PRESSURE BIOSCIENCES INC
Form 10-Q
May 15, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009 or

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

For the transition period from _____________ to _____________

Commission file number 0-21615

PRESSURE BIOSCIENCES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Massachusetts<br>(State or Other Jurisdiction of Incorporation or Organization) | 04-2652826<br>(I.R.S. Employer Identification No.) |

14 Norfolk Avenue
South Easton, Massachusetts
(Address of Principal Executive Offices)

02375
(Zip Code)

(508) 230-1828
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

o Yes x No

The number of shares outstanding of the Issuer's common stock as of March 31, 2009 was 2,195,283.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 2,138,685 | $ 868,208 |
| Restricted cash | 20,000 | 50,000 |
| Accounts receivable, net of allowances of $55,600 at March 31, 2009 and $0 at December 31, 2008 | 167,397 | 209,117 |
| Inventories | 822,503 | 571,831 |
| Deposits | 15,472 | 382,236 |
| Prepaid income taxes | 6,600 | 6,600 |
| Income tax receivable | 623,262 | - |
| Prepaid expenses and other current assets | 72,858 | 235,111 |
| Total current assets | 3,866,777 | 2,323,103 |
| | | |
| PROPERTY AND EQUIPMENT, NET | 262,469 | 252,249 |
| | | |
| OTHER ASSETS | | |
| Intangible assets, net | 267,500 | 279,658 |
| TOTAL ASSETS | $ 4,396,746 | $ 2,855,010 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 315,001 | $ 263,486 |
| Accrued employee compensation | 102,464 | 161,374 |
| Accrued professional fees and other expenses | 180,933 | 278,982 |
| Deferred revenue | 176,652 | 16,705 |
| Total current liabilities | 775,050 | 720,547 |
| | | |
| LONG TERM LIABILITIES | | |
| Deferred revenue | 8,473 | 10,821 |
| TOTAL LIABILITIES | 783,523 | 731,368 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 4) | | |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $.01 par value; 1,000,000 shares authorized; 156,980 shares issued and outstanding on March 31, 2009 and 0 shares on December 31, 2008 | 1,570 | - |
| Common stock, $.01 par value; 20,000,000 shares authorized; 2,195,283 shares issued and outstanding on March 31, 2009 and on December 31, 2008 | 21,953 | 21,953 |

| | | |
|---|---|---|
| Warrants to acquire preferred stock and common stock | 882,253 | - |
| Additional paid-in capital | 8,134,959 | 6,803,530 |
| Accumulated deficit | (5,427,512) | (4,701,841) |
| Total stockholders' equity | 3,613,223 | 2,123,642 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 4,396,746 | $ 2,855,010 |

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For the Three Months Ended March 31, 2009 | For the Three Months Ended March 31, 2008 |
|---|---|---|
| REVENUE: | | |
| PCT Products, services, other | $ 222,142 | $ 81,473 |
| Grant revenue | 84,620 | 50,903 |
| Total revenue | 306,762 | 132,376 |
| | | |
| COSTS AND EXPENSES: | | |
| Cost of PCT products and services | 140,243 | 48,449 |
| Research and development | 307,224 | 490,931 |
| Selling and marketing | 278,416 | 463,161 |
| General and administrative | 430,790 | 501,248 |
| Total operating costs and expenses | 1,156,673 | 1,503,789 |
| | | |
| Operating loss | (849,911) | (1,371,413) |
| | | |
| OTHER INCOME: | | |
| Interest income | 2,403 | 30,308 |
| Total other (expense) income | 2,403 | 30,308 |
| | | |
| Loss before income taxes | (847,508) | (1,341,105) |
| Income tax benefit | 623,262 | - |
| | | |
| Net loss | $ (224,246) | $ (1,341,105) |
| | | |
| Loss per share - basic and diluted | $ (0.10) | $ (0.61) |
| | | |
| Weighted average number of shares used to calculate loss per share - basic and diluted | 2,195,283 | 2,192,175 |

