes-Oxley Act of 2002 may place a strain on our limited resources and our management's attention may be diverted from other business concerns.***

As a result of the regulatory requirements applicable to public companies, we may incur legal, accounting and other expenses that are significant in relation to the size of our company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and Nasdaq, have required changes in corporate governance practices of public companies, some of which are currently applicable to us and others may become applicable to us in the future. These new rules and regulations may increase our legal and financial compliance costs and may make some activities more time-consuming. These requirements may place a strain on our systems and on our management and financial resources.

**ITEM 7. FINANCIAL STATEMENTS**

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2005**

ASSETS

(restated)

## CURRENT ASSETS:

Cash and cash equivalents	\$ 6,416,772
Restricted cash	255,612
Accounts receivable, less allowance of \$115,908	58,798
Inventories, net	85,207
Investments in marketable securities	1,533
Escrow deposit related to sale of assets to SeraCare	1,117,305
Income tax receivable	531,122
Prepaid expenses, deposits, and other current assets	75,286
<b>Total current assets</b>	<b>8,541,635</b>
Property and equipment, net	282,780
<b>OTHER ASSETS:</b>	
Intangible assets, net	425,554
Assets transferred under contractual arrangements	1,420,996
Investments in marketable securities	3,962,810
<b>Total other assets</b>	<b>5,809,360</b>
<b>TOTAL ASSETS</b>	<b>\$ 14,633,775</b>

LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES:

Accounts payable	\$ 56,395
Accrued employee compensation	94,354
Other accrued expenses	99,718
Income taxes payable	63,730
Current deferred tax liability	219,949
Accrued SeraCare liabilities	264,713
Liabilities from discontinued operations	2,040
<b>Total current liabilities</b>	<b>800,899</b>

## LONG TERM LIABILITIES

Liabilities from discontinued operations	6,120
Deferred tax liability	1,419,662
Liabilities transferred under contractual arrangements	1,042,493
<b>Total long term liabilities</b>	<b>2,468,275</b>
<b>Total Liabilities</b>	<b>3,269,174</b>



## COMMITMENTS AND CONTINGENCIES

## STOCKHOLDERS' EQUITY:

Common stock, \$.01 par value; 20,000,000 shares authorized, 2,424,189 issued and outstanding	24,242
Additional paid-in capital	6,027,020
Loan receivable from Director / CEO	(1,000,000)
Accumulated other comprehensive income, net of tax	2,537,963
Retained earnings	3,775,376
Total stockholders' equity	11,364,601
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 14,633,775

The accompanying notes are an integral part of these consolidated financial statements

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005 (restated)	2004
<b>REVENUE:</b>		
PCT Products, services, other	\$ 105,526	\$ 19,310
Grant Revenues	—	393,306
<b>Total revenue</b>	<b>105,526</b>	<b>412,616</b>
<b>COSTS AND EXPENSES:</b>		
Cost of PCT products & services	177,350	572,323
Research and development	498,584	419,936
Selling and marketing	157,493	194,612
General and administrative	1,691,214	1,336,239
Stock based compensation	—	281,737
<b>Total operating costs and expenses</b>	<b>2,524,641</b>	<b>2,804,847</b>
<b>Operating loss from continuing operations</b>	<b>(2,419,115)</b>	<b>(2,392,231)</b>
<b>OTHER INCOME (EXPENSE):</b>		
Realized gain on securities held for sale	3,829,677	—
Other operating (charges), net	(477,154)	(442,611)
Interest income	269,535	151,576
<b>Total other income (expense)</b>	<b>3,622,058</b>	<b>(291,035)</b>
<b>Income (loss) from continuing operations before income taxes</b>	<b>1,202,943</b>	<b>(2,683,266)</b>
Income tax (provision) benefit from continuing operations	(352,694)	941,350
<b>Income (loss) from continuing operations</b>	<b>850,249</b>	<b>(1,741,916)</b>
<b>Discontinued operations:</b>		
Income / (loss) from discontinued operations (net of income tax provision of \$35,054 and \$913, respectively,	50,574	(113,196)
Gain on sale of net assets related to discontinued operations (includes effect of income taxes of \$703,269 in 2005, and net of income taxes accrued of \$4,354,809 in 2004)	703,269	14,567,697
<b>Net income from discontinued operations</b>	<b>753,843</b>	<b>14,454,501</b>
<b>Net income</b>	<b>\$ 1,604,092</b>	<b>\$ 12,712,585</b>
<b>Income / (loss) per share from continuing operations - basic</b>	<b>\$ 0.29</b>	<b>\$ (0.25)</b>
<b>Income per share from discontinued - basic</b>	<b>\$ 0.25</b>	<b>\$ 2.11</b>
<b>Net income per share, basic</b>	<b>\$ 0.54</b>	<b>\$ 1.86</b>
<b>Income / (loss) per share from continuing operations - diluted</b>	<b>\$ 0.27</b>	<b>\$ (0.25)</b>
<b>Income per share from discontinued - diluted</b>	<b>\$ 0.25</b>	<b>\$ 2.11</b>

Net income per share, diluted	\$	0.52	\$	1.86
Weighted average number of shares used to calculate basic per share (loss) / income		2,972,662		6,850,380
Weighted average number of shares used to calculate diluted per share (loss) / income		3,107,973		6,850,380

The accompanying notes are an integral part of these consolidated financial statements

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Other Comprehensive Income:	2005 (restated)	2004
Net income	\$ 1,604,092	\$ 12,712,585
Unrealized gain on marketable securities	3,957,626	—
Less: Income tax related to items of other comprehensive income	(1,419,663)	—
Total other comprehensive income, net of taxes	2,537,963	—
Comprehensive income	\$ 4,142,055	\$ 12,712,585

The accompanying notes are an integral part of these consolidated financial statements

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	Common Stock Shares	Common Stock \$.01 Par Value	Additional Paid-In Capital	Comprehensive Income	Accumulated Other Comprehensive Income	Loan Receivable From Officer/ Director	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
BALANCE, December 31, 2003	6,827,592	\$ 68,276	\$ 21,888,234		\$	-\$ (1,000,000)	\$ (10,541,301)	\$ 10,415,209
Common stock issued in connection with Employee Stock Purchase Plan	7,073	71	15,942					16,013
Stock options and other warrants exercised	38,250	382	100,482					100,864
Stock options plans exercise period extended			281,737					281,737
Interest accrued on loan receivable from Director and CEO						(134,262)		(134,262)
Net income				\$ 12,712,585			12,712,585	12,712,585
Comprehensive income				\$ 12,712,585				
BALANCE, December 31, 2004	6,872,915	68,729	22,286,395			— (1,134,262)	2,171,284	23,392,146
Repurchase shares via tender offer	(5,210,001)	(52,030)	(18,401,516)					— (18,453,615)
Stock options and other warrants exercised	761,275	7,543	2,142,141					2,149,684
Proceeds from interest on loan						134,262		134,262

receivable  
from  
Director and  
CEO

Net income	—	—	-\$ 1,604,092	—	—	1,604,092	1,604,092
Unrealized gain on investments (net of tax)	—	—	— 2,537,963	2,537,963	—	—	2,537,963
Comprehensive income			\$ 4,142,055				
BALANCE, December 31,2005	2,424,189	\$ 24,242	\$ 6,027,020	\$ 2,537,963	\$(1,000,000)	\$ 3,775,376	\$ 11,364,601

The accompanying notes are an integral part of these consolidated financial statements.

