

PRESSURE BIOSCIENCES INC
Form 10-Q
May 15, 2012

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 March 31, 2012 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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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 May 10, 2012 was 10,356,449.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
CURRENT ASSETS		
Cash and cash equivalents	\$15,492	\$222,775
Accounts receivable, net of allowances of \$9,600 at March 31, 2012 and December 31, 2011	203,998	269,237
Inventories	1,021,295	1,069,013
Prepaid income taxes	8,181	4,739
Prepaid expenses and other current assets	269,828	143,591
Total current assets	1,518,794	1,709,355
PROPERTY AND EQUIPMENT, NET	72,006	89,171
OTHER ASSETS		
Deposits	6,472	6,472
Intangible assets, net	121,604	133,762
TOTAL ASSETS	\$1,718,876	\$1,938,760
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$1,129,515	\$890,676
Accrued employee compensation	224,766	180,437
Accrued professional fees and other	270,792	247,738
Deferred revenue	37,358	36,669
Promissory note	150,000	150,000
Convertible debt, net of unamortized discount of \$0 at March 31, 2012 and \$17,088 as of December 31, 2011	56,139	394,912
Warrant derivative liabilities	478,565	436,553
Total current liabilities	2,347,135	2,336,985
LONG TERM LIABILITIES		
Deferred revenue	7,579	10,111
TOTAL LIABILITIES	2,354,714	2,347,096
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS' DEFICIT		
Series C convertible preferred stock, \$.01 par value; 88,098 shares authorized; 88,098 shares issued and outstanding on March 31, 2012 and December 31, 2011 (Liquidation value of \$1,101,225)	881	881
Series D convertible preferred stock, \$.01 par value; 850 shares authorized; 300 shares issued and outstanding on March 31, 2012 and 743 shares issued and	3	7

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outstanding on December 31, 2011 (Liquidation value of \$300,000)

Common stock, \$.01 par value; 20,000,000 shares authorized; 8,499,898 shares issued and outstanding on March 31, 2012 and 6,723,993 shares issued and outstanding on December 31, 2011	84,999	67,240
Warrants to acquire preferred stock and common stock	2,510,504	2,203,101
Additional paid-in capital	14,358,536	13,823,875
Accumulated deficit	(17,590,761)	(16,503,440)
Total stockholders' deficit	(635,838)	(408,336)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$1,718,876	\$1,938,760

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

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

	For the Three Months Ended March 31,	
	2012	2011
Revenue:		
PCT products, services, other	\$ 164,772	\$ 180,643
Grant revenue	140,889	-
Total revenue	305,661	180,643
Costs and expenses:		
Cost of PCT products and services	78,194	78,929
Research and development	271,611	218,965
Selling and marketing	238,092	303,839
General and administrative	682,346	412,529
Total operating costs and expenses	1,270,243	1,014,262
Operating loss	(964,582)	(833,619)
Other (expense) income:		
Interest (expense) income	(56,313)	254
Change in fair value of warrant derivative liability	(42,012)	-
Total other (expense) income	(98,325)	254
Net loss	(1,062,907)	(833,365)
Accrued and deemed dividends on convertible preferred stock	(24,414)	(133,090)
Net loss applicable to common shareholders	\$(1,087,321)	\$(966,455)
Net loss per share attributable to common stockholders - basic and diluted	\$(0.14)	\$(0.34)
Weighted average common stock shares outstanding used in the basic and diluted net loss per share calculation	7,712,539	2,836,971

