

PRESSURE BIOSCIENCES INC  
Form 10-Q  
November 14, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21615

**PRESSURE BIOSCIENCES, INC.**

(Exact Name of Registrant as Specified in its Charter)

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

**04-2652826**  
(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.

Yes     No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Yes  No

The number of shares outstanding of the Issuer's common stock as of October 31, 2008 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)**

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
| <b><u>ASSETS</u></b>  |                       |                      |
| <b>CURRENT ASSETS</b>   |                       |                      |
| Cash and cash equivalents   | \$ 1,952,734          | \$ 5,424,486         |
| Accounts receivable   | 174,437               | 118,471              |
| Inventories   | 606,789               | 172,548              |
| Deposits  | 114,510               | 553,483              |
| Prepaid income taxes  | 6,600                 | 56,863               |
| Income tax receivable   | 251,261               | 249,541              |
| Prepaid expenses and other current assets   | 200,848               | 94,783               |
| Total current assets  | 3,307,179             | 6,670,175            |
| PROPERTY AND EQUIPMENT, NET   | 271,908               | 257,797              |
| <b>OTHER ASSETS</b>   |                       |                      |
| Intangible assets, net  | 291,816               | 328,290              |
| <b>TOTAL ASSETS</b>   | <b>\$ 3,870,903</b>   | <b>\$ 7,256,262</b>  |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |                       |                      |
| <b>CURRENT LIABILITIES</b>  |                       |                      |
| Accounts payable  | \$ 321,950            | \$ 152,729           |
| Accrued employee compensation   | 371,052               | 377,190              |
| Accrued professional fees and other expenses  | 177,274               | 186,840              |
| Income taxes payable  | 3,082                 | 4,519                |
| Deferred revenue  | 22,685                | 15,075               |
| Total current liabilities   | 896,043               | 736,353              |
| <b>LONG TERM LIABILITIES</b>  |                       |                      |
| Deferred revenue  | 10,650                | 6,767                |
| <b>TOTAL LIABILITIES</b>  | <b>906,693</b>        | <b>743,120</b>       |
| <b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>   |                       |                      |
| <b>STOCKHOLDERS' EQUITY</b>   |                       |                      |
| Preferred stock; 1,000,000 shares authorized; 0 outstanding   | -                     | -                    |
| Common stock, \$.01 par value; 20,000,000 shares authorized; 2,195,283 shares issued and outstanding on September 30, 2008 and 2,192,175 shares issued and outstanding on December 31, 2007 | 21,953                | 21,922               |
| Additional paid-in capital  | 6,745,614             | 6,284,616            |
| Retained (deficit) earnings   | (3,803,357)           | 206,604              |
| Total stockholders' equity  | 2,964,210             | 6,513,142            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 3,870,903</b>   | <b>\$ 7,256,262</b>  |

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<br>September 30, |                | For the Nine Months Ended<br>September 30, |              |
|---|---|----------------|--|--------------|
|   | 2008  | 2007           | 2008                                       | 2007         |
| <b>REVENUE:</b>   |   |                |  |              |
| PCT Products, services, other   | \$ 222,825                                  | \$ 106,787     | \$ 421,996                                 | \$ 281,084   |
| Grant revenue   | 42,837                                      | 31,265         | 96,226                                     | 190,715      |
| Total revenue   | 265,662                                     | 138,052        | 518,222                                    | 471,799      |
| <b>COSTS AND EXPENSES:</b>  |   |                |  |              |
| Cost of PCT products and services   | 130,533                                     | 42,276         | 267,416                                    | 131,558      |
| Research and development  | 376,552                                     | 519,303        | 1,329,155                                  | 1,518,851    |
| Selling and marketing   | 399,380                                     | 379,448        | 1,384,147                                  | 986,801      |
| General and administrative  | 466,883                                     | 578,238        | 1,603,803                                  | 1,683,782    |
| Total operating costs and expenses  | 1,373,348                                   | 1,519,265      | 4,584,521                                  | 4,320,992    |
| Operating loss from continuing operations   | (1,107,686)                                 | (1,381,213)    | (4,066,299)                                | (3,849,193)  |
| <b>OTHER INCOME:</b>  |   |                |  |              |
| Realized gain on securities available for sale  | -   | -              | -  | 2,028,720    |
| Interest income   | 9,481                                       | 75,732         | 56,338                                     | 227,816      |
| Total other income  | 9,481                                       | 75,732         | 56,338                                     | 2,256,536    |
| Loss from continuing operations before income taxes   | (1,098,205)                                 | (1,305,481)    | (4,009,961)                                | (1,592,657)  |
| Income tax benefit from continuing operations   | -   | 209,503        | -  | 253,539      |
| Loss from continuing operations   | (1,098,205)                                 | (1,095,978)    | (4,009,961)                                | (1,339,118)  |
| <b>DISCONTINUED OPERATIONS:</b>   |   |                |  |              |
| Gain on sale of net assets related to discontinued operations (net of income tax of \$218,060)  | -   | -              | -  | 1,155,973    |
| Net loss  | \$ (1,098,205)                              | \$ (1,095,978) | \$ (4,009,961)                             | \$ (183,145) |
| Loss per share from continuing operations - basic and diluted                                   | \$ (0.50)                                   | \$ (0.53)      | \$ (1.83)                                  | \$ (0.65)    |
| Income per share from discontinued operations - basic and diluted                               | -   | -              | -  | 0.56         |
| Net loss per share - basic and diluted  | \$ (0.50)                                   | \$ (0.53)      | \$ (1.83)                                  | \$ (0.09)    |
| Weighted average number of shares used to calculate (loss) income per share - basic and diluted | 2,195,283                                   | 2,065,425      | 2,193,692                                  | 2,065,425    |

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

**PRESSURE BIOSCIENCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(UNAUDITED )**

|  | For the Three Months Ended |                | For the Nine Months Ended |                |
|--|----------------------------|----------------|---------------------------|----------------|
|  | September 30,              |                | September 30,             |                |
|  | 2008                       | 2007           | 2008                      | 2007           |
| Net loss   | \$ (1,098,205)             | \$ (1,095,978) | \$ (4,009,961)            | \$ (183,145)   |
| Holding gain   | -                          | -              | -                         | (27,479)       |
| Reclassification of unrealized gain to realized gain on securities during the period | -                          | -              | -                         | (2,028,720)    |
| Unrealized loss on marketable securities   | -                          | -              | -                         | (2,056,199)    |
| Income tax benefit related to items of other comprehensive loss                      | -                          | -              | -                         | 671,323        |
| Total other comprehensive loss, net of taxes   | -                          | -              | -                         | (1,384,876)    |
| Comprehensive loss   | \$ (1,098,205)             | \$ (1,095,978) | \$ (4,009,961)            | \$ (1,568,021) |