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005 (restated)	(Revised-See Note 13) 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,604,092	\$ 12,712,585
Less income from discontinued operations	753,843	14,454,501
Income (loss) from continuing operations	850,249	(1,741,916)
Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities :		
Depreciation and amortization	106,552	146,266
Provision for doubtful accounts	—	205,085
Realized gain on sale of marketable securities	(3,829,677)	—
Interest received (accrued) on loan outstanding from Director / CEO	134,263	(134,262)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	152,500	(391,064)
Inventories	72,610	140,534
Investments in marketable securities	6,016	518
Income tax receivable	(531,123)	—
Escrow deposits and deferred costs related to tender offer	110,529	—
Prepaid expenses and other current assets	(43,103)	(55,980)
Restricted cash payable to SeraCare	(225,796)	(29,816)
Assets and liabilities transferred under contractual obligations, (net)	442,348	37,254
Other accrued expenses	(205,320)	146,263
Income tax payable	(111,281)	175,011
Deferred tax liability	—	(100,367)
Accounts payable	15,120	(192,091)
Accrued employee compensation	7,830	(72,069)
Accrued expenses due to SeraCare	218,454	—
Net cash used in operating activities	(2,829,829)	(1,866,632)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for additions to property and equipment	(320,905)	—
Proceeds from sale of marketable securities	3,833,712	—
Net cash provided by investing activities	3,512,807	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	2,149,684	116,877
Use of funds to repurchase common stock	(18,453,547)	—
Escrow deposits related to sale of assets Seracare	—	(1,057,038)
Net cash used in financing activities	(16,303,863)	(940,161)
<b>CASH FLOW FROM DISCONTINUED OPERATIONS:</b>		
Operating cash flows, net of taxes	(4,035)	497,837
Investing cash flows, net of taxes	839,902	22,543,562

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Net cash provided from discontinued operations	835,867	23,041,399
<b>INCREASE ( DECREASE) IN CASH AND CASH EQUIVALENTS:</b>	<b>(14,785,018)</b>	<b>20,234,605</b>
Cash and cash equivalents, beginning of year	21,201,790	967,185
Cash and cash equivalents, end of year	\$ 6,416,772	\$ 21,201,790
<b>SUPPLEMENTAL INFORMATION:</b>		
Income Taxes Paid	\$ 23,508	\$ 3,180,000
Interest Paid	\$ —	\$ 102,817

The accompanying notes are an integral part of these consolidated financial statements



**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

**(1) Business Overview**

Pressure BioSciences, Inc., a Massachusetts corporation formerly known as Boston Biomedica, Inc. (the “Company” or “PBI”), is engaged in research, development and commercialization of products utilizing its patented pressure cycling technology (“PCT”), a novel platform technology for the control of bio-molecular interactions. The Company’s pressure cycling technology uses an instrument that is capable of cycling pressure between low and high levels at controlled temperatures to rapidly and repeatedly control the interactions of bio-molecules. PCT utilizes our Barocycler™ instrument and disposable PULSE™ Tubes to release nucleic acids and proteins from plant and animal cells and tissues, as well as other organisms that are not easily disrupted by standard chemical and physical methods.

**(2) Summary of Significant Accounting Policies**

*(i) Principles of Consolidation*

The consolidated financial statements include the accounts of Pressure BioSciences, Inc. (formerly Boston Biomedica Inc.), and its wholly-owned subsidiaries, PBI Biotech Research Laboratories, Inc. (formerly known as BBI Biotech Research Laboratories, Inc. and referred to herein as “PBI Biotech” or “BBI Biotech”), PBI Source Scientific, Inc. (formerly known as BBI Source Scientific, Inc. and referred to herein as “PBI Source” or “BBI Source”), and PBI BioSeq, Inc. (formerly known as BBI BioSeq, Inc. and referred to herein as “PBI BioSeq” or “BBI BioSeq”).

Effective September 14, 2004, pursuant to an Asset Purchase Agreement dated April 16, 2004, as amended on July 20, 2004 (the “Asset Purchase Agreement”) between the Company, BBI Biotech and SeraCare Life Sciences, Inc. (“SeraCare”), the Company completed the sale of substantially all of the assets and certain liabilities of its BBI Diagnostics and BBI Biotech divisions to SeraCare (the “Asset Sale”). In connection with the Asset Sale, the Company changed its legal name from Boston Biomedica, Inc. to Pressure BioSciences, Inc. effective September 14, 2004. The accompanying consolidated financial statements have been reclassified to report the results of operations for the BBI Diagnostics and BBI Biotech divisions (also referred to as “business units”) as discontinued operations.

In June 2004, PBI Source Scientific, Inc. transferred certain of its assets and liabilities to a newly formed limited liability company known as Source Scientific, LLC. At the time of the transfer, PBI Source Scientific, Inc. owned 100% of the ownership interests of Source Scientific, LLC. PBI Source Scientific, Inc. subsequently sold 70% of its ownership interests of Source Scientific, LLC to Mr. Richard Henson and Mr. Bruce A. Sargeant pursuant to a purchase agreement (the “Source Scientific Agreement”). As a result of the sale of 70% of PBI Source’s ownership interests, Mr. Henson and Mr. Sargeant each own 35% and PBI Source owns the remaining 30% of Source Scientific, LLC. Under the Source Scientific Agreement, the Company received notes receivable in the aggregate amount of \$900,000 (the “Notes”) payable at the end of three years bearing 8% interest. Despite the Company’s intent to exit the laboratory instrumentation business, the Company may be viewed as having a continuing involvement in the business of Source Scientific, LLC due to the fact that the Company has the right to designate one or potentially three members of the Board of Managers of Source Scientific, LLC. Because of this factor, even though the transaction is treated as a divestiture for legal purposes, the Company has not recognized the transaction as a divestiture for accounting purposes in accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) Topic 5E, *Accounting for Divestiture of a Subsidiary or Other Business Operation*. In accordance with SAB Topic 5E, the Company has recorded the assets and liabilities associated with the Source Scientific, LLC operation on the Company’s audited consolidated balance sheet as of December 31, 2005 under the captions “Assets transferred under contractual arrangements” and “Liabilities transferred under contractual arrangements” and has recorded a charge to income under the caption “Other operating (charges), net” in the Company’s audited consolidated statements of

operations for the years ended December 31, 2005 and 2004 equal to the amount of the loss attributable to the business of Source Scientific, LLC for the respective periods presented. In accordance with SAB Topic 5E, the Company will continue this accounting treatment until circumstances have changed or until the net assets of the Source Scientific, LLC business have been written down to zero (or a net liability is recognized in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”)).

As a result of the above transactions, the audited consolidated financial statements included herein, and the accompanying notes to such consolidated financial statements, report the results of the Company’s remaining operations, which consist of all pressure cycling technology (“PCT”) related activities, including the PCT related activities of PBI Source and PBI BioSeq, Inc., and the portion of corporate activities directly associated with the Company’s remaining corporate functions, including costs associated with being a public company. As described above, operating results of PBI Source, excluding any PCT related activities, together with Source Scientific, LLC, are reported as “Other operating (charges), net”. The operating results of the Company’s BBI Diagnostics and BBI Biotech divisions, together with the results of the discontinued operations of the Company’s clinical laboratory testing services segment (sold in February 2001), are reported as “Discontinued Operations”. Certain amounts included in the prior period’s financial statements have been reclassified to conform to the current period’s presentation. All inter-company accounts and transactions have been eliminated in consolidation.

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

*(ii) Use of Estimates*

To prepare the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. In addition, significant estimates were made in determining the gain on the disposition of the Company's discontinued operations including post-closing adjustments, in estimating future cash flows to quantify impairment of assets, in estimates regarding the collectability of accounts receivable, realizability of a loan receivable from the Company's President and Chief Executive Officer, deferred tax assets, and the net realizable value of the Company's inventories, as well as an estimate for remaining liabilities associated with discontinued operations. On an on-going basis, the Company evaluates its estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be 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 could differ from the estimates and assumptions used by management.

*(iii) Correction of Error*

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections", which replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and the reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is the required method for reporting a change in accounting principle and the reporting of a correction of an error. The Company has adopted SFAS 154 to correct an error made during the quarter ended September 30, 2005 and discovered during the quarter ended March 31, 2006.

On March 15, 2006, the Company received \$1,094,162 from Wells Fargo Corporate Trust Escrow Services, representing the remaining principal, and interest, held in escrow from the 2004 sale of the assets and certain liabilities of BBI Core Businesses to SeraCare Life Sciences Inc., ("SeraCare"). The receipt of these funds triggered the recognition of taxable income, accounted for as an installment sale for federal income tax purposes. During the financial statement closing process for the quarter ended March 31, 2006, management determined that a deferred tax liability of approximately \$220,000 should have been established during the quarter ended September 30, 2005, the period in which the Company filed its federal income tax return. Upon reexamining the Company's accounting for income taxes in its entirety, management further determined that the deferred tax liability in connection with the unrealized gain on Panacos Pharmaceuticals, Inc., should be reduced by approximately \$60,000, and that the income tax provision from continuing operations should be increased by approximately \$23,000. The Company also adjusted its deferred tax assets however there is no impact from these adjustments as deferred tax assets continue to be carried with a full valuation allowance. The total impact of all of these adjustments will not change the Company's reported pre-tax results from continuing operations, but income from continuing operations after income taxes for the fiscal year ended December 31, 2005 will be reduced from approximately \$873,000 to approximately \$850,000.

For the year ended December 31, 2005, the impact to basic and diluted earnings per share from discontinued operations was a decrease from \$0.33 to \$0.25 and from \$0.31 to \$0.25, respectively. For the year ended December 31, 2005, the impact to basic earnings per share from continuing operations was less than one penny. The impact of these adjustments to diluted earnings per share from continuing operations was a decrease from \$0.28 to \$0.27.