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

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

	For the Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,062,907)	\$(833,365)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	29,323	40,587
Accretion of interest and amortization of debt issue costs	46,159	-
Stock-based compensation expense	8,868	68,966
Amortization of third-party fees paid in restricted common stock	31,950	-
Change in fair value of warrant derivative liability	42,012	-
Changes in operating assets and liabilities:		
Accounts receivable	65,239	41,182
Inventories	47,718	(36,214)
Accounts payable	238,839	293,787
Accrued employee compensation	44,329	53,853
Deferred revenue and other accrued expenses	(588)	(84,682)
Prepaid expenses and other current assets	(75,679)	(52,166)
Net cash used in operating activities	(584,737)	(508,052)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	-	(7,568)
Net cash used in investing activities	-	(7,568)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock option exercises	-	43,980
Net proceeds from the issuance of common stock	377,454	-
Net cash provided by financing activities	377,454	43,980
Change in cash and cash equivalents	(207,283)	(471,640)
Cash and cash equivalents, beginning of period	222,775	552,849
Cash and cash equivalents, end of period	\$ 15,492	\$ 81,209
SUPPLEMENTAL INFORMATION:		
Income taxes paid	\$ 1,900	\$ 1,900
Non-cash investing and financing activities:		
Issuance of common stock dividend on preferred stock	-	76,017
Issuance of common stock for services	85,950	-

Convertible debt exchanged for common stock	387,547	-
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The accompanying notes are an integral part of these consolidated financial statements

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Business Overview and Management Plans

We have developed instruments which utilize our unique and proprietary pressure cycling technology (“PCT”), which we sell along with associated consumables and services to life sciences companies, academic institutions and government agencies. Since we began operations as Pressure BioSciences in February 2005, we have installed 216 Barocycler instruments, of which 138 currently remain installed. PCT represents the core of our products and has enabled our customers to perform biological sample preparation and enzymatic digestion in unique ways that were previously unavailable. The enabling capability of our PCT products allows us to continue to increase the number of applications for our platform beyond current uses, which include genomic and proteomic sample preparation, pathogen inactivation, the control of chemical and enzymatic reactions, immunodiagnosics, and protein purification. Additionally, we are pursuing business opportunities to leverage our products and PCT into new markets beyond our current focus of PCT-enhanced enzymatic digestion products designed specifically for the mass spectrometry marketplace, as well as sample preparation products for biomarker discovery, soil and plant biology, forensics, histology, and counter-bioterror applications.

PCT 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.

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of March 31, 2012, we did not have adequate working capital resources to satisfy our current liabilities and as a result, we have substantial doubt regarding our ability to continue as a going concern. Based on our current projections, including equity financing completed subsequent to March 31, 2012, we believe our current cash resources will enable us to extend our cash resources to fund normal operations until the middle of May 2012. Please see Note 6, Subsequent Events.

We need substantial additional capital to fund normal operations in periods beyond the middle of May 2012. In the event that we are unable to obtain financing on acceptable terms, or at all, we will likely be required to 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.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2) Interim Financial Reporting

The accompanying unaudited consolidated financial statements of Pressure BioSciences, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011 as filed with the Securities and Exchange Commission on February 27, 2012.

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. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

To prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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, the costs associated with fulfilling our warranty obligations for the instruments that we sell, and the estimates employed in our calculation of fair value of stock options awarded and warrant derivative liability. 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.

Revenue Recognition

We recognize revenue in accordance with FASB ASC 605, Revenue Recognition. 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 collectability is reasonably assured.

Our current instruments, the Barocycler NEP3229 and NEP2320, require a basic level of instrumentation expertise to set-up for initial operation. To support a favorable first experience for our customers, we send a highly trained technical representative to the customer site to install every Barocycler that we sell or lease through our domestic sales force. The installation process includes uncrating and setting up the instrument, followed by introductory user

training. Product revenue related to current Barocycler instrumentation is recognized upon the completion of the installation and introductory training process of the instrumentation at the customer location, for domestic installations. Product revenue related to sales of PCT instrumentation to our foreign distributors and overseas customers is recognized upon shipment through a common carrier unless installation is specifically requested by the customer. 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 the HUB440 and our consumable products such as PULSE Tubes, MicroTubes, and application specific kits is recorded upon shipment through a common carrier. Shipping costs are included in sales and marketing expense. Any shipping costs billed to customers are recognized as revenue.