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (224,246) | $ (1,341,105) |
| | | |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 49,430 | 41,004 |
| Stock-based compensation expense | 145,903 | 118,205 |
| Bad debt expense | 55,600 | - |
| | | |
| Changes in operating assets and liabilities: | | |
| Restricted cash | 30,000 | - |
| Accounts receivable | (13,880) | 11,604 |
| Inventories | (250,672) | (422,512) |
| Deposits | 366,764 | 341,922 |
| Income tax receivable | (623,262) | - |
| Accounts payable | 51,515 | 225,880 |
| Accrued employee compensation | (58,910) | (13,046) |
| Deferred revenue and other accrued expenses | 59,550 | (3,002) |
| Prepaid expenses and other current assets | 162,253 | (125,854) |
| Net cash used in operating activities | (249,955) | (1,166,904) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment | (47,492) | (110,762) |
| Net cash used in investing activities | (47,492) | (110,762) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from the issuance of preferred stock | 1,567,924 | - |
| Net cash provided by financing activities | 1,567,924 | - |
| | | |
| CHANGE IN CASH AND CASH EQUIVALENTS: | 1,270,477 | (1,277,666) |
| Cash and cash equivalents, beginning of period | 868,208 | 5,424,486 |
| Cash and cash equivalents, end of period | $ 2,138,685 | $ 4,146,820 |
| | | |
| SUPPLEMENTAL INFORMATION: | | |
| Income taxes paid | $ - | $ 2,790 |
| Income taxes received | - | 834 |

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

PRESSURE BIOSCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2009

1) Business Overview and Management Plans

We are a life sciences company focused on the development and commercialization of a novel, enabling, platform technology called pressure cycling technology ("PCT"). PCT uses cycles of hydrostatic pressure between ambient and ultra-high levels (up to 35,000 psi and greater) to control bio-molecular interactions.

Our pressure cycling technology uses instrumentation that is capable of cycling pressure between ambient and ultra-high levels (up to 35,000 psi or greater) at controlled temperatures to rapidly and repeatedly control the interactions of bio-molecules. Our pressure-generating instrument is called the Barocycler®. Our PCT-related consumables product line includes PULSE (Pressure Used to Lyse Samples for Extraction) Tubes as well as application specific ("ProteoSolve") kits. Our Barocycler instrument, together with our consumable products and reagents, make up the PCT Sample Preparation System ("PCT SPS").

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since its inception. As of March 31, 2009, we had cash of approximately $2.1 million. During 2008, we took a number of cost reduction measures, including a comprehensive restructuring program to significantly reduce costs, centralize core operations, and refocus our business strategy in specific areas where our products have found significant market acceptance. The restructuring program included: a reduction in personnel of eight full-time employees (40% of the workforce), reduction in travel and meeting attendance for all personnel, continued reduction in investor relations activities, decreases in the base salary of most of our employees and all of our executive officers, a shutdown of our R&D facility in Rockville, MD, a consolidation of our R&D activities in Massachusetts, and delay of several research & development and marketing programs. We believe that these initiatives will significantly decrease our rate of cash utilization, from just under $1 million per quarter in the second half of 2008 to an average of approximately $600,000 per quarter during 2009. We also believe that these actions, taken together with the proceeds we received from our $1.8 million equity financing completed in February 2009, will enable us to extend our cash resources into the second quarter of 2010.

2) Interim Financial Reporting

The accompanying unaudited consolidated financial statements of Pressure BioSciences, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended December 31, 2008.

3) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Pressure BioSciences, Inc., and its wholly-owned subsidiary PBI BioSeq, Inc.

Use of Estimates

To prepare our consolidated financial statements in conformity with generally accepted accounting principles, we are 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 projecting future cash flows to quantify impairment of assets, deferred tax assets and the costs associated with fulfilling our warranty obligations for the instruments that we sell, in our calculation of fair value of stock options awarded, and our allocation of the proceeds from the equity financing between the preferred stock and warrants sold. We base our estimates on historical experience and on various other assumptions that we believe 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.