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



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

|  | <b>For the Nine Months Ended<br/>September 30,</b> |                |
|--|--|----------------|
|  | <b>2008</b>  | <b>2007</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |  |                |
| Net loss   | \$ (4,009,961)                                     | \$ (183,145)   |
| Less gain on sale of discontinued operations                                   | -  | (1,155,973)    |
| Loss from continuing operations  | \$ (4,009,961)                                     | \$ (1,339,118) |
| Adjustments to reconcile net loss to net cash used in operating activities:    |  |                |
| Depreciation and amortization  | 154,320  | 130,436        |
| Stock-based compensation expense   | 451,279  | 252,469        |
| Realized gain on sale of marketable securities                                 | -  | (2,028,720)    |
| Changes in operating assets and liabilities:                                   |  |                |
| Accounts receivable  | (55,966)   | (37,647)       |
| Inventories  | (434,241)  | (218,451)      |
| Deposits   | 438,973  | (354,203)      |
| Accounts payable   | 169,221  | 86,570         |
| Accrued employee compensation  | (6,138)  | 38,220         |
| Deferred revenue and other accrued expenses                                    | 1,927  | (18,026)       |
| Prepaid expenses and other current assets and other current liabilities        | (58,959)   | 465,221        |
| Net cash used in operating activities from continuing operations               | (3,349,545)  | (3,023,249)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |  |                |
| Additions to property and equipment  | (131,957)  | (120,039)      |
| Proceeds from sale of marketable securities                                    | -  | 2,033,397      |
| Net cash (used in) provided by investing activities from continuing operations | (131,957)  | 1,913,358      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |  |                |
| Proceeds from the issuance of common stock                                     | 9,750  | -              |
| Net cash provided by financing activities from continuing operations           | 9,750  | -              |
| <b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>                                |  |                |
| Cash flows from investing activities   | -  | 1,780,071      |
| Net cash provided by discontinued operations                                   | -  | 1,780,071      |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS:</b>                                    |  |                |
|  | (3,471,752)  | 670,180        |
| Cash and cash equivalents, beginning of period                                 | 5,424,486  | 5,335,282      |
| Cash and cash equivalents, end of period                                       | \$ 1,952,734                                       | \$ 6,005,462   |
| <b>SUPPLEMENTAL INFORMATION:</b>   |  |                |
| Income taxes paid  | \$ 2,790   | \$ 20,800      |
| Income taxes received  | 49,798   | 723,801        |

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



**PRESSURE BIOSCIENCES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER 30, 2008**

**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 internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures to rapidly and repeatedly control the interactions of bio-molecules. Our instrument, the Barocycler®, and our internally developed consumables product line, which includes PULSE (Pressure Used to Lyse Samples for Extraction) Tubes as well as application specific kits, which include consumable products and reagents, together 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 September 30, 2008, we had a cash balance of approximately \$1.9 million. In July 2008, we implemented a number of cost reduction initiatives, including the delay of certain research and development projects, 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, and a reduction in our workforce which included the re-alignment of our sales force from seven full time sales directors to three. We have also delayed the hiring of new personnel to fill previously vacated positions. We believe that implementing such changes to our business plan allow us to extend our existing cash balances through the first quarter of 2009.

We need substantial additional capital to fund our current operations beyond the first quarter of 2009. While we are in discussions with potential investors, to date we have been unable to secure additional equity or debt financing on acceptable terms. If we remain unable to secure additional financing in the near-term, we expect to implement a number of additional cost reduction initiatives, such as further reductions in the cost of our workforce and the discontinuation of a number of business initiatives to further reduce our rate of cash utilization and extend our existing cash balances. We believe that these additional cost reduction initiatives, if undertaken, will provide us with additional time to continue our pursuit of additional funding sources and also strategic alternatives. In the event that we are unable to obtain financing on acceptable terms, we may be required to limit or cease our operations, pursue a plan to sell our operating assets, or otherwise modify our business strategy, which could materially harm our future business prospects. The accompanying financial statements are prepared on the basis that the Company will continue to operate as a going concern, and does not reflect any adjustments to reflect a possible liquidation or sale of the Company.

**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 and with the instructions to the Quarterly Report on Form 10-Q. 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 and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007.

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, and in our calculation of fair value of stock options awarded. 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 SEPTEMBER 30, 2008**

*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 Barocyler 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 Barocyler 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 Barocyler 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 Barocyler 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 that are expensed as incurred. Our research activities are performed at our laboratories in Woburn, Massachusetts and Rockville, Maryland and in conjunction with the 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.

**PRESSURE BIOSCIENCES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER 30, 2008**

*Inventories*

Inventories are valued at the lower of cost or market. The composition of inventory as of September 30, 2008 and December 31, 2007 is as follows:

|                | September 30,<br>2008 | December 31,<br>2007 |
|----------------|-----------------------|----------------------|
| Raw materials  | \$ 88,097             | \$ 28,115            |
| Finished goods | 518,692               | 144,433              |
| Total          | \$ 606,789            | \$ 172,548           |

Our finished goods inventory as of September 30, 2008 included 32 Barocycler instruments. Our finished goods inventory as of December 31, 2007 included 8 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, 2007 and we reviewed the analysis as of September 30, 2008. 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, 2007 and we reviewed the analysis as of September 30, 2008. 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.

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**PRESSURE BIOSCIENCES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER 30, 2008**

The following tables illustrate the level of concentration as a percentage of total revenues during the three and nine months ended September 30, 2008 and 2007:

|                    | For the Three Months Ended |      |
|--------------------|----------------------------|------|
|                    | September 30,              |      |
|                    | 2008                       | 2007 |
| Top Five Customers | 79%                        | 97%  |
| Federal Agencies   | 31%                        | 51%  |

|                    | For the Nine Months Ended |      |
|--------------------|---------------------------|------|
|                    | September 30,             |      |
|                    | 2008                      | 2007 |
| Top Five Customers | 62%                       | 70%  |
| Federal Agencies   | 27%                       | 70%  |

The following table illustrates the level of concentration as a percentage of total accounts receivable balance as of September 30, 2008 and December 31, 2007:

|                    | September 30, | December 31, |
|--------------------|---------------|--------------|
|                    | 2008          | 2007         |
| Top Five Customers | 85%           | 94%          |
| Federal Agencies   | 4%            | 41%          |

*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 in the process of developing a network of manufacturers and sub-contractors to reduce our reliance on any single supplier. 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, stock options 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 and nine months ended September 30, 2008 and 2007:

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|   | For the Three Months Ended<br>September 30, |                | For the Nine Months Ended<br>September 30, |                |
|---|---|----------------|--|----------------|
|   | 2008  | 2007           | 2008                                       | 2007           |
| <b>Numerator:</b>   |   |                |  |                |
| Loss from continuing operations - basic and diluted           | \$ (1,098,205)                              | \$ (1,095,978) | \$ (4,009,961)                             | \$ (1,339,118) |
| <b>Denominator:</b>   |   |                |  |                |
| Weighted average shares outstanding - basic and diluted       | 2,195,283                                   | 2,065,425      | 2,193,692                                  | 2,065,425      |
| Loss per share from continuing operations - basic and diluted | \$ (0.50)                                   | \$ (0.53)      | \$ (1.83)                                  | \$ (0.65)      |
| Shares excluded from calculations                             | 28,975                                      | 167,757        | 124,879                                    | 170,024        |

*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.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF SEPTEMBER 30, 2008**

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.

*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 \$81,285 and \$99,876 for the three months ended September 30, 2008 and 2007, 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, September 30, |           |
|--|---|-----------|
|  | 2008                                      | 2007      |
| Cost of PCT products and services      | -   | \$ 1,759  |
| Research and development               | 34,262                                    | 36,023    |
| Selling and marketing                  | 11,823                                    | 19,698    |
| General and administrative             | 35,200                                    | 42,396    |
| Total stock-based compensation expense | \$ 81,285                                 | \$ 99,876 |

We recognized stock-based compensation expense of \$451,279 and \$252,469 for the nine months ended September 30, 2008 and 2007, 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 Nine Months Ended, September 30, |            |
|--|--|------------|
|  | 2008                                     | 2007       |
| Cost of PCT products and services      | \$ -                                     | \$ 4,746   |
| Research and development               | 131,132                                  | 100,450    |
| Selling and marketing                  | 87,055                                   | 39,191     |
| General and administrative             | 233,092                                  | 108,082    |
| Total stock-based compensation expense | \$ 451,279                               | \$ 252,469 |

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 September 30, 2008 and 2007, the total fair value of stock options awarded was \$147,757 and \$79,295, respectively. During the nine months ended September 30, 2008 and 2007, the total fair value of stock options awarded was \$375,865 and \$460,617, respectively.