The accompanying Consolidated Balance Sheet as of December 31, 2005 and related Consolidated Statements of Operations, Comprehensive Income, Changes in Stockholders' Equity, and Statement of Cash Flows for the year ended December 31, 2005 as well as Note 2 (xii), "Computation of Earnings (Loss) Per Share", Note 2 (xiv) "Recent Accounting Standards", Note 2 (xv), "Stock-Based Compensation", and Note 9, "Income Taxes" have been revised to reflect the appropriate adjustments to the income tax accounts.

***(iv) Revenue Recognition***

The Company recognizes revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue recognition in Financial Statements* ("SAB 101") as updated by Staff Accounting Bulletin No. 104, Revenue Recognition ("SAB 104"). Revenue is recognized when realized or earned when all the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. Product revenue is generally recognized upon shipment of the products.

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

**(v) Cash / Restricted Cash / Cash equivalents**

The Company's policy is to invest available cash in short-term, investment grade, interest-bearing obligations, including money market funds, municipal notes, and bank and corporate debt instruments. Securities purchased with initial maturities of three months or less are valued at cost plus accrued interest, which approximates fair market value, and are classified as cash equivalents.

The Company's restricted cash consisted of payments from customers of its former business units that were sold in 2004 who remit payments to the Company in error. The cash is deposited in the Company's lockbox system and analyzed, and isolated to be remitted to SeraCare in a timely fashion. The balances reflected are those indicative of timing of transfers to SeraCare. At the time the cash is classified as restricted, a corresponding liability is established to have no effect on net assets of the Company.

**(vi) Research and Development**

Research and development costs, which are comprised of costs incurred in performing research and development activities including wages and associated employee benefits, facilities and overhead costs, are expensed as incurred. The Company's research activities are performed at its site in Maryland and in conjunction with the collaboration partner sites. The Company utilizes units capitalized as fixed assets amortized over a three year period placed at the collaborative sites in support of the research activities.

**(vii) Inventories**

Inventories are valued at the lower of cost or market. The composition of inventory is as follows:

	<b>December 31, 2005</b>
Raw materials	\$ 32,188
Work-in-process	31,565
Finished goods	21,454
<b>Total</b>	<b>\$ 85,207</b>

Certain factors may impact the realizable value of the Company's inventory including, but not limited to: technological changes, market demand, changes in product mix strategy, new product introductions and significant changes to the Company's cost structure. In addition, estimates of reserves are made for obsolescence based on the current product mix on hand and its expected net realizability. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by management, additional inventory write-downs or increases in obsolescence reserves may be required. The Company treats lower of cost or market adjustments and inventory reserves as an adjustment to the cost basis of the underlying inventory. Accordingly, favorable changes in market conditions are not recorded to inventory in subsequent periods.

<b>Inventory Reserve</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Recoveries</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
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2005	\$	144,428	\$	20,447	\$	(104,186)	\$	60,689
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In 2005, the Company increased reserves by \$20,447 while identifying \$104,186 of common components of previously reserved NEP2017 inventory that was utilized in the manufacture of the NEP3229 units. The gross inventory of NEP2017 units has been reserved for in its entirety.

***(viii) Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation and amortization. For financial reporting purposes, depreciation is recognized using the straight-line method, allocating the cost of the assets over their estimated useful lives of three years for certain laboratory equipment, from three to five years for management information systems and office equipment and three years for all PCT finished units capitalized as fixed assets.

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

*(ix) Intangible Assets and Goodwill*

The Company has classified as intangible assets, costs associated with the fair value of certain assets of the businesses acquired. Intangible assets including patents are being amortized on a straight-line basis over sixteen years. As of December 31, 2005, the remaining net book value of goodwill was reclassified to assets transferred under contractual arrangements. The Company annually reviews its intangible assets for impairment. When impairment is indicated, any excess of carrying value over fair value is recorded as a loss. An impairment analysis of intangible assets as of December 31, 2005 concluded that no impairment of intangible assets had occurred.

*(x) Long-Lived Assets and Deferred Costs*

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows. If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the fair value of the asset and records the impairment as a reduction in the carrying value of the related asset and a charge to operating results. While the Company's current and historical operating losses and cash flow are indicators of impairment, the Company reviewed criteria for annual test for impairment at December 31, 2005 and determined that such long-lived assets was not impaired.

*(xi) Concentration of Credit Risk*

Financial instruments, which potentially subject the Company to concentrations of credit risk, are principally cash and cash equivalents, and accounts receivable. The Company places its cash and cash equivalents with high credit quality financial institutions. The Company's total cash and cash equivalents at December 31, 2005 are deposited in financial institutions in which deposits are insured under the Federal Deposit Insurance Corporation (up to the level required by law of \$100,000 per depositor); in addition, one financial institution provides additional insurance for funds on deposit via the Depositors Insurance Fund, the latter being a private, industry-sponsored deposit insurance company. The Company limits credit risk in cash equivalents by investing only in short-term, money market accounts. The Company does not require collateral from its customers.

*(xii) Computation of Earnings (Loss) per Share*

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For purposes of this calculation, stock options are considered common stock equivalents in periods in which they have a dilutive effect. Options and warrants that are antidilutive are excluded from the calculation.

Potentially dilutive securities having a net effect of 135,311 for the year ended 2005 are reflected below. Potentially dilutive securities having a net effect of 91,363 for year ended 2004 were not included in the computation of diluted loss per share because to do so would have been antidilutive for income from continuing operations.

For the years ended December 31, 2005 and 2004, options outstanding having exercise prices greater than the average fair market price of common shares totaled 585,000 and 104,100, respectively.





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Numerator:	Year ended 2005	Year ended 2004
Income (loss) from continuing operations	\$ 850,249	\$ (1,741,916)
<b>Demoninator:</b>		
Weighted Average Shares Outstanding, basic	2,972,662	6,850,380
Net effect of dilutive common stock equivalents-based on treasury stock method using average market price	135,311	0
Weighted Average Shares Outstanding, diluted	3,107,973	6,850,380
Income (loss) per share from continuing operations, - basic	\$ 0.29	\$ (0.25)
Income (loss) per share from continuing operations, - diluted	\$ 0.27	\$ (0.25)

***(xiii) Segment Reporting***

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by senior management in deciding how to allocate resources and in assessing the performance of each segment. The Company is organized along legal entity lines and senior management regularly reviews financial results for all entities, focusing primarily on revenue and operating income. The Company's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements, as well as for segment performance and internal management reporting.

Following the Company's sale of its core businesses in 2004, its laboratory instrumentation business unit in 2004, and its clinical laboratory business unit in 2001, the single remaining segment is the pressure cycling technology (PCT) family of products and services.

***(xiv) Recent Accounting Standards***

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)"). FAS 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". FAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The provisions of this Statement are effective for Small Business Issuers for the first fiscal year that begins after December 15, 2005.

In May 2005, the FASB issued FASB Statement No. 154 "Accounting Changes and Error Corrections"—a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all

voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The Company has adopted SFAS 154 to correct an error made during the quarter ended September 30, 2005 and discovered during the quarter ended March 31, 2006.

On March 15, 2006, the Company received \$1,094,162 from Wells Fargo Corporate Trust Escrow Services, representing the remaining principal, and interest, held in escrow from the 2004 sale of the assets and certain liabilities of BBI Core Businesses to SeraCare Life Sciences Inc., ("SeraCare"). The receipt of these funds triggered the recognition of taxable income, accounted for as an installment sale for federal income tax purposes. During the financial statement closing process for the quarter ended March 31, 2006, management determined that a deferred tax liability of approximately \$220,000 should have been established during the quarter ended September 30, 2005, the period in which the Company filed its federal income tax return. Upon reexamining the Company's accounting for income taxes in its entirety, management further determined that the deferred tax liability in connection with the unrealized gain on Panacos should be reduced by approximately \$60,000, and that the income tax provision from continuing operations should be increased by approximately \$23,000. The Company also adjusted its deferred tax assets however there is no impact from these adjustments as deferred tax assets continue to be carried with a full valuation allowance. The total impact of all of these adjustments will not change the Company's reported pre-tax results from continuing operations, but income from continuing operations after income taxes for the fiscal year ended December 31, 2005 will be reduced from approximately \$873,000 to approximately \$850,000.

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For the year ended December 31, 2005, the impact to basic and diluted earnings per share from discontinued operations was a decrease from \$0.33 to \$0.25 and from \$0.31 to \$0.25, respectively. For the year ended December 31, 2005, the impact to basic earnings per share from continuing operations was less than one penny. The impact of these adjustments to diluted earnings per share from continuing operations was a decrease from \$0.28 to \$0.27.

**(xv) Stock-Based Compensation**

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, the intrinsic value method is used to account for stock options granted to employees. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123).