In accordance with FASB ASC 840, Leases, we account for our lease agreements under the operating method. We record revenue over the life of the lease term and we record depreciation expense on a straight-line basis over the thirty-six month estimated useful life of the Barocycler instrument. The depreciation expense associated with assets under lease agreement is included in the "Cost of PCT products and services" line item in our consolidated statements of operations. Many of our lease and rental agreements allow the lessee to purchase the instrument at any point during the term of the agreement with partial or full credit for payments previously made. We pay all maintenance costs associated with the instrument during the term of the leases.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 FASB ASC 605-25 Multiple-Element Arrangements (“ASC 605”). When vendor specific objective evidence or third party evidence of selling price for deliverables in an arrangement cannot be determined, the Company develops a best estimate of the selling price to separate deliverables and allocates arrangement consideration using the relative selling price method. Additionally, this guidance eliminates the residual method of allocation. 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 based on the estimated selling price of the total arrangement. 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 with revenue recognized ratably over the life of the contract.

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. In support of our research and development activities we utilize our Barocycler instruments that are capitalized as fixed assets and depreciated over their expected useful life.

Inventories

Inventories are valued at the lower of cost (average cost) or market (sales price). The cost of Barocyclers consists of the cost charged by the contract manufacturer. The cost of manufactured goods includes material, freight-in, direct labor, and applicable overhead. The composition of inventory as of March 31, 2012 and December 31, 2011 is as follows:

	March 31, 2012	December 31, 2011
Raw materials	\$ 190,552	\$ 193,121
Finished goods	830,743	875,892
Total	\$ 1,021,295	\$ 1,069,013

Our finished goods inventory as of March 31, 2012 included 64 Barocycler instruments. Our finished goods inventory as of December 31, 2011 included 68 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. Property and equipment includes net book value of \$44,030 relating to Barocycler instruments held under lease or collaboration.

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. The Company's intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

impairment is indicated, any excess of carrying value over fair value is recorded as a loss. As of the date of this report's filing, no event has come to our attention that would cause us to record an impairment of intangible assets.

Long-Lived Assets and Deferred Costs

The Company's long-lived assets and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Through the date of this report's filing, the Company had not experienced impairment losses on its 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, large pharmaceutical and biotechnology companies, and academic laboratories.

The following table illustrates the level of concentration as a percentage of total revenues during the three months ended March 31, 2012 and 2011:

	For the Three Months Ended	
	March 31,	
	2012	2011
Top Five		
Customers	81%	55%
Federal Agencies	48%	5%

The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of March 31, 2012 and December 31, 2011:

	December	
	March 31,	31,
	2012	2011
Top Five Customers	88%	89%
Federal Agencies	44%	42%

Product Supply

Source Scientific, LLC has been our sole contract manufacturer for all of our PCT instrumentation. Until we develop a network of manufacturers and subcontractors, obtaining alternative sources of supply or manufacturing services could involve significant delays and other costs and challenges, and may not be available to us on reasonable terms, if at all. The failure of a supplier or contract manufacturer to provide sufficient quantities, acceptable quality and timely products at an acceptable price, or an interruption of supplies from such a supplier could harm our business and prospects.

Computation of Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For purposes of this calculation, convertible preferred stock, common stock dividends, and warrants and options to acquire common stock, are all considered common stock equivalents in periods in which they have a dilutive effect and are excluded from this calculation in periods in which these are anti-dilutive to our net loss.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table illustrates our computation of loss per share for the three months ended March 31, 2012 and 2011:

	For the Three Months Ended March 31,	
	2012	2011
Numerator:		
Net loss	\$(1,062,907)	\$(833,365)
Accrued dividend for Preferred Stock	(24,414)	(57,073)
Series A Preferred dividends paid in Common Stock	-	(76,017)
Net loss applicable to common shareholders	\$(1,087,321)	\$(966,455)
Denominator for basic and diluted loss per share:		
Weighted average common stock shares outstanding	7,712,539	2,836,971
Loss per common share - basic and diluted	\$(0.14)	\$(0.34)