PRESSURE BIOSCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2009

Revenue Recognition

We recognize revenue in accordance with the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") 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 to the customer; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Our current instruments, the Barocycler NEP3229 and NEP2320, require a basic level of instrumentation expertise to set-up for initial operation. To support a favorable first experience for our customers, we send a representative to the customer site to install every Barocycler that we sell through our domestic sales force. The installation process includes uncrating and setting up the instrument and conducting introductory user training. Product revenue related to current Barocycler instrumentation is recognized upon the installation of our instrumentation at the customer location. Product revenue related to sales of PCT products to our foreign distributors is recognized upon shipment through a common carrier. We provide for the expected costs of warranty upon the recognition of revenue for the sales of our instrumentation. Our sales arrangements do not provide our customers with a right of return. Product revenue related to our consumable products such as PULSE Tubes and application specific kits is recorded upon shipment through a common carrier. Shipping costs are included in the costs of sales. Any shipping costs billed to customers are recognized as revenue.

In accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases", we account for our lease agreements under the operating method. We record revenue over the life of the lease term and we record depreciation expense on a straight-line basis over the thirty-six month estimated useful life of the Barocycler instrument. The depreciation expense associated with assets under lease agreement is included in the "Cost of PCT products and services" line item in our consolidated statements of operations. Many of our lease and rental agreements allow the lessee to purchase the instrument at any point during the term of the agreement with partial, or full, credit for rental payments previously made. We pay all maintenance costs associated with the instrument during the term of the leases.

Revenue from government grants is recorded when expenses are incurred under the grant in accordance with the terms of the grant award.

Our transactions sometimes involve multiple elements (i.e., products and services). Revenue under multiple element arrangements is recognized in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". Under this method, if an element is determined to be a separate unit of accounting, the revenue for the element is based on fair value and determined by vendor specific objective evidence ("VSOE"), and recognized at the time of delivery. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer the fair value of the undelivered elements with the residual revenue allocated to the delivered elements. Fair value is determined based upon the price charged when the element is sold separately. If there is not sufficient evidence of the fair value of the undelivered elements, no revenue is allocated to the delivered elements and the total consideration received is deferred until delivery of those elements for which objective and reliable evidence of the fair value is not available. We provide certain customers with extended service contracts and, to the extent VSOE is established, these service revenues are recognized ratably over the life of the contract which is generally one to four years.

Cash and Cash Equivalents

Our policy is to invest available cash in short-term, investment grade interest-bearing obligations, including money market funds, 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.

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, consumable products and overhead costs, are expensed as incurred. Our research activities are performed at our facility in Massachusetts in conjunction with our collaboration partner sites. In support of our research and development activities we utilize our Barocycler instruments that are capitalized as fixed assets and depreciated over their expected useful life.

Inventories

Inventories are valued at the lower of cost or market. The composition of inventory as of March 31, 2009 and December 31, 2008 is as follows:

PRESSURE BIOSCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2009

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Raw materials | $ 129,097 | $ 83,451 |
| Finished goods | 693,406 | 488,380 |
| Total | $ 822,503 | $ 571,831 |

Our finished goods inventory as of March 31, 2009 included 64 Barocycler instruments. Our finished goods inventory as of December 31, 2008 included 34 Barocycler instruments.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. 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 classified as fixed assets.

Intangible Assets

We have classified as intangible assets, costs associated with the fair value of acquired intellectual property. Intangible assets including patents are amortized on a straight-line basis over sixteen years. We perform a quarterly review of 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 was performed as of December 31, 2008 and we reviewed the analysis as of March 31, 2009. We have concluded that there is no impairment of intangible assets.

Long-Lived Assets and Deferred Costs

In accordance with FASB 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 performed an impairment test as of December 31, 2008 and we reviewed the analysis as of March 31, 2009. We have concluded that there is no impairment of long-lived assets.

Concentrations

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. We have cash investment policies which, among other things, limit investments to investment-grade securities. We perform ongoing credit evaluations of our customers, and the risk with respect to trade receivables is further mitigated by the fact that many of our customers are government institutions and university laboratories.