As the Company accounts for its plans under the recognition and measurement principles of APB 25, "Accounting for Stock Issued to Employees" and related interpretations, no compensation cost has been recognized under SFAS 123 because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant. SFAS 123 was amended by SFAS 148 "Accounting for Stock-Based Compensation-Transition and Disclosure", which requires companies to disclose in interim financial statements the pro forma effect on net income per common share of the estimated fair market value of stock options or warrants issued to employees.

Had compensation cost for awards under those plans been determined based on the grant date fair values, consistent with the method required under SFAS 123, the Company's net income and net income per share would have been impacted by the pro forma amounts indicated below:

	2005	2004
Net income - as reported	\$ 1,604,092	\$ 12,712,585
Add back: Stock-based compensation in net income, as reported		— 281,737
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(151,982)	(524,989)
Net Income - pro forma	\$ 1,452,110	\$ 12,469,333
Basic net income per share - as reported	\$ 0.54	\$ 1.86
Basic net income per share - pro forma	\$ 0.49	\$ 1.82
Diluted net income per share - as reported	\$ 0.52	\$ 1.86
Diluted net income per share - pro forma	\$ 0.47	\$ 1.82

The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2005 and 2004.

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	2005	2004
Risk-free interest rate	3.69%	3.40%
Volatility factor	55.66%	40.28%
Weighted average expected life	4.0	5.7
Expected dividend yield	—	—

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the amount of unamortized stock-based compensation expense that will be recognized over the next three years or the vesting period in accordance with SFAS 123r representing the FMV of options issued to employees this year less the portion recognized in the SFAS 148 disclosure as if 123 had been applied is approximately \$375,468.

***(xvi) Investment in Marketable Securities***

The Company's investment in marketable securities reflects its holdings of common stock of Panacos Pharmaceuticals Inc. (formerly V.I. Technologies ("Vitex")), a publicly traded company listed on the Nasdaq National Market. The Company held shares in Panacos Pharmaceuticals Inc. (Panacos), a private company prior to its merger with Vitex in March 2005, and this investment was reflected on a cost basis as presented on the December 31, 2004 financial statements. As a result of Vitex's merger with Panacos Pharmaceuticals in March 2005, and the Company's subsequent receipt of shares of Vitex common stock in exchange for all of its shares of Panacos, the Company's investment commencing with the first quarter of fiscal 2005 has been accounted for under SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities", as available for sale. At December 31, 2005, the fair value of the Company's remaining shares of Panacos common stock was approximately \$4.0 million based on the closing price of \$6.93 per share of Panacos common stock as reported on the Nasdaq National Market on December 31, 2005. In recording the fair value, the Company has recorded a deferred tax liability of approximately \$1.5 million and comprehensive income of approximately \$2.5 million.

***(xvii) Fair Value of Financial Instruments***

Due to their short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, accounts payable, and accrued expenses approximate their fair value. Long-term liabilities are primarily related to liabilities transferred under contractual arrangements with carrying values that approximate fair value.

***(xviii) Advertising***

Advertising costs are expensed as incurred. There were no advertising costs for the years ended December 2005 and 2004 as the Company's primary concentration was in research and development.

***(xix) Allowance for Doubtful Accounts***

The Company has established a policy of assessing its outstanding trade accounts on a periodic basis and establishing a reserve for those accounts which are determined to be uncollectable. The current allowance reflects balances due from customers for activity related to its former Core Businesses in the amount of \$115,908 and are fully reserved for. Any subsequent collections of accounts previously reserved are recorded as other income when collected.

### **3) Discontinued Operations**

#### **a) BBI Diagnostics and BBI Biotech Business Units**

On September 14, 2004, the Company completed the sale of substantially all of the assets and certain liabilities of its BBI Diagnostics and BBI Biotech business units, previously classified as assets and liabilities held for sale as of June 30, 2004, to SeraCare pursuant to the Asset Purchase Agreement, for a purchase price of \$30 million in cash of which \$27.5 million was paid at the closing and the remaining \$2.5 million was deposited in escrow pursuant to an escrow agreement expiring on March 15, 2006. The results of operations relating to assets and selected liabilities sold to SeraCare are reported as discontinued operations in the accompanying consolidated financial statements. The purchase price was subject to increase or decrease on a dollar-for-dollar basis if the net asset value (as defined in the Asset Purchase Agreement) of the assets sold as of the closing date was greater or less than \$8.5 million. In November 2004, in accordance with the terms of the Asset Purchase Agreement, SeraCare delivered the closing balance sheet, which reflected a deficiency of approximately \$3.1 million when compared to the target net asset value of \$8.5 million. We objected to certain calculations in the closing balance sheet, including, without limitation, SeraCare's calculation of accounts receivable and inventory. In December 2004, we settled our dispute with SeraCare concerning the collectibility of accounts receivable sold to SeraCare in connection with the Asset Purchase Agreement. We agreed that, solely for purposes of settling our dispute with SeraCare, \$412,192 of accounts receivable would be deemed past due, therefore resulting in an adjustment to the purchase price requiring us to pay SeraCare that amount. We also agreed that the \$412,192 deficiency would be released from the \$2.5 million held in escrow; thereby leaving approximately \$2.1 million remaining in escrow. In February 2005, we further agreed with SeraCare to settle our remaining differences relating to the closing balance sheet, including the calculation of inventory, by releasing to SeraCare an additional \$1,000,000 from the escrow account. Additionally, the parties released all claims they may have had against the other with respect to the closing balance sheet and certain other representations and warranties contained in the Asset Purchase Agreement relating to the closing balance sheet items. Following the release of the escrow funds, approximately \$1.1 million remained in escrow.

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On March 15, 2006, the Company received \$1,094,162 from Wells Fargo Corporate Trust Escrow Services, representing the remaining principal held in escrow, plus interest through February 28, 2006.

The assets sold included all accounts and notes receivable, contract rights, owned and leased real property, fixtures and equipment, inventory, intellectual property and books and records that relate to the BBI Diagnostics and BBI Biotech business units (such business units are collectively referred to herein as the “BBI Core Businesses”). The assets sold also included the owned real property located at 375 West Street, West Bridgewater, MA. The Company retained all of its assets not relating to the BBI Core Businesses, including: all assets relating to the Company’s pressure cycling technology activities; inter-company receivables and payables; a \$1.0 million loan receivable from Richard T. Schumacher, the Company’s Chief Executive Officer and a director; its passive stock ownership interest in Panacos Pharmaceuticals, Inc.; its 30% ownership interest in Source Scientific, LLC, a limited liability company which purchased substantially all of the assets of BBI’s Source Scientific business unit; promissory notes in the aggregate principal amount of \$900,000 from the principals of Source Scientific, LLC; and all of its cash and cash equivalents. A summary of the SeraCare transaction is as follows:

Cash consideration (1)	\$ 30,000,000
Post closing adjustment (2)	(1,412,193)
Transaction & related expenses	(1,561,339)
Estimated taxes	(4,354,809)
Net assets disposed	(8,103,962)
Gain on disposition	\$ 14,567,697

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(1) Includes initial escrow amounts of \$2,500,000 established prior to post-closing adjustments.

(2) Reflects \$412,192 accounts receivable returned to the Company and \$1,000,000 settlement related to ending balance sheet items affecting inventory valuation.

b) Clinical Laboratory Testing Services Segment

In February 2001, the Company sold the business and certain assets and liabilities of its clinical laboratory business, BBI Clinical Laboratories, Inc. (“BBICL”), a wholly-owned subsidiary of the Company, to a third party for an adjusted purchase price of \$8,958,000. The Company retained certain other assets and liabilities of BBICL, primarily property, plant and equipment, together with the facility lease subsequent to the closing date. The Company wrote down all of the retained assets not otherwise redistributed to other business units to their estimated net realizable value.

On March 4, 2004, the Company entered into a lease termination agreement with the landlord relative to the facility previously occupied by BBICL. The agreement provided for a series of reduced payments over a nine month period ending in November 2004 in return for the Company vacating the facility on or before May 31, 2004; the Company vacated the facility in the second quarter of 2004. Accordingly, the Company recognized a \$135,000 gain in the first quarter of 2004 associated with this lease termination agreement and reduction of the related remaining liability. The Company’s estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business

is approximately \$8,160 as of December 31, 2005.