As of September 30, 2008, the total estimated fair value of unvested stock options to be amortized over their remaining vesting period was \$491,885. The non-cash, stock based compensation expense associated with the vesting of these options will be \$99,318 in 2008, \$246,874 in 2009, \$110,079 in 2010 and \$35,614 in 2011.

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**PRESSURE BIOSCIENCES, INC.**  
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*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.

*Investment in Marketable Securities*

As of September 30, 2008, we had no investments in marketable securities. During the nine months ended September 30, 2007, we sold our remaining 513,934 shares of Panacos Pharmaceuticals, Inc. to generate a realized gain of \$2,028,720, on proceeds of \$2,033,397. During 2007, we accounted for this investment in accordance with the provisions of SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities" as securities available for sale.

*Advertising*

Advertising costs are expensed as incurred. During the three months ended September 30, 2008 and 2007, we incurred \$21,354 and \$9,436 respectively in advertising expense. During the nine months ended September 30, 2008 and 2007, we incurred \$47,456 and \$24,897 respectively in advertising expense.

*Rent Expense*

Rental costs are expensed as incurred. During the three months ended September 30, 2008 and 2007, we incurred \$39,896 and \$21,620, respectively in rent expense for the use of our corporate office and research and development facilities. During the nine months ended September 30, 2008 and 2007, we incurred \$111,614 and \$63,058, respectively in rent expense for the use of our corporate office and research and development facilities.

**4) Discontinued Operations**

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 owned 35% and we owned the remaining 30% of Source Scientific, LLC. Under the Source Scientific Agreement, we 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 offered Mr. Henson and Mr. Sargeant the option ("the Option") to purchase our 30% ownership interest in Source Scientific, LLC until May 31, 2007, at an escalating premium (10-50%) over our initial ownership value, provided that they first paid off the Notes in their entirety.

On May 29, 2007, we executed a consent agreement with Mr. Henson and Mr. Sargeant, Source Scientific LLC, and BIT Analytical Instruments, Inc. ("the Consent Agreement") pursuant to which the Notes were repaid in full in the

aggregate amount of \$1,201,534 in principal and interest, and Mr. Henson and Mr. Sargeant exercised their Option (through BIT Analytical Instruments, Inc.) to purchase our remaining 30% ownership interest in Source Scientific, LLC for an aggregate price of \$578,573. As a result of these transactions we no longer retained any direct or indirect ownership interest in Source Scientific, LLC.

Upon execution of the Consent Agreement we accounted for the total gain on the sale of our ownership interests in Source Scientific, LLC as discontinued operations. During the three and nine months ended September 30, 2007, we recorded a gain on sale of net assets related to discontinued operations, net of income tax of \$1,534,476 and \$1,155,973, respectively.

**5) 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 18 months. We pay approximately \$6,500 per month for the use of these facilities.

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On June 1, 2006, we entered into a lease agreement with Scheer Partners and the Maryland Economic Development Corporation, pursuant to which we lease laboratory and office space in Rockville, MD. In August 2007, we extended this lease agreement through May 31, 2009. We pay approximately \$3,300 per month for the use of these facilities.

On March 1, 2006, we entered into a sub-lease agreement with Proteome Systems, pursuant to which we lease approximately 650 square feet of laboratory space plus 100 square feet of office space from Proteome Systems in Woburn, Massachusetts. The lease period extends through December 31, 2008 and we pay approximately \$3,200 per month for the use of these facilities.

*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 September 30, 2008 and 2007, we incurred approximately \$10,236 and \$5,518, respectively in royalty expense associated with our obligation to BMA. During the nine months ended September 30, 2008 and 2007, we incurred approximately \$18,687 and \$14,021, 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.

*Purchase Commitments*

On September 18, 2008, we submitted a purchase order to Source Scientific, LLC, the manufacturer of the Company's PCT Barocyler instrumentation, for 50 Barocyler 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 Barocyler NEP2320 units is based upon a fixed bill of materials. We expect that the NEP2320 units will be completed and ready for sale to our customers during the first quarter of 2009, we will be billed for the unpaid purchase price of each unit at the time each unit is completed and ready for sale. As of December 31, 2007 we had \$379,000 on deposit with Source for 54 remaining units pursuant to open purchase orders.

*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.



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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.

**6) 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 September 30, 2008 none of these shares have been issued.

*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.

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 September 30, 2008, options to acquire 989,500 shares were outstanding under the Plan.

**PRESSURE BIOSCIENCES, INC.**  
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We also have 244,000 stock options outstanding under our 1999 Non-qualified Plan and 6,500 stock options outstanding under our 1994 Incentive Stock Option Plan. As of September 30, 2008, there were 4,800 shares available for future grant under the 1999 Non-qualified Plan. The 1994 Incentive Stock Option Plan expired; therefore, there are no shares available for future grants under this plan.

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

|                                    | Shares    | Weighted<br>Average price<br>per share | Exercisable | Weighted<br>Average price<br>per share |
|------------------------------------|-----------|--|-------------|--|
| Balance outstanding,<br>12/31/2007 | 1,120,500 | \$ 3.45                                | 691,166     | \$ 3.23                                |
| Granted                            | 171,500   | 3.60                                   |             |  |
| Exercised                          | (3,000)   | 3.25                                   |             |  |
| Expired                            | -         |  |             |  |
| Forfeited                          | (49,000)  | 4.56                                   |             |  |
| Balance outstanding, 9/30/2008     | 1,240,000 | \$ 3.43                                | 929,834     | \$ 3.35                                |

| Range of Exercise<br>Prices | Number of<br>Options | Options Outstanding |                                       | Options Exercisable |                                       |
|-----------------------------|----------------------|---------------------|---------------------------------------|---------------------|---------------------------------------|
|                             |                      | Contractual<br>Life | Weighted Average<br>Exercise<br>Price | Contractual<br>Life | Weighted Average<br>Exercise<br>Price |
| \$2.50 - \$2.70             | 159,000              | 3.9                 | \$ 2.64                               | 159,000             | \$ 2.64                               |
| 2.71 - 3.08                 | 427,500              | 6.7                 | 2.92                                  | 343,000             | 2.96                                  |
| 3.09 - 3.95                 | 381,500              | 7.6                 | 3.71                                  | 245,500             | 3.71                                  |
| 3.96 - 5.93                 | 272,000              | 8.2                 | 4.30                                  | 182,334             | 4.19                                  |
| \$2.50 - \$5.93             | 1,240,000            | 7.0                 | \$ 3.43                               | 929,834             | \$ 3.35                               |

The aggregate intrinsic value of options outstanding and exercisable as of September 30, 2008 and December 31, 2007 is illustrated in the table below:

|                               | September 30,<br>2008 | December 31,<br>2007 |
|-------------------------------|-----------------------|----------------------|
| Stock options,<br>outstanding | \$ -                  | \$ 2,162,565         |
| Stock options,<br>exercisable | -                     | 1,486,007            |

Sale of Common Stock

On November 21, 2007, we completed a private placement pursuant to which we sold an aggregate of 126,750 shares of common stock, \$0.01 par value (the "Shares"), for a purchase price of \$5.00 per share, resulting in gross proceeds to us of approximately \$633,750 (the "Private Placement"). The Shares were issued and sold to a total of 8 accredited investors pursuant to a Securities Purchase Agreement entered into as of November 21, 2007 (the "Securities Purchase Agreement").