The following tables illustrate the level of concentration as a percentage of total revenues during the three months ended March 31, 2009 and 2008:

PRESSURE BIOSCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2009

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Top Five Customers | 67% | 84% |
| Federal Agencies | 28% | 40% |

The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of March 31, 2009 and December 31, 2008:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Top Five Customers | 73% | 81% |
| Federal Agencies | 8% | 1% |

Product Supply

Source Scientific, LLC has been our sole contract manufacturer for all of our PCT instrumentation. We have initiated several engineering initiatives to position us for greater independence from any one supplier, and we are developing a network of manufacturers and sub-contractors to reduce our reliance on any single supplier for PCT components. Until we develop a network of manufacturers and subcontractors, obtaining alternative sources of supply or manufacturing services could involve significant delays and other costs and challenges, and may not be available to us on reasonable terms, if at all. The failure of a supplier or contract manufacturer to provide sufficient quantities, acceptable quality and timely products at an acceptable price, or an interruption of supplies from such a supplier could harm our business and prospects.

Computation of Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed by dividing 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, convertible preferred stock, warrants to acquire preferred stock convertible into common stock, and options to acquire common stock are considered common stock equivalents in periods in which they have a dilutive effect. Stock options that are anti-dilutive are excluded from this calculation.

The following table illustrates our computation of loss per share for the three months ended March 31, 2009 and 2008:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Numerator: | | |
| Loss - basic and diluted | $ (224,246) | $ (1,341,105) |
| | | |
| Denominator: | | |
| Weighted average shares outstanding - basic and diluted | 2,195,283 | 2,192,175 |

| | | | | |
|---|---|---|---|---|
| Loss per share - basic and diluted | $ | (0.10) | $ | (0.61) |
| Shares excluded from calculations | | 5,352 | | 196,785 |

Accounting for Income Taxes

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109” (“FIN 48”).  FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes”.  This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

PRESSURE BIOSCIENCES, INC.
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AS OF MARCH 31, 2009

We account for income taxes under the asset and liability method, which requires recognition of deferred tax assets, subject to valuation allowances, and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of asset and liabilities for financial reporting and income tax purposes. A valuation allowance is established if it is more likely than not that all or a portion of the net deferred tax assets will not be realized.

In the quarter ended March 31, 2009, we recorded a benefit for income taxes of $623,262 due to provisions in the American Recovery and Reinvestment Act of 2009 relating to net operating loss carry-backs. The cash is expected to be received during the second half of 2009. There was no provision for an income tax benefit during the same period in 2008. Aside from the impact of the passage of this congressional act, we do not expect any additional income tax benefits relating to carry-backs to prior periods. If we are successful in commercializing PCT and in generating operating income, then we may be able to utilize any net operating losses we may have at the time against such future operating profits.

Accounting for Stock-Based Compensation

We maintain equity compensation plans under which grants of incentive stock options and non-qualified stock options are granted to employees, independent members of our Board of Directors and outside consultants. We recognize equity compensation expense over the requisite service period using the Black-Scholes formula to estimate the fair value of the stock options on the date of grant. Since January 1, 2006, we have accounted for our stock option expense in accordance with the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment", or SFAS 123R.

We recognized stock-based compensation expense of $145,903 and $118,205 for the three months ended March 31, 2009 and 2008, respectively. The following table summarizes the effect of this stock-based compensation expense within each of the line items of our costs and expenses within our Consolidated Statements of Operations:

| | For the Three Months Ended, March 31, | |
|---|---|---|
| | 2009 | 2008 |
| Research and development | $ 52,972 | $ 43,237 |
| Selling and marketing | 21,208 | 33,032 |
| General and administrative | 71,723 | 41,936 |
| Total stock-based compensation expense | $ 145,903 | $ 118,205 |

The provisions of SFAS 123R require that we make an estimate of our forfeiture rate and adjust the expense that we recognize to reflect the estimated number of stock options that will go unexercised. Our historical forfeiture rate has been approximately 5%, so we used this rate as our assumption in calculating future stock-based compensation expense.