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**4) Assets and Liabilities Transferred Under Contractual Arrangements**

In June 2004, the Company completed the sale of substantially all of the assets as well as selected liabilities of PBI Source Scientific, Inc. (the Company's laboratory instrumentation division) to Source Scientific, LLC, an entity owned 35% by Mr. Richard W. Henson, 35% by Mr. Bruce A. Sargeant, and 30% by the Company (the "Source Scientific Agreement"). Under the Source Scientific Agreement, the Company received notes receivable in the aggregate amount of \$900,000 (the "Notes") payable at the end of three years bearing 8% interest. The Source Scientific Agreement provides for discounts on the Notes in the event of an early payoff. As part of the Source Scientific Agreement, Source Scientific, LLC has agreed to provide engineering, manufacturing, and other related services for PBI's Pressure Cycling Technology (PCT) products on an on going basis without specific contractual terms. The Source Scientific Agreement also offers Mr. Henson and Mr. Sargeant the opportunity to purchase PBI's 30% ownership interest in Source Scientific, LLC until May 31, 2007 at an escalating premium (10-50%) over PBI's initial ownership value, provided that they have first paid off the Notes in their entirety. Although the Company expects the Notes to be paid in full by Mr. Henson and Mr. Sargeant, the repayment of the Notes may be viewed as being dependent on the future successful operations of the business of Source Scientific, LLC. Despite the Company's intent to exit the laboratory instrumentation business, the Company may be viewed as having a continuing involvement in the business of Source Scientific, LLC due to the fact that the Company has the right to designate one or potentially three members of the Board of Managers of Source Scientific, LLC and the Company had guaranteed certain facility lease payments until January 31, 2005. Because of these factors, even though the transaction is treated as a divestiture for legal purposes, the Company has not recognized the transaction as a divestiture for accounting purposes in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") Topic 5E, *Accounting for Divestiture of a Subsidiary or Other Business Operation*. In accordance with SAB Topic 5E, the Company has recorded the assets and liabilities associated with the Source Scientific, LLC operation on the Company's audited consolidated balance sheet as of December 31, 2005 under the captions "Assets transferred under contractual arrangements" and "Liabilities transferred under contractual arrangements" and has recorded a charge to income under the caption "Other operating (charges), net" in the Company's audited consolidated statements of operations for the years ended December 31, 2005 and 2004 equal to the amount of the loss attributable to the business of Source Scientific for the respective periods presented. In accordance with SAB Topic 5E, the Company will continue this accounting treatment until circumstances have changed or until the net assets of the Source Scientific, LLC business have been written down to zero (or a net liability is recognized in accordance with GAAP).

Gross revenues of approximately \$3,117,911 for Source Scientific, LLC are not reflected in revenues in the Company's audited consolidated statements of operations. Source Scientific, LLC revenues, cost of goods sold, and operating expenses are reflected within the Company's audited consolidated statements of operations as a charge to income as described above income under the caption "Other operating (charges), net" in the Company's audited consolidated statements of operations for the years ended December 31, 2005 and 2004 equal to the amount of the loss attributable to the business of Source Scientific, LLC for the respective periods presented. The concentration of revenues for Source Scientific, LLC for the year ended December 31, 2005 is as follows:

Hitachi	-	\$ 800K
Vicam	-	\$ 550K
Vysis	-	\$ 320K





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As of December 31, 2005, assets and liabilities transferred under contractual arrangements consisted of the following:

Cash	\$ 27,900
Accounts receivable, net	535,140
Inventories	414,550
Prepaid assets	48,626
Property and equipment, net	105,944
Goodwill	227,084
All other assets	61,752
<b>Total assets transferred under contractual arrangements</b>	<b>1,420,996</b>
Accounts payable	(346,043)
Accrued expenses and compensation	(279,477)
Deferred revenue	(251,476)
Note payable	(50,000)
Equity contributions	(57,860)
Deferred rent	(57,637)
<b>Total liabilities transferred under contractual arrangements</b>	<b>(1,042,493)</b>
Net assets and liabilities transferred under contractual arrangements	\$ 378,503

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**(5) Property and Equipment**

Property and equipment at December 31, 2005 consisted of the following:

	<b>2005</b>
Laboratory and manufacturing equipment	\$ 195,502
Office equipment	59,316
PCT collaboration / demo / lease systems	424,564
<b>Total</b>	<b>679,382</b>
Less accumulated depreciation	(396,602)
Net book value	\$ 282,780

Depreciation expense for the year ended December 31, 2005 and 2004 was \$57,917 and \$97,631 respectively.

**(6) Intangible Assets**

Intangible assets consist of acquired PCT patents. Intangible assets at December 31, 2005 consisted of the following:

	<b>2005</b>
PCT Patents	\$ 778,156
Less accumulated amortization	(352,602)
Net book value	\$ 425,554

Amortization expense for each of the years ended December 31, 2005 and 2004 was \$48,635.

Intangible assets as of December 31, 2005 reflect patents and related capitalized costs associated with the Company's PCT business. Acquired PCT patents are being amortized to expense on a straight line basis at the rate of \$48,635 per year over their estimated remaining useful life and are reflective of the amounts amortized in each of the years 2005 and 2004. The estimated annual future amortization expense of other intangible assets excluding goodwill is as follows:

2006	\$ 48,635
2007	\$ 48,635
2008	\$ 48,635
2009	\$ 48,635
2010	\$ 48,635
Thereafter	\$ 182,379

**(7) Debt**

The Company has no debt obligations.

**(8) Retirement Plan**

In January 1993, the Company adopted a retirement savings plan for its employees, which has been qualified under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to contribute to the plan through payroll deductions within statutory limitations and subject to any limitations included in the plan. Company contributions are made at the discretion of management. As of December 31, 2001, no such contributions had been made: however, commencing in 2002, the Company formally adopted and implemented a limited matching contribution program. During 2005 and 2004, the Company recognized administrative expense of approximately \$6,000 and \$23,000, in connection with the plan.

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**(9) Income Taxes**

The components of the (benefit) provision for income taxes from continuing operations are as follows:

	2005	2004
Current (benefit) provision: federal	\$ 239,023	\$ (942,606)
Current provision: state	113,671	1,256
Total current provision	352,694	(941,350)
Deferred provision: federal	—	—
Deferred provision: state	—	—
Total deferred provision	—	—
Total provision (benefit) for income taxes from continuing operations	\$ 352,694	\$ (941,350)

Significant items making up the deferred tax assets and deferred tax liabilities are as follows:

	2005	2004
Current deferred taxes:		
Inventories	\$ 24,512	\$ 141,558
Accounts receivable allowance	46,676	83,558
Technology licensed	—	186,718
Other accruals	24,889	158,671
Deferred tax liability related to installment sale & unrealized gain	(219,949)	—
Less: valuation allowance	(96,077)	(570,506)
Total current deferred tax liability	(219,949)	—
Long term deferred taxes:		
Depreciation	10,245	(9,991)
Source Scientific Note, OID	28,994	—
Operating loss carryforwards and tax credits	1,268,109	984,424
Goodwill and intangibles	(171,370)	346,049
Deferred tax liability related to unrealized gain	(1,419,662)	—
Less: valuation allowance	(1,135,978)	(1,320,481)
Total long term deferred tax assets (liabilities), net	(1,419,662)	—
Total net deferred tax liabilities	\$ (1,639,611)	\$ —

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance was established in 2005 and 2004 for the full amount of the deferred tax asset due to the uncertainty of realization. Although the Company realized taxable income generated from the sale

of assets to SeraCare Life Sciences in September 2004, and the sale of Panacos securities in 2005, management believes that based upon its projection of future taxable operating income for the foreseeable future, it is more likely than not that the Company will not be able to realize the benefit of the deferred tax asset at December 31, 2005. The valuation allowance as of January 1, 2005 was \$1,890,987. The net change in the valuation allowance during the year ended December 31, 2005 was a decrease of \$658,932.

The Company has not reserved for a deferred tax liability which totals \$1,419,663 related to the unrealized gain associated with the increase in value of its investment of marketable securities of Panacos shares held for sale. The Company recorded an additional deferred tax liability of \$219,949 related to the remaining installment gain on the 2004 sale of certain assets and liabilities to SeraCare. Additionally, as part of its internal review of the accounting for income taxes the Company adjusted various deferred tax asset balances. These adjustments had no impact on the financial statements as deferred tax assets continue to be fully reserved for.

The Company had net operating loss carry-forwards for federal income tax purposes of approximately \$196,000 and \$760,000 at December 31, 2005 and 2004, respectively. Included in these numbers are loss carry-forwards that were obtained through the acquisition of BioSeq, Inc. and are subject to Section 382 NOL limitations. These net operating loss carry-forwards expire at various dates from 2012 through 2024. The Company had net operating loss carry-forwards for state income tax purposes of approximately \$12,174,000 and \$10,940,000 at December 31, 2005 and 2004, respectively. These net operating loss carry-forwards expire at various dates from 2006 through 2024.