The Shares were issued in the Private Placement without registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon the exemption from registration set forth in Rule 506 of Regulation D (“Regulation D”) promulgated under the Securities Act. We based such reliance upon representations made by each purchaser of Shares, including, but not limited to, representations as to the purchaser’s status as an “accredited investor” (as defined in Rule 501(a) under Regulation D) and the purchaser’s investment intent. The Shares were not offered or sold by any form of general solicitation or general advertising, as such terms are used in Rule 502 under Regulation D. The Shares may not be offered or sold in the United States absent an effective registration statement or an exemption from the registration requirements under applicable federal and state securities laws.

In connection with the Private Placement, we filed a Registration Statement on Form S-3 (the “Registration Statement”) covering the resale of the Shares purchased in the Private Placement, which became effective on January 22, 2008.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS*

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In some cases, forward-looking statements are identified by terms such as “may”, “will”, “should”, “could”, “would”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “projects”, “predicts”, “potential”, and similar expressions intended to identify forward-looking statements. Such statements include, without limitation, statements regarding:

- our ability to raise additional equity or debt financing on acceptable terms, if at all;
- our belief that we have sufficient liquidity to finance our current operations through the end of the first quarter of 2009 due to certain cost reduction initiatives we have undertaken;
- our need to take additional cost reduction measures, cease operations or sell our operating assets, if we are unable to obtain additional financing in the near-term;
- the amount of cash necessary to operate our business;
- our plans and expectations with respect to our pressure cycling technology (PCT) operations, including our expected amount of research and development, selling and marketing and general and administrative expense;
- the anticipated timing of commencement and completion of our recently placed purchase order for 50 Barocycler NEP2320 units;
- potential applications and growth for our PCT products;
- market acceptance and the potential for commercial success of our PCT products;
- the expected development and success of new product offerings;
- the expected benefits and results from our research and development efforts;
- the expected benefits and results from our collaboration program;
- the anticipated uses of grant revenue and our expectation of increased grant revenue in future periods;
- general economic conditions; and
- the anticipated future financial performance and business operations of our company.

These forward-looking statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Report to reflect any change in our expectations or any change in events, conditions, or circumstances on which any of our forward-looking statements are based or to conform to actual results.

Factors that could cause or contribute to differences in our future financial and operating results include those discussed in the risk factors set forth in Item 6 of our Annual Report on Form 10-K for the year ended December 31, 2007, as well as those discussed elsewhere in this Report, including the following:

#### **If we fail to obtain substantial additional capital, we may not be able to continue our business.**

Our business will be harmed if we are unable to secure substantial additional capital to fund our current operations beyond the first quarter of 2009. While we are in discussions with potential investors, to date we have been unable to secure additional equity or debt financing on acceptable terms. If we remain unable to secure additional financing in the near-term, we expect to implement a number of additional cost reduction initiatives, such as further reductions in

the cost of our workforce and the discontinuation of a number of business initiatives to further reduce our rate of cash utilization and extend our existing cash balances. We believe that these additional cost reduction initiatives, if undertaken, will provide us with additional time to continue our pursuit of additional funding sources and also strategic alternatives. If adequate funds are not available to us on satisfactory terms, we will be required to limit or cease our operations, or otherwise modify our business strategy, which could materially harm our future business prospects. If we are able to obtain additional funds by selling any of our equity securities, the percentage ownership of our stockholders will be reduced, stockholders may experience substantial dilution, the price of our common stock may decline, or the equity securities issued may have rights, preferences or privileges senior to the common stock.

**Our actual results and performance, including our ability to raise additional capital, may be adversely affected by current economic conditions.**

Our actual results and performance could be adversely affected by the current economic conditions in the global economy, which pose a risk to the overall demand for our products from our customers who may elect to defer or cancel purchases of our products in response to tighter credit markets, negative financial news and general uncertainty in the economy. In addition, our ability to obtain additional financing, on acceptable terms, if at all, may be adversely affected by the crisis in the credit markets and the uncertainty in the current economic climate.

We qualify all of our forward-looking statements by these cautionary statements. You should read this section in combination with the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007 included in our Annual Report on Form 10-K for the year ended December 31, 2007.

## **OVERVIEW**

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 internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures to rapidly and repeatedly control the interactions of bio-molecules. Our instrument, the Barocycler®, and our internally developed consumables product line, which includes PULSE (Pressure Used to Lyse Samples for Extraction) Tubes as well as application specific kits, which include consumable products and reagents, together make up the PCT Sample Preparation System (“PCT SPS”).

Our pressure cycling technology employs a unique approach that we believe has the potential for broad applications in a number of established and emerging life sciences areas, including;

- sample preparation for genomic, proteomic, metabolomic, lipidomic, and small molecule studies;
- pathogen inactivation;
- protein purification;
- control of chemical (enzymatic) reactions; and
- immunodiagnostics.

Since we began operations as Pressure BioSciences in February 2005, we have focused substantially all of our research and development and commercialization efforts on sample preparation for genomic, proteomic, metabolomic, lipidomic, and small molecule studies.

Our business strategy is to commercialize pressure cycling technology in the area of sample preparation for genomic, proteomic, metabolomic, lipidomic, and small molecule studies (“sample preparation”). We also plan to pursue the further development and commercialization of PCT in other life sciences applications, which could include working with various strategic partners that have greater scientific and regulatory expertise in the respective applications than we do.

To support our current strategy, our primary focus is the execution of our commercialization plan for PCT in sample preparation. If we are successful commercializing our technology in the sample preparation market, we believe that our financial results will be positively affected by a combination of the revenue from the sale, lease, and rental of the Barocycler instruments, and by the recurring revenue streams that we hope to realize from the sale of the single-use PULSE Tubes, PCT-dependent kits, and extended service contracts on our instrumentation. We believe the recurring revenue streams that could be generated from our instruments in the field are a very important component of our future financial success. Therefore, we believe that in the short-term it is more important for us to focus on increasing the number of installed Barocyclers in the field than it is for us to record revenue in the current period. To this end, we have offered our prospective customers the opportunity to lease or rent the Barocycler instruments, and in some cases we have engaged in short-term reagent rental agreements. Under a reagent rental agreement we provide the customer with a Barocycler instrument in exchange for a minimum purchase commitment of consumable products. While these lease, rental and reagent rental arrangements do not provide us with the immediate revenue of an instrument sale, they do serve to expand the utilization of PCT and they provide a stream of revenue in the form of rental payments and consumable purchases. We define sales, leases, rentals and reagent rentals of Barocycler instruments as revenue-generating installations.