During the three months ended March 31, 2009 and 2008, the total fair value of stock options awarded was $251,730 and $127,552, respectively.

As of March 31, 2009, the total estimated fair value of unvested stock options to be amortized over their remaining vesting period was $447,016. The non-cash, stock based compensation expense associated with the vesting of these options will be $231,282 in 2009, $175,170 in 2010 and $40,564 in 2011.

PRESSURE BIOSCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2009

Fair Value of Financial Instruments

Due to their short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to our current year presentation.

Advertising

Advertising costs are expensed as incurred. During the three months ended March 31, 2009 and 2008, we incurred $304 and $6,517 respectively in advertising expense.

Rent Expense

Rental costs are expensed as incurred. During the three months ended March 31, 2009 and 2008, we incurred $24,573 and $32,213, respectively in rent expense for the use of our corporate office and research and development facilities.

4) Commitments and Contingencies

Operating Leases

Our corporate offices are currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. In November 2007, we signed an 18 month lease agreement commencing in February 2008 pursuant to which we lease approximately 5,500 square feet of office space, with an option for an additional 12 months. We exercised the renewal option to extend the lease term for one year to end on July 14, 2010. We pay approximately $6,500 per month for the use of these facilities.

Effective January 1, 2009, we terminated our lease agreement with Scheer Partners and the Maryland Economic Development Corporation, pursuant to which we leased laboratory and office space in Rockville, MD. We paid approximately $3,300 per month for the use of these facilities through December 31, 2008 with no further obligation.

Effective January 31, 2009, we terminated our sub-lease agreement with Proteome Systems, pursuant to which we leased approximately 650 square feet of laboratory space plus 100 square feet of office space from Proteome Systems in Woburn, Massachusetts. We paid approximately $3,200 per month for the use of these facilities through January 31, 2009 with no further obligation.

In connection with the reduction of staff levels and consolidation of operations in Rockville, MD and Woburn, MA, the Company moved its research and development activities within Massachusetts.

Royalty Commitments

In 1996, we acquired our initial equity interest in BioSeq, Inc., which at the time was developing our original pressure cycling technology. BioSeq, Inc. acquired its pressure cycling technology from BioMolecular Assays, Inc. ("BMA") under a technology transfer and patent assignment agreement. In 1998, we purchased all of the remaining outstanding capital stock of BioSeq, Inc., and at such time, the technology transfer and patent assignment agreement was amended to require us to pay BioMolecular Assays, Inc. a 5% royalty on our sales of products or services that incorporate or utilize the original pressure cycling technology that BioSeq, Inc. acquired from BMA. We are also required to pay BMA 5% of the proceeds from any sale, transfer or license of all or any portion of the original pressure cycling technology. These payment obligations terminate in 2016. During the three months ended March 31, 2009 and 2008, we incurred $8,827 and $3,000, respectively in royalty expense associated with our obligation to BMA.

In connection with our acquisition of BioSeq, Inc., we licensed certain limited rights to the original pressure cycling technology back to BMA. This license is non-exclusive and limits the use of the original pressure cycling technology by BMA solely for molecular applications in scientific research and development and in scientific plant research and development. BMA is required to pay us a royalty equal to 20% of any license or other fees and royalties, but not including research support and similar payments, it receives in connection with any sale, assignment, license or other transfer of any rights granted to BMA under the license. BMA must pay us these royalties until the expiration of the patents held by BioSeq, Inc. in 1998, which we anticipate will be in 2016. We have not received any royalty payments from BMA under this license.