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The Company's effective income tax (benefit) rate for continuing operations differs from the statutory federal income tax benefit rate as follows:

	2005	2004
Federal Statutory Rate	34%	-34%
State taxes, net	6%	0%
Permanent differences	-2%	0%
Valuation allowance	-9%	-1%
Effective income tax (benefit) provision rate from continuing operations	29%	-35%

### **(10) Commitments and Contingencies**

#### **Operating Leases**

On May 5, 2005 the Company entered into a lease with Saul Holdings Limited Partnership for approximately 2,784 square feet of office space located at 209 Perry Parkway, Gaithersburg, Maryland for a term of twelve months with an annual rent in the amount of \$55,680, or \$4,640 per month during the initial term of the lease, plus \$1,245 per month for operating expenses.

The obligations of Source Scientific, LLC associated with leased facilities in Irvine, CA are excluded from the Company's obligations. The obligations are deemed by the Company to be obligations of Source LLC and the Company has provided no guarantees. The term of Source LLC leased facility commenced in April 2005 and runs through June 2010. In addition certain administrative support equipment lease arrangements were entered into commencing in January 2005 and ending in November 2006. Source LLC's minimum lease payments are as follows:

	<b>Total</b>	<b>1 year or less</b>	<b>More than 1 year</b>
Lease for Irvine, CA facility	\$ 1,075,922	\$ 226,952	\$ 848,970
Equipment operating leases	5,681	2,964	2,717
Total Contractual Obligations for Source, LLC	\$ 1,081,603	\$ 229,916	\$ 851,687

#### **Royalty Commitments**

The Company acquired in 1998 all the remaining common stock outstanding of BioSeq Inc., a development stage company involved with PCT. In accordance with the provisions of a technology transfer agreement assumed in the transaction, the Company is obligated to pay a 5% royalty on net sales until March 2016 of future sales by the Company utilizing PCT. The Company announced the availability of its PCT products for commercial sale in the latter part of 2002. The Company's minimum royalty payment requirements ceased in the fourth quarter of 2003 in accordance with contractual provisions. The royalty payments totaled approximately \$5,000 during 2005.

#### **Purchase Commitments**

In June 2004, Source Scientific, LLC agreed to provide engineering, manufacturing, and other related services for the Company's pressure cycling technology products until September 30, 2005. Under the agreement, it was estimated that reimbursement to Source Scientific, LLC by the Company was expected to be at the rate of \$25,000 per month. Since the Company has met the minimum commitment under the agreement, and there are no future minimum payments, all obligations are contingent upon actual services being rendered to us by Source Scientific, LLC. The Company expects to continue to utilize the services of Source Scientific, LLC for the Company's pressure cycling technology products.



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*Indemnifications*

In conjunction with the sale of the former BBI Diagnostics and BBI Biotech business units, the Company has agreed to indemnify the other parties with respect to certain liabilities related to the operation of the business. The scope and duration of such indemnity obligations vary from transaction to transaction. Where appropriate, an obligation for such indemnifications is recorded as a liability. Generally, a maximum obligation cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, historically the Company has not made significant payments for these indemnifications. The Company believes the estimated fair value of these agreements is minimal.

In connection with the sale of substantially all of the assets of the Company's BBI Diagnostics and BBI Biotech business units to SeraCare, pursuant to the Asset Purchase Agreement, the Company agreed to indemnify SeraCare for any losses from breaches of most of the Company's representations, warranties or covenants that occur prior to June 14, 2006. The Company's indemnification obligations for breaches of some representations and warranties, however, extend for a longer period of time. The Company's indemnification obligations are limited by an overall cap equal to adjusted purchase price. The payment of any such indemnification obligations could adversely impact the Company's cash resources following the completion of the sale to SeraCare and the Company's ability to pursue the development of its pressure cycling technology business. In addition, a large indemnification claim against the Company could have a material adverse effect upon the Company.

*Other Contingencies*

Various claims may be asserted against the Company in the ordinary course of business. In certain instances, the amounts claimed or alleged may be significant. While it is possible that the Company's results of operations and/or liquidity could be materially affected by these contingent liabilities, based upon information currently available, management believes that there are no outstanding claims that will have a material adverse impact on the financial position of the Company.

*Environmental Matters*

In 1997, Pressure BioSciences, Inc. acquired the assets and selected liabilities of Source Scientific, Inc. Environmental issues related to Source Scientific were not acquired. In 2003, the EPA named Source Scientific as a Potentially Responsible Party at the Omega Superfund Site. In December 2004, the EPA concluded that the volume allocated to Source Scientific was below the diminimus levels, and indicated that they would not pursue Pressure BioSciences further in this matter.

**(11) Stockholders' Equity**

*Preferred Stock*

In 1996, the Company authorized the issuance of 1,000,000 shares of preferred stock having a par value of \$0.01. None of these shares have been issued to date.

*Common Stock*

*Shareholders Purchase Rights Plan*

On March 3, 2003, the Company's Board of Directors adopted a shareholder purchase rights plan ("the Rights Plan") and declared a distribution of one Right for each outstanding share of the Company's Common Stock to shareholders of record at the close of business on March 21, 2003. Initially, the Rights will trade automatically with the Common Stock and separate Right Certificates will not be issued. The Rights Plan is designed to deter coercive or unfair takeover tactics and to ensure that all of the Company's shareholders receive fair and equal treatment in the event of an unsolicited attempt to acquire the Company. The Rights Plan was not adopted in response to any effort to acquire the Company, and the Board is not aware of any such effort. The Rights will expire on February 27, 2013 unless earlier redeemed or exchanged. Each Right entitles the registered holder, subject to the terms of a Rights Agreement, to purchase from the Company one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock at a purchase price of \$45.00 per one one-thousandth of a share, subject to adjustment. In general, the Rights will not be exercisable until a subsequent distribution date that will only occur if a person or group acquires beneficial ownership of 15% or more of the Company's Common Stock or announces a tender or exchange offer that would result in such person or group owning 15% or more of the Common Stock. With respect to any person or group who currently beneficially owns 15% or more of the Company's Common Stock, the Rights will not become exercisable unless and until such person or group acquires beneficial ownership of additional shares of Common Stock.

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

Subject to certain limited exceptions, if a person or group acquires beneficial ownership of 15% or more of the Company's outstanding Common Stock or if a current 15% beneficial owner acquires additional shares of Common Stock, each holder of a Right (other than the 15% holder whose Rights become void once such holder reaches the 15% threshold) will thereafter have a right to purchase, upon payment of the purchase price of the Right, that number of shares of the Company's Common Stock which at the time of such transaction will have a market value equal to two times the purchase price of the Right. In the event that, at any time after a person or group acquires 15% or more of the Company's Common Stock, the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, each holder of a Right will thereafter have the right to purchase, upon payment of the purchase price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the purchase price of the Right.

The Board of Directors of the Company may exchange the Rights (other than Rights owned by such person or group which have become void), in whole or in part, at an exchange ratio of one share of Common Stock per Right (subject to adjustment). At any time prior to the time any person or group acquires 15% or more of the Company's Common Stock, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right.

***Employee Stock Purchase Plan***

The Plan was established in July 1999, whereby the Company's Board of Directors and shareholders approved the 1999 Employee Stock Purchase Plan. The Company adopted this Plan, which allowed eligible employees to purchase shares of the Company's stock at 85% of market value as determined at the beginning and the end of the offering period. A total of 250,000 shares have been reserved for this Plan. As of December 31, 2005, 52,674 shares had been issued under this Plan. Due to the sale of certain assets and liabilities to SeraCare, the Company's Board elected to suspend its employee stock purchase plan on July 29, 2004.

***Options and Warrants***

On June 16, 2005, the Company's stockholders approved the Company's 2005 Equity Incentive Plan (the "Plan"), pursuant to which an aggregate of 1,000,000 shares of common stock of the Company are reserved for issuance upon exercise of stock options or other equity awards made under the Plan. Under the Plan, the Company may award stock options, stock issuances and other equity interests in the Company to employees, officers, directors, consultants and advisors of the Company and its subsidiaries and to any other persons the Board of Directors determines to have made or is expected to make contributions to the Company. As of December 31, 2005, options to acquire 360,000 shares have been granted under the Plan.

All other option plans have either lapsed or been used in issuances.

The average fair value of options granted during 2005 and 2004 is estimated as \$1.37 and \$1.76 respectively.