We also derive revenue from Small Business Innovation Research (“SBIR”) grants awarded to us by the National Institutes of Health (NIH). Since we began our operations as Pressure BioSciences, we have been awarded two SBIR Phase I grants in the aggregate amount of \$300,000, and one SBIR Phase II grant, in the amount of \$850,000. These



grants have funded experiments to demonstrate the feasibility of using pressure cycling technology in various applications in the life sciences. We have several SBIR Phase I and II grants under review at the present time. Our \$850,000 SBIR Phase II grant was awarded to us in June 2008, and is to be billed over two years. This grant will help fund continuing experiments directed towards the development and commercialization of novel, automated, and reproducible methods for the extraction of clinically important protein biomarkers, sub-cellular molecular complexes, and organelles (such as mitochondria) from cells and tissues using the our patented pressure cycling technology.

In furtherance of our commercialization strategy, throughout 2007 and early 2008 we increased spending in all major areas of our business. Although we continued to receive very positive feedback from our prospective customers our commercialization plans had not developed as quickly as we had hoped and our revenues in the first half of 2008 failed to meet our internal expectations. The underperformance of our sales, relative to our internal plans, combined with our view of the unfavorable condition of the capital markets prompted us to implement a number of cost reduction initiatives, in July 2008. These cost reduction initiatives include the delay of certain research and development projects, 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, and a reduction in our workforce which included the re-alignment of our domestic sales force from seven full time sales directors to three. We have also delayed the hiring of new personnel to fill previously vacated positions. We believe that implementing such changes to our business plan allow us to extend our existing cash balances through the first quarter of 2009.

We need substantial additional capital to fund our current operations beyond the first quarter of 2009. To provide us with some flexibility in structuring the terms of potential financings, in accordance with Nasdaq Marketplace Rule 4350(i)(1)(D), we obtained approval from our stockholders at our special meeting in lieu of an annual meeting held on September 25, 2008 to issue, in connection with one or more capital raising transactions, up to 4,500,000 shares of common stock (including pursuant to preferred stock, options, warrants, convertible debt or other securities exercisable for or convertible into common stock), upon such terms as our Board of Directors shall deem to be in the best interests of our company, for an aggregate consideration of not more than \$18,000,000 in cash and at a price not less than 80% of the market price of the our common stock at the time of issuance, such issuances of common stock or other securities exercisable for or convertible into common stock to occur, if at all, in the three month period commencing with the date of the stockholder approval.

In June 2008, we engaged Emerging Growth Equities, Ltd (“EGE”), an investment banking firm located in King of Prussia, PA, to assist us in identifying potential and suitable investors in a private placement of our securities. To date, they have not been successful in raising any funds for us. In October 2008, we revised the terms of our engagement with EGE to reduce their fees from 3% in cash and 3% in warrants, to 0% cash and 0% warrants, on any funds that the Company raises, without the help of EGE.

While we are in discussions with potential investors, to date we have been unable to secure additional equity or debt financing on acceptable terms. If we remain unable to secure additional financing in the near-term, we expect to implement a number of additional cost reduction initiatives, such as further reductions in the cost of our workforce and the discontinuation of a number of business initiatives to further reduce our rate of cash utilization and extend our existing cash balances. We believe that these additional cost reduction initiatives, if undertaken, will provide us with additional time to continue our pursuit of additional funding sources and also strategic alternatives. In the event that we are unable to obtain financing on acceptable terms, we may be required to limit or cease our operations, pursue a plan to sell our operating assets, or otherwise modify our business strategy, which could materially harm our future business prospects.

## **RESULTS OF OPERATIONS**

### **Three Months Ended September 30, 2008 and 2007**

#### *Revenue*

We recognized revenue of \$265,662, for the three months ended September 30, 2008, as compared to \$138,052 for the same period in the prior year.

*PCT Products, Services, Other.* Revenue from the sale of PCT products and services was \$222,825 for the three months ended September 30, 2008 as compared to \$106,787 for the same period in the prior year. During the third quarter of 2008 we completed the installation of 17 Barocyler instruments, as compared to eight in the same period of 2007. During the third quarter of 2008, eight of the installations that we completed were sales to our international distributors, as compared to four in the same period of 2007. The increase in revenue was due to this increase in the number of Barocyler units sold during the period and an increase in rental revenue from units previously installed under lease or rental agreements, partially offset by minimal decreases in consumable and extended service contract revenues.

We expect the number of units installed will continue to increase in future periods as we continue to commercialize our technology, although we may experience some delays in customer purchases due to current economic conditions in the global economy. Furthermore, we may realize some difficulties in signing up new international distribution partners if we are unable to secure additional funding through equity or debt financings. We also expect that some portion of future installations will continue to be for the smaller, lower priced, Barocyler NEP2320 model and some will be placed under lease or short-term rental agreements. Therefore, we expect that the average revenue per installation will continue to fluctuate from period to period as we continue to drive our installed base and commercialize PCT. We also expect that as we continue to expand the installed based of Barocyler instruments in the field we will realize increasing revenues from the sale of consumable products and extended service contracts. In the short-term, these recurring revenue streams may continue to fluctuate from period to period.

*Grant revenue.* During the three months ended September 30, 2008 and 2007, we recorded \$42,837 and \$31,265 of grant revenue, respectively. The grant revenue recorded during the third quarter of 2008 was entirely related to the \$850,000 SBIR Phase II grant that we were awarded in June 2008. We expect grant revenues to increase over the next several quarters as the amount of time and expense incurred in connection with this Phase II grant continues to increase. The level of grant revenue that we recognize in any given quarter is dependent upon the level of resources we devote to grant related work in the period.

#### *Cost of PCT Products and Services*

The cost of PCT products and services was \$130,533 for the three months ended September 30, 2008 compared to \$42,276 for the comparable period in 2007. This increase in cost of PCT products and services is due primarily to the increase in the number of units installed under sale, lease or rental arrangements during the period. Costs of PCT products and services as a percentage of revenue increased from 40.0% to 58.6% for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase in the cost of PCT products and services as a percentage of revenue was due primarily to two factors; eight of the seventeen units that we installed during the third quarter of 2008 were sold to our international distributors at discounted prices, and, four of the Barocyler units that we sold during the third quarter of 2007 were prototype NEP2320 units that had been previously expensed, in the research and development line within our consolidated statement of operations, as they were developed and built.

The relationship between our cost of PCT products and services and PCT revenue will depend greatly on the mix of instruments we sell, the quantity of such instruments, and the mix of consumable products that we sell in a given period.

*Research and Development*

Research and development expenditures decreased to \$376,552 in the third quarter of 2008 as compared to \$519,303 in the same period in 2007. During the third quarter of 2008 we delayed certain engineering initiatives to reduce our overall operating expense. During the same period in 2007 we incurred substantial costs related to the development of prototype NEP2320 instrumentation.

Research and development expense recognized in the third quarter of 2008 and 2007 included \$34,262 and \$36,023, respectively, of non-cash, stock-based compensation expense. We expect the level of stock-based compensation expense for the fourth quarter of 2008 to be higher than the amount recorded during the third quarter of 2008 due to a grant of stock options to employees and directors at the end of the third quarter of 2008.

We will need to reduce our expenses in all areas of our operations, including research and development, if we are unable to raise additional capital.

### *Selling and Marketing*

Selling and marketing expenses increased to \$399,380 for the three months ended September 30, 2008 from \$379,448 for the comparable period in 2007. This increase in selling and marketing expense was primarily the result of our increase in the size of our domestic sales force, the addition of a Vice President of Sales in February 2008, and the continued emphasis on strategic marketing programs.

During the third quarter of 2008 and 2007, selling and marketing expense included \$11,823 and \$19,698, respectively, of non-cash, stock-based compensation expense. We expect the level of stock-based compensation expense for the fourth quarter of 2008 to be higher than the amount recorded during the third quarter of 2008 due to a grant of stock options to employees and directors at the end of the third quarter of 2008.