PRESSURE BIOSCIENCES, INC.
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Battelle Memorial Institute

In December 2008, we entered into an exclusive patent license agreement with the Battelle Memorial Institute ("Battelle"). The licensed technology is described in the patent application filed by Battelle on July 31, 2008 (US serial number 12/183,219). This application includes subject matter related to a method and a system for improving the analysis of protein samples, including through an automated, in-line system utilizing pressure and a pre-selected agent to obtain a digested sample in a significantly shorter period of time than current methods, while maintaining the integrity of the sample throughout the preparatory process. Pursuant to the terms of the agreement we paid Battelle a non-refundable initial fee. In addition to royalty payments on net sales on “licensed products”, we are obligated to make minimum royalty payments for each year that we retain the rights outlined in the patent license agreement and we are required to have our first commercial sale of the licensed products within one year following the issuance of the patent covered by the licensed technology.

Purchase Commitments

On September 18, 2008, we submitted a purchase order to Source Scientific, LLC, the manufacturer of the Company’s PCT Barocycler instrumentation, for 50 Barocycler NEP2320 units. Pursuant to the terms of the purchase order, we placed a deposit with Source Scientific, LLC, of approximately $100,000, representing approximately 25% of the expected total value of the order, upon submission of the purchase order. On November 12, 2008, we placed an additional deposit of approximately $100,000 with Source Scientific, LLC to provide them with funds required to commence manufacturing of the NEP2320 units ordered. The purchase price for the 50 Barocycler NEP2320 units is based upon a fixed bill of materials. We were billed for the unpaid purchase price of each unit at the time each unit was completed and ready for sale.

As of December 31, 2008 we had approximately $163,000 on deposit with Source Scientific, LLC for 40 remaining units pursuant to open purchase orders. In addition, in December 2008, we put the remaining $203,758 amount of the purchase order in an escrow account, which funds were to be released to pay the remaining balance due when units were completed. The amount held in escrow is included as a component within the line item Deposits on the Balance Sheet. As of March 31, 2009, we had no funds on deposit with Source Scientific, LLC because the remaining units pursuant to the purchase order were completed and received by the Company during the first quarter of 2009.

Indemnification

In connection with our sale of substantially all of the assets of Boston Biomedica, Inc. (“BBI Core Businesses”) to SeraCare Life Sciences, Inc. in September 2004, we continue to be exposed to possible indemnification claims in amounts up to the purchase price of approximately $29 million. Our indemnification obligations for breaches of some 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.

Severance and Change of Control Agreements

Each of our executive officers is entitled to receive a severance payment if terminated by the Company without cause. The severance benefits would include a payment in an amount equal to one year of each executive officer's annualized base salary compensation plus accrued paid time off. Additionally, each executive officer will be entitled to receive medical and dental insurance coverage for one year following the date of termination. The total commitment related to these agreements in the aggregate is approximately $1.0 million.

Each of our executive officers, other than Mr. Richard T. Schumacher, our President and Chief Executive Officer, is entitled to receive a change of control payment in an amount equal to one year of such executive officer's annualized base salary compensation, accrued paid time off, and medical and dental coverage, in the event of a change of control of the Company. In the case of Mr. Schumacher, this payment would be equal to two years of annualized base salary compensation, accrued paid time off, and two years of medical and dental coverage. The total commitment related to these agreements in the aggregate is approximately $1.3 million.

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5) Stockholders' Equity

Preferred Stock

In 1996, our Board of Directors authorized the issuance of 1,000,000 shares of preferred stock with a par value of $0.01. As of March 31, 2009, 156,980 of these shares have been issued.

On February 12, 2009, we completed a private placement, pursuant to which we sold an aggregate of 156,980 units for a purchase price of $11.50 per unit (the "Purchase Price"), resulting in gross proceeds to us of $1,805,270 (the "Private Placement"). Each unit consists of (i) one share of a newly created series of preferred stock, designated "Series A Convertible Preferred Stock," par value $0.01 per share (the "Series A Convertible Preferred Stock") convertible into 10 shares of our common stock, (ii) a warrant to purchase one share of Series A Convertible Preferred Stock at an exercise price equal to $12.50 per share, with a term expiring 15 months after the date of closing ("15 Month Preferred Stock Warrant"); and (iii) a warrant to purchase 10 shares of common stock at an exercise price equal to $2.00 per share, with a term expiring 30 months after the date of closing (the "30 Month Common Stock Warrants"). We did not pay any placement fees associated with this transaction but the expenses related to the offering totaled approximately $233,000.