The following table presents securities that could potentially dilute basic loss per share in the future. For all periods presented, the potentially dilutive securities were not included in the computation of diluted loss per share because these securities would have been anti-dilutive to our net loss. The Series A Convertible Preferred Stock, Series B Convertible Preferred Stock, Series C Convertible Preferred Stock and Series D Convertible Preferred Stock are presented below as if they were converted into common shares according to the conversion terms in Note 5. All of the outstanding shares of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock were voluntarily converted in 2011 by the holders into shares of common stock.

	March 31,	
	2012	2011
Stock options	1,555,500	1,114,500
Convertible debt	50,000	-
Common stock warrants	5,310,388	1,740,800
Preferred stock warrants	-	940,550
Convertible preferred stock:		
Series A Convertible Preferred	-	2,621,350
Series B Convertible Preferred	-	855,090
Series C Convertible Preferred	880,980	-
Series D Convertible Preferred	461,539	-
	8,258,407	7,272,290

Accounting for Income Taxes

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 assets 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. If substantial changes in the Company's ownership should occur, as defined in Section 382 of the Internal Revenue Code, there could be sufficient limitations on the amount of net loss carry forwards that could be used to offset future taxable income.

Warrant Derivative Liability

The warrants issued in connection with the Series C Convertible Preferred Stock private placement (the "Series C Warrants") and warrants issued in connection with the registered direct offering of Series D Convertible Preferred Stock (the "Series D Warrants") are measured at fair value and liability-classified because the Series C Warrants are entitled to certain rights in subsequent financings and the Series D Warrants contain "down-round protection" and therefore, do not meet the scope exception for treatment as a derivative under ASC 815, Derivatives and Hedging, ("ASC 815"). Since "down-round protection" is not an input into the calculation of the fair value of the warrants, the warrants cannot be considered indexed to the Company's own stock which is a requirement for the scope

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

exception as outlined under ASC 815. The estimated fair value of the warrants was determined using the binomial model, resulting in an allocation of the gross proceeds of \$583,250 to the total warrants issued in the Series C private placement and \$283,725 to the warrants issued in the Series D registered direct offering. The fair value will be affected by changes in inputs to that model including our stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. We will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability, whichever comes first. The down-round protection for the Series C Warrants expires 12 months subsequent to the issuance of the Series C Units and the down-round protection for the Series D Warrants survives for the life of the Series D Warrants which ends in May 2017.

Accounting for Stock-Based Compensation

We maintain equity compensation plans under which 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.

Determining Fair Value of Stock Option Grants

Valuation and Amortization Method - The fair value of each option award is estimated on the date of grant using the Black-Scholes pricing model based on certain assumptions. The estimated fair value of employee stock options is amortized to expense using the straight-line method over the vesting period, which is over four years for options granted in 2012.

Expected Term - The Company uses the simplified calculation of expected life, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected term. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

Expected Volatility - Expected volatility is based on the Company's historical stock volatility data over the expected term of the award.

Risk-Free Interest Rate - The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Forfeitures - The Company records stock-based compensation expense only for those awards that are expected to vest. The Company estimated a forfeiture rate of 5% for awards granted based on historical experience and future expectations of options vesting. We used this historical rate as our assumption in calculating future stock-based compensation expense.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We recognized stock-based compensation expense of \$8,868 and \$68,966 for the three months ended March 31, 2012 and 2011, respectively. The following table summarizes the effect of this stock-based compensation expense within each of the line items of our costs and expenses within our Consolidated Statements of Operations:

	For the Three Months Ended March 31,	
	2012	2011
Research and development	\$2,618	\$21,604
Selling and marketing	3,113	31,012
General and administrative	3,137	16,350
Total stock-based compensation expense	\$8,868	\$68,966

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.