**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

The Company has reserved shares of its authorized but unissued common stock for the following:

	Stock Options		Warrants		Total	
	Shares	Weighted Average price per share	Shares	Weighted Average price per share	Shares	Exercisable
Balance outstanding, 12/31/2003:	1,245,825	\$ 2.94	135,556	\$ 3.60	1,381,381	844,970
Granted	90,500	2.60	—		90,500	
Exercised	(38,250)	2.63	0		(38,250)	
Expired	(150,650)	2.93	0		(150,650)	
Forfeited	(76,083)	2.66	0		(76,083)	
Balance outstanding, 12/31/2004	1,071,342	\$ 2.93	135,556	\$ 3.60	1,206,898	520,556
Granted	360,000	2.98	—		360,000	
Exercised	(761,275)	2.85			(761,275)	
Expired	(35,067)	3.75	(135,556)	\$ 3.60	(170,623)	
Forfeited	(50,000)	2.92			(50,000)	
Balance outstanding, 12/31/2005	585,000	\$ 2.96	—		585,000	385,000

The following table summarizes information concerning options outstanding and exercisable as of December 31, 2005:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Weighted Average Remaining Life	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise
\$2.50 - 2.70	7.0	166,000	\$ 2.64	166,000	\$ 2.64
2.71 - 3.00	9.0	260,000	2.92	60,000	2.92
3.01 - 3.99	5.3	134,500	3.18	134,500	3.18
4.00 - 4.25	3.7	24,500	4.23	24,500	4.23
2.50 - 4.25	6.4	585,000	2.96	385,000	2.97

The total number of options exercisable as of December 31, 2005 and 2004 was 385,000 and 520,556 respectively. The weighted average exercise prices of options exercisable as of December 31, 2005 and 2004 were \$2.97 and \$2.93,

respectively.

Pursuant to the completion of the Company's tender offer on February 11, 2005, 5,210,001 shares were purchased from shareholders at \$3.50 per share which included 761,275 shares issued upon exercise of stock options. The Company utilized approximately \$16.3 million of available cash, net of proceeds from the exercise of the stock options, to complete the transaction. The purchase of the shares was accounted for under the treasury method and cost in excess or par value for the common shares was charged to additional paid in capital.

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**PRESSURE BIOSCIENCES, INC., AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2005**

**(12) Related Party Transaction**

In January 2002, the Company pledged the \$1,000,000 interest bearing deposit at a financial institution to secure its limited guaranty of loans in the aggregate amount of \$2,418,000 from the financial institution to an entity controlled by Richard T. Schumacher, a Director and the Company's current President and Chief Executive Officer. In January 2003, the \$1,000,000 held in the interest bearing deposit account pledged to the financial institution to secure the Company's limited guaranty was used by the financial institution to satisfy its limited guaranty obligation to the financial institution. As of December 31, 2005, the Company maintained a \$1.0 million loan receivable from Mr. Schumacher. The Company previously maintained a junior security interest in collateral pledged by Mr. Schumacher to the financial institution. The collateral includes all of Mr. Schumacher's shares of PBI common stock. Following the payment in full by Mr. Schumacher of his loan to the financial institution in February 2005, the Company became the holder of a first priority security interest in Mr. Schumacher's shares of common stock of Pressure BioSciences to secure the repayment of the Company's \$1,000,000 loan receivable together with associated accrued interest from Mr. Schumacher and are held as collateral. The collateral currently consists of 489,657 shares of Pressure BioSciences common stock. The collateral and personal assets of Mr. Schumacher may not be sufficient to permit the Company to fully recover the principal, interest, and other costs associated with this loan receivable. If the value of the collateral decreases, the Company may have to write down or write off the loan receivable or any associated accrued interest. Therefore, the Company cannot be certain that it will collect the full amount of the loan receivable.

As of December 31, 2005, the Company evaluated the recoverability of the \$1,000,000 loan receivable from Mr. Richard T. Schumacher, which is reflected on the balance sheet in stockholders' equity as a loan receivable as of December 31, 2005. In connection with the Company's evaluation of the recoverability of the loan receivable as of December 31, 2005 the Company performed a test for impairment of the loan receivable by analyzing the value of the collateral. This test included, among other things, a review of the current trading price of the Company's common stock after taking into account factors that may affect the Company's ability to sell such stock in the event it were to foreclose on the collateral to repay the loan receivable. After performing the impairment test, the Company determined that the loan receivable was not impaired. The ultimate value that the Company may recover is dependent on numerous factors including the Company's stock price, market conditions relative to the value of and ability to sell the collateral, and the financial status of the Company's President and Chief Executive Officer. Based on the Company's assessment as of December 31, 2005, the Company estimates that the value of the collateral is sufficient to collateralize the amount of the recorded loan receivable. If actual market conditions are less favorable, the Company's stock price declines or other factors arise that are significantly different than those in existence as of December 31, 2005, an impairment of the loan receivable together with any associated accrued interest is likely to be required. The Company plans to continue to monitor and test the collateral for impairment due in large part to the relatively low trading volume of the Company's common stock and recent volatility in stock price, ranging from a low of \$2.28 per share to a high of \$6.70 per share from January 1, 2005 to December 31, 2005.

**(13) Statement of Cash Flows**

The presentation of cash flows has been revised for the year ended December 31, 2004 to reflect current reporting requirements. The Company has presented cash flow from discontinued operations reflecting those components related to financing, investing, and operating activities. The favorable impact of cash flow from discontinued operations for the years ended December 31, 2005 and 2004 relate to the sale of the Company's Core Business to SeraCare in September 2004. The favorable impact in 2004 is a result of the sale of the net assets. The favorable

impact in 2005 primarily represents the anticipated refund of the overpayment of taxes in 2004 related to the sale of the assets. This activity is not expected to continue or have a material impact after 2005.

**(14) Subsequent Events**

On March 15, 2006, the Company received \$1,094,162 from Wells Fargo Corporate Trust Escrow Services, representing the remaining amount held in escrow from the sale of the assets and certain liabilities of our BBI Core Businesses to SeraCare on September 14, 2004, plus interest through February 28, 2006.

On March 1, 2006, the Company entered into a lease agreement with Proteome Systems, Inc., pursuant to which we have agreed to lease approximately 650 sq. feet of laboratory space plus 100 sq. feet of office space from Proteome Systems in Woburn, Massachusetts. The lease period will expire on December 31, 2006. PBI will pay \$2,350 per month for the use of these facilities.

On February 1, 2006, the Company entered into an agreement with the University of New Hampshire, pursuant to which the University of New Hampshire has agreed to perform certain research and development services for the Company through December 31, 2006. Subject to the terms of the agreement, the Company will pay the University of New Hampshire an aggregate of \$157,850 during the term of the agreement.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors of  
Pressure BioSciences, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Pressure BioSciences, Inc. and Subsidiaries (the "Company") as of December 31, 2005 and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Pressure BioSciences, Inc. and Subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 2 (iii) of the notes to the consolidated financial statements, errors resulting in an understatement of income tax expense and deferred taxes payable relating to discontinued operations and an overstatement of income tax expense and deferred taxes payable relating to other comprehensive income as of and for the year ended December 31, 2005 were discovered by management of the Company during 2006. Accordingly, the consolidated balance sheet as of December 31, 2005 and the consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2005 have been restated to reflect corrections to previously reported amounts.

WEINBERG & COMPANY, P.A.

Boca Raton, Florida  
March 23, 2006, except for Note 2 (iii), as to which the date is May 22, 2006.



**ITEM CONTROLS AND PROCEDURES.**

**8A.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our President (Principal Executive Officer) and Acting Chief Financial Officer (Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2006, we completed an internal review of our tax liability associated with the 2004 sale of assets and certain liabilities of our former core businesses, referred to herein as the BBI Core Businesses, to SeraCare Life Sciences, Inc. As a result of this review, we concluded that the tax liability related to discontinued operations recorded in the third quarter of 2005 was understated by approximately \$220,000. In connection with our internal tax review, we also determined to reduce by approximately \$60,000 the estimate of our deferred tax liability for the unrealized gain from our investment in Panacos Pharmaceuticals, Inc. and to increase by approximately \$23,000 the income tax provision from continuing operations. We therefore decided to restate our previously issued financial statements for the fiscal year ended December 31, 2005 and our financial statements for the fiscal quarter ended September 30, 2005 to reflect these changes. We are filing this amended Annual Report on Form 10-KSB/A to restate our financial results for the year ended December 31, 2005. In connection with the filing of this amendment, we carried out a further evaluation, as of December 31, 2005, under the supervision and with the participation of our management, including our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were not effective as of December 31, 2005 in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period. We believe that the hiring of our new Chief Financial Officer, effective as of April 3, 2006, has enabled us to conclude that our disclosure controls and procedures are now effective.