We will need to reduce our expenses in all areas of our operations, including selling and marketing, if we are unable to raise additional capital.

### *General and Administrative*

General and administrative costs totaled \$466,883 for the three months ended September 30, 2008, as compared to \$578,238 for the comparable period in 2007. The decrease is due to an overall decrease in investor relations spending and our Sarbanes-Oxley compliance costs, partially offset by an increase in legal costs related to general SEC compliance and patent and trademark work that was performed during the quarter.

During the third quarter of 2008 and 2007, general and administrative expense included \$35,200 and \$42,396, respectively, of non-cash, stock-based compensation expense. We expect the level of stock-based compensation expense for the fourth quarter of 2008 to be higher than the amount recorded during the third quarter of 2008 due to a grant of stock options to employees and directors at the end of the third quarter of 2008.

We will need to reduce our expenses in all areas of our operations, including general and administrative, if we are unable to raise additional capital.

### *Operating Loss from Continuing Operations*

Our operating loss from continuing operations was \$1,107,686 for the three months ended September 30, 2008 as compared to an operating loss from continuing operations of \$1,381,213 for the comparable period in 2007. The decrease in the operating loss that we reported was due to our cost cutting measures that we initiated in July 2008 and the increase in revenue recorded.

We will need to reduce our expenses in all areas of our operations if we are unable to raise additional capital.

### *Interest Income*

Interest income totaled \$9,481 for the three months ended September 30, 2008 as compared to interest income of \$75,732 in the prior year period. The decrease is due to lower average cash balances and lower yields on these balances during the third quarter of 2008, as compared to the third quarter of 2007.

### *Income Taxes from Continuing Operations*

In the quarter ended September 30, 2008, we did not record a benefit for income taxes from continuing operations. During the same period in 2007, we recorded a benefit for income taxes of \$209,503.

We do not expect to record any income tax benefit for the foreseeable future due to the fact that we are no longer able to carry back current losses against taxable income from prior periods and because we expect our operating losses to continue for several years. If we are successful commercializing PCT and if we are able to generate operating income, then we may be able to utilize the net operating loss carry-forwards that we generate.

*Net loss*

During the third quarter of 2008 we recorded a net loss of \$1,098,205 as compared to a net loss of \$1,095,978 in the third quarter of 2007. While our overall level of operating costs in the third quarter of 2008 was lower than the spending incurred during the third quarter of 2007, these costs were not offset by the benefit from income taxes, during 2008, as was the case in 2007. We expect our net loss for the full year of 2008 to be higher than the net loss reported for the full year in 2007.

## **Nine Months Ended September 30, 2008 and 2007**

### *Revenue*

We recognized revenue of \$518,222, for the nine months ended September 30, 2008, as compared to \$471,799 for the same period in the prior year.

*PCT Products, Services, Other.* Revenue from the sale of PCT products and services was \$421,996 for the nine months ended September 30, 2008 as compared to \$281,084 for the same period in the prior year. During the first nine months of 2008 we completed the installation of 31 Barocycler instruments, as compared to 13 in the same period of 2007. During the nine months ended September 30, 2008, twelve of the installations that we completed were sales to our international distributors, as compared to four in the same period of 2007. The increase in revenue was due to an increase in the number of instruments sold and an increase in sales of consumable products extended service contracts as compared to the nine months ended September 30, 2007.

We expect the number of units installed will continue to increase in future periods as we continue to commercialize our technology, although we may experience some delays in customer purchases due to current economic conditions in the global economy. Furthermore, we may realize some difficulties in signing up new international distribution partners if we are unable to secure additional funding through equity or debt financings. We also expect that some portion of future installations will continue to be for the smaller, lower priced, Barocycler NEP2320 model and some will be placed under lease or short-term rental agreements. Therefore, we expect that the average revenue per installation will continue to fluctuate from period to period as we continue to drive our installed base and commercialize PCT. We also expect that as we continue to expand the installed based of Barocycler instruments in the field we will realize increasing revenues from the sale of consumable products and extended service contracts. In the short-term, these recurring revenue streams may continue to fluctuate from period to period.

*Grant revenue.* During the nine months ended September 30, 2008 and 2007, we recorded \$96,226 and \$190,715 of grant revenue, respectively. This decrease in grant revenue was due to a shift in resources from grant related activities to other research and development projects when the remaining Phase I grant was completed during the second quarter of 2008. During the third quarter of 2008 we began working on our \$850,000 SBIR Phase II grant and we expect grant revenues to increase over the next several quarters as the amount of time and expense incurred in connection with this Phase II grant continues to increase. The level of grant revenue that we recognize in any given quarter is dependent upon the level of resources we devote to grant related work in the period.

### *Cost of PCT Products and Services*

The cost of PCT products and services was \$267,416 for the nine months ended September 30, 2008 compared to \$131,558 for the comparable period in 2007. This increase in cost of PCT products and services was primarily due to our increase in sales of Barocycler units. Costs of PCT products and services as a percentage of revenue increased from 46.8% to 63.4% for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase in the cost of PCT products and services as a percentage of revenue was due primarily to two factors; 12 of the 31 units that we installed during the nine months ended September 30, 2008 were sold to our international distributors at discounted prices, and, four of the Barocycler units that we sold during the third quarter of 2007 were prototype NEP2320 units that had been previously expensed, as they were developed and built.

The relationship between our cost of PCT products and services and PCT revenue will continue to depend greatly on the mix of instruments we sell, the quantity of such instruments, and the mix of consumable products that we sell in a given period.

### *Research and Development*

Research and development expenditures decreased to \$1,329,155 in the first nine months of 2008 from \$1,518,851 in the same period in 2007. Research and development costs in 2007 included significant spending associated with the design and development of the Barocycler NEP2320. The decrease was due in part to the completion of the Barocycler NEP2320 and the delay of other research and development costs associated with the cost cutting measures that we initiated in July 2008.

Research and development expense recognized in the first nine months of 2008 and 2007 included \$131,132 and \$100,450, respectively, of non-cash, stock-based compensation expense.

We will need to reduce our expenses in all areas of our operations, including research and development, if we are unable to raise additional capital.



*Selling and Marketing*

Selling and marketing expenses increased to \$1,384,147 for the nine months ended September 30, 2008 from \$986,801 for the comparable period in 2007. This increase in selling and marketing expense was primarily the result of our increase in the size of our domestic sales force, the addition of a Vice President of Sales in February 2008 and the continued emphasis on strategic marketing programs.

During the first nine months of 2008 and 2007, selling and marketing expense included \$87,055 and \$39,191, respectively, of non-cash, stock-based compensation expense.

We will need to reduce our expenses in all areas of our operations, including selling and marketing, if we are unable to raise additional capital.

*General and Administrative*

General and administrative costs totaled \$1,603,803 for the nine months ended September 30, 2008, as compared to \$1,683,782 for the comparable period in 2007. The decrease is due to a reduction in investor relations spending, Sarbanes-Oxley compliance costs and other cost reduction efforts, partially offset by an increase in legal costs related to general SEC compliance and patent and trademark work that was performed during 2008.

During the first nine months of 2008 and 2007, general and administrative costs included \$233,092 and \$108,082, respectively, of non-cash, stock-based compensation expense. The increase is due primarily to the \$100,556 that was recorded in connection with the grant of non-qualified, fully-vested stock options to purchase 10,000 shares of our common stock to each of our four independent directors in April 2008.