Fair Value Measurements

The Company adopted the guidance of FASB ASC Topic 820, "Fair Value Measurements and Disclosures" ("ASC 820") as of June 30, 2011, as it related to all financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The Company generally defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company uses a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring the Company to develop its own assumptions.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that it does not have any financial assets measured at fair value and that its financial liabilities are currently all classified within Level 3 in the fair value hierarchy.

The following tables set forth the Company's financial liabilities that were accounted for at fair value on a recurring basis as of March 31, 2012.

Fair value measurements at March 31,
2012 using:

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	March 31, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Series C Common Stock Purchase Warrants	\$ 172,149	\$-	\$-	\$ 172,149
Series D Common Stock Purchase Warrants	306,416	-	-	306,416
	\$ 478,565	\$-	\$-	\$ 478,565

	January 1, 2012	Change in Fair Value	March 31, 2012
Series C Common Stock Purchase Warrants	\$ 205,353	\$(33,204)	\$ 172,149
Series D Common Stock Purchase Warrants	231,200	75,216	306,416
	\$ 436,553	\$ 42,012	\$ 478,565

The assumptions for the binomial pricing model are represented in the table below for the warrants issued in both tranches of the Series C private placement reflected on a per share common stock equivalent basis.

Assumptions	Warrants revalued at March 31, 2012			
	April 8, 2011	June 20, 2011	April 8, 2011	June 20, 2011
Expected life (in months)	36.0	36.0	24.0	27.0
Expected volatility	118.5 %	118.5 %	99.6 %	99.6 %
Risk-free interest rate	0.625 %	0.625 %	0.25 %	0.25 %
Exercise price	\$2.13	\$2.13	\$2.13	\$2.13
Fair value per warrant	\$0.70	\$0.62	\$0.19	\$0.21

The assumptions for the binomial pricing model are represented in the table below for the warrants issued in the Series D private placement reflected on a per share common stock equivalent basis.

Assumptions	Warrants revalued at March 31, 2012	
	November 10, 2011	March 31, 2012
Expected life (in months)	60.0	57.0
Expected volatility	104.5 %	111.1 %
Risk-free interest rate	0.875 %	1.00 %
Exercise price	\$0.81	\$0.74
Fair value per warrant	\$0.54	\$0.54

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Advertising

Advertising costs are expensed as incurred. We did not incur significant advertising expenses during the three months ended March 31, 2012 or in the prior year same period.

Rent Expense

Rental costs are expensed as incurred. During the three months ended March 31, 2012 and 2011, we incurred \$29,400 and \$34,416, respectively, in rent expense for the use of our corporate office and research and development facilities.

4) Commitments and Contingencies

Operating Leases

Our corporate offices are currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. In November 2007, we signed a lease agreement commencing in February 2008 pursuant to which we lease approximately 5,500 square feet of office space. We extended the lease term until September 30, 2012 with a monthly payment of \$4,800.

Effective January 1, 2010, we entered into a three-year lease agreement with the University of Massachusetts in Boston, pursuant to which we are leasing laboratory and office space on campus at the university for research and development activities. We pay \$5,000 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 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 BMA. We are also required to pay BMA 5% of the proceeds from any sale, transfer or license of all or any portion of the original pressure cycling technology. These payment obligations terminate in 2016. During the three months ended March 31, 2012 and 2011, we incurred \$5,288 and \$5,994, 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.

Battelle Memorial Institute

In December 2008, we entered into an exclusive patent license agreement with the Battelle Memorial Institute ("Battelle"). The licensed technology is described in the patent application filed by Battelle on July 31, 2008 (US serial number 12/183,219). This application includes subject matter related to a method and a system for improving the analysis of protein samples, including through an automated system utilizing pressure and a pre-selected agent to obtain a digested sample in a significantly shorter period of time than current methods, while maintaining the integrity of the sample throughout the preparatory process. Pursuant to the terms of the agreement we paid Battelle a non-refundable initial fee of \$35,000. In addition to royalty payments on net sales on "licensed products", we are obligated to make minimum royalty payments for each year that we retain the rights outlined in the patent license agreement and we are required to have our first commercial sale of the licensed products within one year following the issuance of the patent covered by the licensed technology. Our only obligation for 2011 was a minimum annual royalty payment of \$7,500. Our minimum annual royalty payment for 2012 is \$10,000.