Other than the changes described above, there have been no changes in our internal control over financial reporting that occurred during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART III****ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT****Our Executive Officers**

The following table sets forth the names, ages and positions of our current executive officers:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Richard T. Schumacher	55	President & Chief Executive Officer
Edward H. Myles	34	Vice President of Finance & Chief Financial Officer

*Mr. Schumacher*, the founder of our Company, has served as a director of Pressure BioSciences since 1978. He is a Class III Director whose term of office expires at the 2008 Annual Meeting of Stockholders. He has served as Chief Executive Officer of Pressure BioSciences since April 16, 2004 and President since September 14, 2004. He has also been serving as Acting Chief Financial Officer since January 1, 2006. He previously served as Chief Executive Officer and Chairman of the Board of Pressure BioSciences from 1992 to February 2003. From July 9, 2003 until April 16, 2004, he served as a consultant to the Company pursuant to a consulting agreement. He served as President from 1986 to August 1999. Mr. Schumacher served as the Director of Infectious Disease Services for Clinical Sciences Laboratory, a New England-based medical reference laboratory, from 1986 to 1988. From 1972 to 1985, Mr. Schumacher was employed by the Center for Blood Research, a nonprofit medical research institute associated with Harvard Medical School. Mr. Schumacher received a B.S. in Zoology from the University of New Hampshire.

*Mr. Myles* was appointed to serve as Vice President of Finance and Chief Financial Officer on April 3, 2006. Prior to joining Pressure BioSciences, Inc., Mr. Myles served as the controller for EMD Pharmaceuticals, a wholly-owned affiliate of Merck KGaA, from 2003 to 2005. At EMD, Mr. Myles held a wide variety of responsibilities in the areas of accounting, licensing & business development. Prior to EMD Pharmaceuticals, Mr. Myles worked in the health care investment banking group of SG Cowen Securities Corporation from 2002 to 2003, where he provided advisory services to emerging and middle-market companies. From 2000 to 2002, Mr. Myles was enrolled in the full-time MBA program at Washington University in St. Louis, where he helped co-found Luminomics, an early-stage biotechnology company. Prior to enrolling in graduate school Mr. Myles was the Corporate Controller of Boston Biomedica, Inc., where he oversaw all financial reporting, accounting and financial operations. Prior to joining Boston Biomedica, Inc., in 1997 he worked at the accounting firms Price Waterhouse LLP and Coopers & Lybrand LLP where he held positions of increasing responsibility between 1993 and 1997. Mr. Myles became a CPA in 1996, and earned a B.S.B.A. in accounting and finance from the University of Hartford, and an MBA from Washington University in St. Louis.

The additional information required by this Item 9 is hereby incorporated by reference to our definitive proxy statement to be filed within 120 days after the close of our fiscal year.

**ITEM 13. EXHIBITS.****EXHIBIT INDEX**

<b>Exhibit No.</b>		<b>Reference</b>
3.1	Amended and Restated Articles of Organization of the Company	A**
3.2	Articles of Amendment to Amended and Restated Articles of Organization of the Company	M**
3.3	Amended and Restated Bylaws of the Company	A**
3.4	Amendment to Amended and Restated Bylaws of the Company	B**
4.1	Specimen Certificate for Shares of the Company's Common Stock	0
4.2	Description of Capital Stock (contained in the Amended and Restated Articles of Organization, as amended, of the Company filed as Exhibits 3.1 and 3.2)	A**
4.3	Rights Agreement dated as of February 27, 2003 between Boston Biomedica, Inc. and Computershare Trust Company, Inc.	G**
4.4	Amendment No. 1 to Rights Agreement dated April 16, 2004 between Boston Biomedica, Inc. and Computershare Trust Company, Inc.	M**
10.1	1994 Employee Stock Option Plan*	A**
10.2	1999 Non-Qualified Stock Option Plan*	D**
10.3	1999 Employee Stock Purchase Plan*	D**
10.4	First Amendment to lease dated as of December 12, 2001 by and between Cabot Industrial Properties, L. P. and BBI Source Scientific, Inc.	C**
10.5	Lease Agreement dated March 1, 2004, for Frederick, Maryland facility, between MIE Properties, Inc., and the Company.	M**
10.6	Asset Purchase Agreement dated February 20, 2001, by and between BBI Clinical Laboratories, Inc., Boston Biomedica, Inc., and Specialty Laboratories, Inc.	E**
10.7	Junior Participation Agreement dated as of January 15, 2002, by and between Commerce Bank and Trust Company, Resorts Accommodations International LLC, Richard T. Schumacher and Boston Biomedica, Inc.	F**
10.8		F**

Pledge and Security Agreement dated as of January 15, 2002, by and between Richard T. Schumacher, Boston Biomedica, Inc., and Commerce Bank and Trust Company.

10.9 Pledge Agreement effective as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company F\*\*

10.10 Limited Guaranty dated as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company. F\*\*

10.11 Description of Compensation for Certain Directors P\*\*

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10.12	Consultant Agreement between Boston Biomedica, Inc. and Richard T. Schumacher	H**
10.13	Agreement between Boston Biomedica, Inc. and Richard T. Schumacher	H**
10.15	Consultant Agreement between Boston Biomedica, Inc. and Richard T. Schumacher entered into as of December 31, 2003	H**
10.16	LLC Membership Interest Purchase Agreement dated June 8, 2004 by and between BBI Source Scientific Inc., Boston Biomedica, Inc., and Source Scientific LLC.	J**
10.17	Asset Purchase Agreement dated April 16, 2004 between the Company, BBI Biotech Research Laboratories, Inc. and SeraCare Life Sciences, Inc.	M**
10.18	Amendment No. 1 to Asset Purchase Agreement dated July 20, 2004, by and between the Company, BBI Biotech and SeraCare Life Sciences, Inc.	F**
10.19	Extension Agreement dated August 6, 2004 by and between the Company, BBI Biotech Research Laboratories, Inc. and SeraCare Life Sciences, Inc.	F**
10.20	Letter Agreement regarding Closing Balance Sheet Matters dated November 22, 2004 by and between the Company, BBI Biotech Research Laboratories, Inc. and SeraCare Life Sciences, Inc.	L**
10.21	Closing Balance Sheet Agreement dated February 17, 2005 by and between the Company, BBI Biotech Research Laboratories, Inc. and SeraCare Life Sciences, Inc.	K**
10.22	License Agreement dated as of October 7, 1996 by and between BioMolecular Assays, Inc. and BioSeq, Inc.; and the Company	N**
10.23	Flex Space Office Lease dated May 5, 2005 by and between Saul Holding Limited Partnership and the registrant	Q**
10.24	Letter Agreement dated June 30, 2005 by and between the registrant and Richard T. Schumacher.*	R**
10.25	2005 Equity Incentive Plan*	S**
10.26	Agreement for Research Services dated February 1, 2006 by and between the registrant and the University of New Hampshire	T**
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Principal Executive Officer Certification Pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith

31.2 Principal Financial Officer Certification Pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Filed herewith

32.1 Principal Executive Officer Certification Pursuant to Item 601(b)(32) of Regulation S-B, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Filed herewith

32.2 Principal Financial Officer Certification Pursuant to Item 601(b)(32) of Regulation S-B, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Filed herewith

- A Incorporated by reference to the registrant's Registration Statement on Form S-1 (Registration No. 333-10759) filed August 23, 1996 (the "Registration Statement").
- B Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
- C Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.
- D Incorporated by reference to the registrant's proxy statement filed June 14, 1999.
- E Incorporated by reference to the registrant's Report on Form 8-K filed with the Commission March 8, 2001.
- F Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- G Incorporated by reference to Exhibit 4 of the registrant's Current Report on Form 8-K filed with the Commission March 12, 2003.
- H Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003.
- I Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
- J Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Commission June 16, 2004.
- K Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Commission February 24, 2005.
- L Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 30, 2004.
- M Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Commission April 16, 2004.
- N Incorporated by reference to the registrant's amendment to the Registration Statement filed on Form S-1/A on October 8, 1996.
- O Incorporated by reference to Exhibit 4.1 to the registrant's Annual Report on Form 10-KSB filed with the Commission on April 22, 2005.
- P Incorporated by reference to Exhibit 10.11 to the registrant's Annual Report on Form 10-KSB filed with the Commission on April 22, 2005.
- Q Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Commission on May 11, 2005.
- R Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Commission on July 7, 2005.
- S Incorporated by reference to Exhibit 99.1 to the registrant's Registration Statement on Form S-8 (Reg. No. 333-128594) filed with the Commission on September 26, 2005. T Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Commission on February 7, 2006.
- T Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Commission on February 7, 2006.

\* Management contract or compensatory plan or arrangement.

\*\* In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.





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In accordance with Section 13 or 15d of the Exchange Act, the registrant caused this amendment to Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 22, 2006

Pressure BioSciences, Inc.

By:

*/s/ Richard T. Schumacher*  
Richard T. Schumacher  
President and Chief Executive  
Officer

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