The proceeds from the sale of each unit was allocated between the Series A Convertible Preferred Stock, the 15 Month Preferred Stock Warrant and the 30 Month Common Stock Warrant based on the relative estimated fair value of each security. The estimated fair value of the warrants were determined using the Black-Scholes formula, resulting in an allocation of the gross proceeds of $882,253 to the total warrants issued. The allocation of the gross proceeds to the Series A Convertible Preferred Stock was $923,017. In accordance with the provisions of Emerging Industry Task Force Issue 00-27: Application of Issue No. 98-5 to Certain Convertible Instruments, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of $489,803 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued.

Series A Convertible Preferred Stock

Each share of Series A Convertible Preferred Stock will receive a cumulative dividend at the rate of 5% per annum of the Purchase Price, payable semi-annually on June 30 and December 31, commencing on June 30, 2009 (with the first payment to be pro-rated based on the number of days occurring between the date of issuance and June 30, 2009). Dividends may be paid in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series A Convertible Preferred Stock also are entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of Series A Convertible Preferred Stock will be paid out of the assets of the Company available for distribution to the our stockholders before any payment shall be paid to the holders of common stock, an amount per share equal to the Purchase Price, plus accrued and unpaid dividends.

Each share of Series A Convertible Preferred Stock is convertible into 10 shares of common stock at any time at the option of the holder, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Conversion Ratio"). Unless waived under certain circumstances by the holder of Series A Convertible Preferred Stock, such holder's shares of Series A Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds. Each share of Series A Convertible Preferred Stock will automatically be converted into shares of common stock at the Conversion Ratio then in effect: (i) if, after 12 months from the closing of the Private Placement, the common stock trades on the Nasdaq Capital Market (or other primary trading market or exchange on which the common stock is then traded) at a price equal to $4.00 for 20 out of 30 consecutive trading days with average daily trading volume of at least 10,000 shares or (ii) upon a registered public offering by the Company at a per share price equal to $2.30 with aggregate gross proceeds to the Company of not less than $10 million.

The holders of Series A Convertible Preferred Stock are not entitled to vote on any matters presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), except that the holders of Series A Convertible Preferred Stock may vote separately as a class on any matters that would amend, alter or repeal any provision of our Restated Articles of Organization, as amended, in a manner that adversely affects the powers, preferences or rights of the Series A Convertible Preferred Stock and such holders may also vote on any matters required by law.

At any time after February 11, 2014, upon 30 days written notice, we have the right to redeem the outstanding shares of Series A Convertible Preferred Stock at a price equal to the Purchase Price, plus all accrued and unpaid dividends thereon.  The redemption price may be paid in two annual installments.

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Warrants

The warrants have the following exercise prices and terms: (i) the 15 Month Preferred Stock Warrants have an exercise price equal to $12.50 per share, with a term expiring on May 12, 2010; and (ii) the 30 Month Common Stock Warrants have an exercise price equal to $2.00 per share, with a term expiring on August 12, 2011. Unless waived under certain circumstances by the holder of the warrant, such holder's warrants may not be exercised if upon such exercise the holder's beneficial ownership would exceed certain thresholds.

Each of the 15 Month Preferred Stock Warrants and the 30 Month Common Stock Warrants permit the holder to conduct a "cashless exercise" at any time after the holder of the warrant becomes an "affiliate" (as defined in the Securities Purchase Agreement) of the Company.

The warrant exercise price and/or number of shares issuable upon exercise of the applicable warrant will be subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the warrants.