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Target Discovery Inc.

In March 2010, we signed a strategic product licensing, manufacturing, co-marketing, and collaborative research and development agreement with Target Discovery Inc. ("TDI"). TDI's Chief Executive Officer is a board member of Pressure BioSciences, Inc. Under the terms of the agreement, we have been licensed by TDI to manufacture and sell a highly innovative line of chemicals used in the preparation of tissues for scientific analysis ("TDI reagents"). The TDI reagents were designed for use in combination with our pressure cycling technology. The companies believe that the combination of PCT and the TDI reagents can fill an existing need in life science research for an automated method for rapid extraction and recovery of intact, functional proteins associated with cell membranes in tissue samples. We owe a royalty of approximately \$1,200 on qualifying sales through March 31, 2012.

Severance and Change of Control Agreements

Each of Mr. Schumacher, Dr. Ting, Dr. Lazarev, and Dr. Lawrence, executive officers of the Company, is entitled to receive a severance payment if terminated by us without cause. The severance benefits would include a payment in an amount equal to one year of such executive officer's annualized base salary compensation plus accrued paid time off. Additionally, the officer will be entitled to receive medical and dental insurance coverage for one year following the date of termination.

Each of these executive officers, other than Mr. Schumacher, 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 severance payment is meant to induce the executive to become an employee of the Company and to remain in the employ of the Company, in general, and particularly in the occurrence of a change in control.

Investment Banking Agreement

On November 4, 2011, the Company entered into an agreement with a former placement agent, pursuant to which the Company and the placement agent released each other of their respective obligations under a prior investment banking agreement. In connection with this agreement, the Company issued the placement agent a promissory note with an original principal amount of \$150,000 with a maturity date of May 4, 2012. The promissory note was interest free until May 4, 2012. The Company did not pay the principal of the promissory note on or before May 4, 2012, and, as a result, the Company began accruing interest on the principal amount of the promissory note at a rate of 18% per year commencing on May 5, 2012.

Convertible Debt

Loans in the aggregate amount of \$362,000 from four individuals were converted into common stock and warrants in the February 2012 private placement. Principal and interest of \$56,139 remained outstanding as of March 31, 2012. We paid \$43,000 towards the outstanding balance in April 2012.

5) Stockholders' Equity

Preferred Stock

We are authorized to issue 1,000,000 shares of preferred stock with a par value of \$0.01. Of the 1,000,000 shares of preferred stock, 20,000 shares have been designated as Series A Junior Participating Preferred Stock, 313,960 shares have been designated as Series A Convertible Preferred Stock, 279,256 shares have been designated as Series B Convertible Preferred Stock, 88,098 shares have been designated as Series C Convertible Preferred Stock and 850 shares have been designated as Series D Convertible Preferred Stock. As of March 31, 2012, there were 88,098 shares of Series C Convertible Preferred Stock outstanding and 300 shares of Series D Convertible Preferred Stock issued and outstanding. 443 shares of Series D Convertible Preferred Stock have been converted into 681,538 shares of the Company's common stock. As of March 31, 2012, there were no shares of Series A Junior Participating Preferred Stock, Series A Convertible Preferred Stock or Series B Convertible Preferred Stock issued and outstanding.