We will need to reduce our expenses in all areas of our operations, including general and administrative, if we are unable to raise additional capital.

*Operating Loss from Continuing Operations*

Our operating loss from continuing operations was \$4,066,299 for the nine months ended September 30, 2008 as compared to \$3,849,193 for the comparable period in 2007. This increase in operating loss from continuing operations for the nine months ended September 30, 2008 was primarily due to an increase in non-cash, stock-based compensation expense of \$451,279 recorded in the nine months ended September 30, 2008, as compared to \$252,469 in the comparable period in 2007. Aside from the increase in non-cash, stock-based compensation expense our operating loss decreased due to the cost cutting measures that we implemented in July 2008 and the increase in revenues that we realized during the first nine months of the year, as compared to the prior year period.

We will need to reduce our expenses in all areas of our operations if we are unable to raise additional capital.

*Realized gain of sale on securities held for sale*

In the nine months ended September 30, 2007 we completed the liquidation of our investment in Panacos Pharmaceuticals and realized a gain on securities sold of \$2,028,720.

*Interest Income*

Interest income totaled \$56,338 for the nine months ended September 30, 2008 as compared to interest income of \$227,816 in the prior year period. The decrease is due to lower average cash balances and lower yields on these balances during 2008, as compared to 2007.

*Income Taxes from Continuing Operations*

In the nine months ended September 30, 2008, we did not record a benefit for income taxes from continuing operations. During the same period in 2007, we recorded a benefit for income taxes of \$253,539.

We do not expect to record any income tax benefit for the foreseeable future due to the fact that we are no longer able to carry back current losses against taxable income from prior periods and because we expect our operating losses to continue for several years. If we are successful commercializing PCT and if we are able to generate operating income, then we may be able to utilize the net operating loss carry-forwards that we generate.

*Gain on Assets Related to Discontinued Operations*

During 2008 there were no charges for discontinued operations. During the first nine months of 2007, we realized a gain on the sale of Source Scientific, LLC of \$1,155,973. This gain is comprised of the \$378,503 charge that we recorded in the first quarter of 2007 under the provisions of Staff Accounting Bulletin (“SAB”) Topic 5E, “*Accounting for Divestiture of a Subsidiary or Other Business Operation*” (“SAB Topic 5E”) and the gain of \$1,534,476, net of income taxes of \$218,060, that we recorded during the second quarter of 2007, the period in which we completed the sale. We recorded this gain in connection with the receipt on May 29, 2007 of \$1,780,071 from Mr. Richard W. Henson and Mr. Bruce A. Sargeant, the principals of Source Scientific, LLC, as full payment for their purchase of our remaining interest in that business.

Upon completion of the transaction, we accounted for the total gain on the sale of our ownership interests in Source Scientific, LLC as discontinued operations. The charge that we recorded during the first quarter of 2007, under the provisions of SAB Topic 5E, was reclassified as discontinued operations to reflect this change.

*Net loss*

During the nine months ended September 30, 2008, we recorded a net loss of \$4,009,961 as compared to a net loss of \$183,145 in the same period in 2007. The net loss is the result of increased operating loss from continuing operations in the first nine months of 2008 relative to the same period in 2007. Additionally, although we expect our revenue to increase, our net loss in 2008 will not be mitigated by the gain on sale of marketable securities, gain on sale of assets from discontinued operations, and the benefit from income taxes, as was the case in 2007. We therefore expect our net loss for the full year of 2008 to be higher than the net loss reported for the full year in 2007.

**LIQUIDITY AND FINANCIAL CONDITION**

As of September 30, 2008, our working capital position was \$2,411,136 the primary components of which were cash and cash equivalents, accounts receivable, inventory, prepaid expenses, deposits, and income taxes receivable. Our working capital balance was partially offset by accounts payable, accrued employee compensation, and other accrued expenses. As of December 31, 2007, our working capital balance was \$5,933,822, the primary components of which were cash and cash equivalents, income taxes receivable, prepaid expenses, and deposits. We expect to continue to fund our operations from our working capital balance.

In July 2008, we implemented a number of cost reduction initiatives, including the delay of certain research and development projects, 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, and a reduction in our workforce which includes the re-alignment of our sales force from seven full time sales directors to three. We have also delayed the hiring of new personnel to fill previously vacated positions. We believe that implementing such changes to our business plan allowed us to extend our existing cash balances through the first quarter of 2009.

We need substantial additional capital to fund our current operations beyond the first quarter of 2009. To provide us with some flexibility in structuring the terms of potential financings, in accordance with Nasdaq Marketplace Rule 4350(i)(1)(D), we obtained approval from our stockholders at our special meeting in lieu of an annual meeting held on September 25, 2008 to issue, in connection with one or more capital raising transactions, up to 4,500,000 shares of common stock (including pursuant to preferred stock, options, warrants, convertible debt or other securities exercisable for or convertible into common stock), upon such terms as our Board of Directors shall deem to be in the best interests of our company, for an aggregate consideration of not more than \$18,000,000 in cash and at a price not less than 80% of the market price of the our common stock at the time of issuance, such issuances of common stock or other securities exercisable for or convertible into common stock to occur, if at all, in the three month period

commencing with the date of the stockholder approval.

In June 2008, we engaged Emerging Growth Equities, Ltd. ("EGE"), an investment banking firm, to assist us in raising equity financing to support our research and development activities, commercialization efforts, working capital requirements, and general corporate purposes. The engagement of EGE contemplates a private placement of our securities exempt from the registration requirements under Regulation D promulgated under the Securities Act of 1933, as amended (the "Act") of up to \$8,000,000 or more at our discretion (the "Financing"). We have agreed to pay EGE a cash fee of 8% of the gross proceeds from the Financing and to issue EGE warrants to purchase 8% of the number of securities issued in the Financing. The warrants will have a five year term and an exercise price equal to the price of the securities issued in the Financing. However, EGE will receive a lower fee of 3% of the gross proceeds from the Financing and warrants to purchase 3% of the number of securities issued in the Financing with respect to all investors that they do not introduce to us. EGE is also entitled to a retainer of \$7,500 per month for three months.

Either EGE or we may terminate the engagement in general with prior written notice. If during the 12 month period following termination of the engagement we sell securities to any investor introduced to us by EGE, we will pay a declining fee to EGE based upon the number of months elapsed since the date of termination, commencing with a cash fee of 8% of the gross proceeds received from such investors, plus warrants to purchase 8% of the number of securities issued to such investors in the first month following termination of the engagement and with such fees being reduced by 1/12 for each month following such termination. We have also agreed to customary indemnification of EGE in connection with the Financing. Notwithstanding our engagement of EGE, we can provide no assurance that any such equity offerings will occur, or that additional financing will be available to us of acceptable or affordable terms. To date, they have not been successful in raising any funds for us. In October 2008, we revised the terms of our engagement with EGE to reduce their fees from 3% in cash and 3% in warrants, to 0% cash and 0% warrants, on any funds that we raise without the help of EGE.

While we are in discussions with potential investors, to date we have been unable to secure additional equity or debt financing on acceptable terms. If we remain unable to secure additional financing in the near-term, we expect to implement a number of additional cost reduction initiatives, such as further reductions in the cost of our workforce and the discontinuation of a number of business initiatives to further reduce our rate of cash utilization and extend our existing cash balances. We believe that these additional cost reduction initiatives, if undertaken, will provide us with additional time to continue our pursuit of additional funding sources and also strategic alternatives. In the event that we are unable to obtain financing on acceptable terms, we may be required to limit or cease our operations, pursue a plan to sell our operating assets, or otherwise modify our business strategy, which could materially harm our future business prospects. There can be no assurance that we will obtain additional financing on acceptable terms or at all.