Subject to the terms and conditions of the applicable warrants, the Company has the right to call for cancellation of the 15 Month Preferred Stock Warrants if the volume weighted average price of our common stock on the Nasdaq Capital Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds $1.75 for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days. Subject to the terms and conditions of the 30 Month Common Stock Warrant, the Company has the right to call for cancellation the 30 Month Common Stock Warrant if the volume weighted average price for our common stock on the Nasdaq Capital Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds $2.80 for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

Common Stock

Shareholders Rights Plan

On March 3, 2003, our Board of Directors adopted a shareholder rights plan ("the Rights Plan") and declared a distribution of one Right for each outstanding share of our common stock to shareholders of record at the close of business on March 21, 2003 (the "Rights"). 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 our 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 which will only occur if a person or group acquires beneficial ownership of 15% or more of our 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 our common stock, the Rights will not become exercisable unless and until such person or group acquires beneficial ownership of additional shares of common stock.

Subject to certain limited exceptions, if a person or group acquires beneficial ownership of 15% or more of our 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 our 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 our common stock, we are acquired in a merger or other business combination transaction or 50% or more of our 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.

Our Board of Directors 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 our common stock, the Board of Directors may redeem the Rights in whole, but not in part, at a price of $0.001 per Right.

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Stock Options

On June 16, 2005, our stockholders approved our 2005 Equity Incentive Plan (the "Plan") pursuant to which an aggregate of 1,000,000 shares of our common stock were reserved for issuance upon exercise of stock options or other equity awards made under the Plan. On September 25, 2008, our stockholders approved an amendment to our 2005 Equity Incentive Plan pursuant to which the number of shares reserved for issuance upon exercise of stock options or other equity awards made under the plan was increased from 1,000,000 shares to 1,500,000 shares. Under the Plan, we may award stock options, shares of common stock, and other equity interests in the Company to employees, officers, directors, consultants, and advisors, and to any other persons the Board of Directors deems appropriate.

As of March 31, 2009, options to acquire 1,290,500 shares were outstanding under the Plan. We also have 244,000 stock options outstanding under our 1999 Non-qualified Plan. As of March 31, 2009, there were 4,800 shares available for future grant under the 1999 Non-qualified Plan.

The following tables summarize information concerning stock options and warrants outstanding and exercisable:

| | Stock Options | | Warrants | | | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average price per share | Shares | Weighted Average price per share | Total Shares | Exercisable |
| Balance outstanding, 12/31/2006 | 945,500 | $ 3.32 | - | | 945,500 | 524,000 |
| Granted | 200,000 | 4.09 | | | | |
| Exercised | - | | | | | |
| Expired | - | | | | | |
| Forfeited | (25,000) | 3.58 | | | | |
| Balance outstanding, 12/31/2007 | 1,120,500 | $ 3.45 | - | | 1,120,500 | 691,166 |
| Granted | 231,500 | 2.94 | | | | |
| Exercised | (3,000) | 3.25 | | | | |
| Expired | (1,500) | 3.25 | | | | |
| Forfeited | (125,001) | 4.01 | | | | |
| Balance outstanding, 12/31/2008 | 1,222,499 | $ 3.30 | - | | 1,222,499 | 932,334 |
| Granted | 450,000 | 0.77 | 3,139,600 | 1.63 | 3,589,600 | |
| Exercised | - | | | | | |
| Expired | - | | | | | |
| Forfeited | (137,999) | 3.40 | | | (137,999) | |
| Balance outstanding, 3/31/2009 | 1,534,500 | $ 2.55 | 3,139,600 | $ 1.63 | 4,674,100 | 4,175,947 |

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| | | Weighted Average | | | Weighted Average | |
| Range of Exercise Prices | Number of Options | Remaining Contractual | Exercise Price | Number of Options | Remaining Contractual | Exercise Price |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Life | | | | Life | | |
| $ 0.77 | - | $ | 2.70 | 669,000 | 7.7 | $ | 1.24 | 327,346 | 6.4 | $ 1.69 |
| 2.71 | - | | 3.08 | 319,500 | 5.9 | | 2.93 | 265,000 | 5.2 | 2.97 |
| 3.09 | - | | 3.95 | 302,000 | 7.2 | | 3.67 | 252,667 | 7.1 | |