Series A Convertible Preferred Stock

On February 12, 2009, we completed a private placement, pursuant to which we sold an aggregate of 156,980 units (the "Series A Units") for a purchase price of \$11.50 per unit (the "Series A Purchase Price"), resulting in gross proceeds to us of \$1,805,270 (the "Series A Private Placement"). Each Series A Unit consisted of (i) one share of Series A Convertible Preferred Stock convertible into

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10 shares of our common stock, (ii) a warrant to purchase one share of Series A Convertible Preferred Stock at an exercise price equal to \$12.50 per share, with a term expiring 15 months after the date of closing (“15-Month Series A Preferred Stock Warrant”); and (iii) a warrant to purchase 10 shares of common stock at an exercise price equal to \$2.00 per share, with a term expiring 30 months after the date of closing (the “30-Month Common Stock Warrants”). We did not pay any placement fees associated with this transaction but the expenses related to the offering totaled approximately \$233,000. All of the 15-Month Series A Preferred Stock Warrants were exercised by April 28, 2010.

On or about August 10, 2011, holders of 30-Month Common Stock Warrants to purchase 1,569,800 shares of Common Stock entered into an amendment to the 30-Month Common Stock Warrants which extended the expiration date of the warrants to August 11, 2012. On or about September 30, 2011, 30-Month Common Stock Warrants to purchase 1,556,750 shares of Common Stock were further amended to reduce the exercise price from \$1.74 to \$0.90 and to extend the term until August 12, 2016 and, with respect to affiliates, August 12, 2015. A 30-Month Common Stock Warrant to purchase 13,050 shares of Common Stock, which was not amended in September 2011, was further adjusted by common stock dividends issued in October 2011 resulting in an exercise price of \$1.72 per share, subject to future adjustment, with a term expiring on August 11, 2012.

In September and October 2011, all shares of the outstanding shares of Series A Convertible Preferred Stock were voluntarily converted. The Company has no obligation or intention to issue any more shares of Series A Convertible Preferred Stock.

Each share of Series A Convertible Preferred Stock received a cumulative dividend at the rate of 5% per annum of the Series A Purchase Price, payable semi-annually on June 30 and December 31, commencing on June 30, 2009 (with the first payment being pro-rated based on the number of days occurring between the date of issuance and June 30, 2009). The Company was permitted to pay dividends in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series A Convertible Preferred Stock were also entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our Company, the holders of Series A Convertible Preferred Stock would have been paid out of the assets of the Company available for distribution to our stockholders before any payment was paid to the holders of common stock, an amount per share equal to the Series A Purchase Price, plus accrued and unpaid dividends. The Series A Convertible Preferred Stock would have been treated on an equivalent basis with the holders of the Series B Convertible Preferred Stock and Series C Convertible Preferred Stock with respect to payments made in connection with a liquidation. The Board approved the final payment to Series A holders in the form of common stock for accrued dividends through September 30, 2011.

30-Month Common Stock Warrants

The amended 30-Month Common Stock Warrants to purchase 1,556,750 shares of Common Stock have an exercise price equal to \$0.90 per share, with a term expiring on August 12, 2016 (August 12, 2015 for Affiliates). A 30-Month Common Stock Warrant to purchase 13,050 shares of Common Stock, which was not amended in September 2011, has an exercise price of \$1.72 per share, subject to future adjustment, with a term expiring on August 11, 2012. Unless waived under certain circumstances by the holder of the 30-Month Common Stock Warrant, such holder’s 30-Month Common Stock Warrants may not be exercised if upon such exercise the holder’s beneficial ownership would exceed certain thresholds. Each of the 30-Month Common Stock Warrants permit the holder to conduct a “cashless exercise” at any time the holder of the warrant is an “affiliate” as defined in the applicable Securities Purchase Agreement of the Company.

The warrant exercise price and/or number of shares issuable upon exercise of the applicable warrant were subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the warrants. The 30-Month Common Stock Warrants that were amended as described above, no longer provide for adjustment to the exercise price and/or number of shares issuable upon exercise of the applicable warrant for stock dividends.