Net cash used in continuing operations for the nine months ended September 30, 2008 was \$3,349,545 as compared to net cash used in continuing operations of \$3,023,249 for the nine months ended September 30, 2007.

Net cash used in investing activities for the nine months ended September 30, 2008 was \$131,957 as compared to cash provided of \$1,913,358 for the same period in the prior year. The cash used in the nine months of 2008 was the result of the purchase of furniture and fixtures associated with our move to new corporate offices and Barocycler instruments that we purchased and installed under collaboration or lease agreements. The cash generated in the same period in 2007 was from the liquidation of shares of Panacos common stock, partially offset by purchases of fixed assets.

Net cash provided by financing activities for the nine months ended September 30, 2008 was due to an exercise of employee stock options to purchase 3,000 shares of our common stock.

Net cash provided by discontinued operations during 2007 of \$1,780,071 was due to the completion of the divestiture of Source Scientific, LLC.

## **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 18 months. We pay approximately \$6,500 per month for the use of these facilities.

On June 1, 2006, we entered into a lease agreement with Scheer Partners and the Maryland Economic Development Corporation, pursuant to which we lease laboratory and office space in Rockville, MD. In August 2007, we extended this lease agreement through May 31, 2009. We pay approximately \$3,300 per month for the use of these facilities.

On March 1, 2006, we entered into a sub-lease agreement with Proteome Systems, pursuant to which we lease approximately 650 square feet of laboratory space plus 100 square feet of office space from Proteome Systems in Woburn, Massachusetts. The lease period extends through December 31, 2008 and we pay approximately \$3,200 per month for the use of these facilities.

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### *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 BMA a 5% royalty on our sales of products or services that incorporate or utilize the original pressure cycling technology that BioSeq, Inc. acquired from BioMolecular Assays, Inc. 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 September 30, 2008 and 2007, we incurred \$10,236 and \$5,518, respectively in royalty expense associated with our obligation to BMA. During the nine months ended September 30, 2008 and 2007, we incurred approximately \$18,687 and \$14,021, 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 2016. We have not received any royalty payments from BMA under this license.

### *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 expect that the NEP2320 units will be completed and ready for sale to our customers during the first quarter of 2009, we will be billed for the unpaid purchase price of each unit at the time each unit is completed and ready for sale. As of December 31, 2007 we had \$379,000 on deposit with Source for 54 remaining units pursuant to open purchase orders.

### *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.

### **RECENT ACCOUNTING STANDARDS**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements", ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring the fair value of assets and liabilities, and expands disclosure requirements regarding the fair value measurement. SFAS 157 does not expand the use of fair value measurements. This statement, as issued, is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position (FSP) FAS No. 157-2 was issued in February 2008 and deferred the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 2008. As such, the Company adopted SFAS 157 as of January 1, 2008 for financial assets and liabilities only. There was no significant effect on the Company's financial statements. The Company does not believe that the adoption of SFAS 157 to non-financial assets and liabilities will significantly effect its financial statements.



In December 2007, the FASB issued SFAS 141 (revised 2007), “*Business Combinations*” (“SFAS 141(R)”) and SFAS No. 160, “*Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*” (“SFAS 160”).

SFAS 141(R) significantly changes the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date at fair value with limited exceptions. SFAS 141(R) further changes the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Noncontrolling interests (formerly known as “minority interests” – see SFAS 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS 141(R) includes a substantial number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of non-controlling interests (minority interests) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to non-controlling interests will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent’s ownership interest in a subsidiary that does not result in deconsolidation are treated as equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest.

SFAS 160 is effective for fiscal years, and interim periods within such year, beginning January 1, 2009. Early adoption of both SFAS 141(R) and SFAS 160 is prohibited. We do not expect that either SFAS 141(R) or SFAS 160 will have a material affect on our consolidated results of operations and financial condition.

#### **ITEM 4T. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 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 and Chief Executive Officer (Principal Executive Officer) and 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.

As of September 30, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer (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 and Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize, and report information required to be included in our periodic SEC filings within the required time period and to ensure that information required to be disclosed in such reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our President and Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) to allow timely decisions regarding required disclosure.

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 II. OTHER INFORMATION****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On September 25, 2008, we held a Special Meeting in Lieu of Annual Meeting of Stockholders (the "Meeting"). At the Meeting, Richard T. Schumacher was re-elected to the Board of Directors as a Class III director, with a term expiring in 2011. The remaining members of the Board of Directors whose terms continued after the meeting are J. Donald Payne, P. Thomas Vogel, R. Wayne Fritzsche, and Dr. Calvin A. Saravis. The stockholders also approved an amendment to the Company's 2005 Equity Incentive Plan to increase the number of shares of Common Stock authorized for issuance under the Plan from 1,000,000 to 1,500,000 shares. Lastly, the stockholders approved a proposal, for purposes of complying with Nasdaq Marketplace Rule 4350(i)(1)(D), authorizing the Company to issue, in connection with one or more capital raising transactions to finance the company, up to 4,500,000 shares of common stock of Pressure BioSciences, subject to the terms, conditions and limitations set out in the Proxy Statement for the Meeting. At the meeting, a total of 1,829,203 shares or 83% of the Common Stock issued and outstanding as of the record date, were represented in person or by proxy. The voting results with respect to each of the proposals were as follows:

1. A proposal to elect one Class III Director to hold office until the 2011 Annual Meeting of Stockholders and until his successor is duly elected and qualified:

| Name of Nominee       | For       | Withheld | Abstain |
|-----------------------|-----------|----------|---------|
| Richard T. Schumacher | 1,805,032 | 24,171   | 0       |

2. A proposal to amend the Company's 2005 Equity Incentive Plan to increase the number of shares of common stock available for issuance under the plan from 1,000,000 to 1,500,000.

| For     | Against | Abstained | Broker Non-Votes |
|---------|---------|-----------|------------------|
| 837,976 | 139,643 | 3,416     | 848,168          |

3. A proposal, for purposes of complying with Nasdaq Marketplace Rule 4350(i)(1)(D), to authorize the Company to issue, in connection with one or more capital raising transactions to finance the Company, up to 4,500,000 shares of common stock of Pressure BioSciences, subject to the terms, conditions and limitations set out in the Proxy Statement for the Meeting.

| For     | Against | Abstained | Broker Non-Votes |
|---------|---------|-----------|------------------|
| 910,135 | 67,359  | 3,541     | 848,168          |

**ITEM 6. EXHIBITS**

| <b>Exhibits</b> | <b>Reference</b>   |                |
|-----------------|--|----------------|
| 10.1            | Amendment No. 1 to Pressure Biosciences, Inc. 2005 Equity Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with Commission on September 29, 2008 and incorporated herein by reference). |                |
| 31.1            | Principal Executive Officer Certification Pursuant to Item 601(b)(31) of Regulation S-K, 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-K, 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-K, 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-K, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  | Filed herewith |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PRESSURE BIOSCIENCES, INC.**

Date: November 14, 2008

By:

*/s/ Richard T. Schumacher*  
Richard T. Schumacher  
President & Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2008

By:

*/s/ Edward H. Myles*  
Edward H. Myles  
Senior Vice President of Finance & Chief  
Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

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