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

Series B Convertible Preferred Stock

On November 18, 2009, we sold an aggregate of 62,039 units (the "Series B Units") for a purchase price of \$18.80 per unit (the "Series B Purchase Price"), resulting in gross proceeds to us of \$1,166,333. This was the first tranche of a \$2.5 million private placement. The second tranche closed on March 18, 2010 for the sale of 26,672 Series B Units with gross proceeds of \$501,434 (collectively the two tranches are referred to as the "Series B Private Placements"). Each Series B Unit consisted of (i) one share of Series B Convertible Preferred Stock convertible into 10 shares of our common stock and (ii) a warrant to purchase one share of Series

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B Convertible Preferred Stock at an exercise price equal to \$23.80 per share for warrants issued in November 2009 and at an exercise price of \$28.80 for warrants issued in March 2010, in each case with a term expiring on August 11, 2011 (the "Series B Warrant").

In connection with the Series B Private Placements, we paid a finder's fee of \$100,478, plus warrants to purchase 5,344 shares of Series B Convertible Preferred Stock at \$28.80 per share, expiring August 11, 2012.

On or about August 10, 2011, holders of the Series B Warrants to purchase 887,110 shares of Common Stock entered into an amendment to the Series B Warrants which extended the expiration date of the Series B Warrants to August 11, 2012 and provided that they would be issuable for the equivalent number of shares of Common Stock at a proportionate exercise price. On or about September 30, 2011, Series B Warrants to purchase 887,110 shares of Common Stock were further amended to reduce the exercise price from \$2.38 to \$1.43, for Series B Warrants issued in November 2009, and from \$2.88 to \$1.75, for Series B Warrants issued in March 2010 and to extend the term of the Series B Warrants until August 12, 2016 and, with respect to affiliates, until August 12, 2015. All of the Series B Warrants are no longer exercisable for shares of Series B Convertible Preferred Stock.

On or about September 30, 2011, all of the outstanding shares of Series B Convertible Preferred Stock were voluntarily converted into shares of Common Stock. The Company has no obligation or intention to issue any more shares of Series B Convertible Preferred Stock.

Each share of Series B Convertible Preferred Stock received a cumulative dividend at the rate of 5% per annum of the Series B Purchase Price, payable semi-annually on June 30 and December 31, commencing on December 31, 2009 (with the first payment being pro-rated based on the number of days occurring between the date of issuance and December 31, 2009). The Company was permitted to pay dividends in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series B Convertible Preferred Stock were also entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our Company, the holders of Series B Convertible Preferred Stock would have been paid out of the assets of the Company available for distribution to our stockholders before any payment was paid to the holders of common stock, an amount per share equal to the Series B Purchase Price, plus accrued and unpaid dividends. The Series B Convertible Preferred Stock would have been treated on an equivalent basis with the holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock with respect to payments made in connection with a liquidation. The Board approved the method of payment in the form of common stock for the dividends payable with respect to December 31, 2009 and the June 30, 2010 (to the holders of Series B Convertible Preferred Stock issued in November 2009). In April 2012, the Company issued 96,966 shares of common stock as the final payment of dividends to Series B holders for accrued dividends through April 3, 2012.

Series B Warrants

The Series B Warrants currently have an exercise price of \$1.43 for Series B Warrants issued in November 2009, and \$1.75 for Series B Warrants issued in March 2010, in each case with a term expiring on August 12, 2016 and, with respect to affiliates, August 12, 2015. The Series B Warrants are currently exercisable for shares of Common Stock. The Series B Warrants permit the holder to conduct a "cashless exercise" at any time the holder of the Series B Warrant is an "affiliate" (as defined in the Securities Purchase Agreement) of the Company.

The Series B Warrant exercise price and/or number of shares issuable upon exercise of the Series B Warrant will be subject to adjustment for stock splits or similar capital reorganizations, as set forth in the Series B Warrants, as

amended.

Subject to the terms and conditions of the Series B Warrants, the Company has the right to call for cancellation of the Series B Warrants if the volume weighted average price of our common stock on the primary trading market or exchange on which our common stock is then traded equals or exceeds \$4.70 for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

Series C Convertible Preferred Stock

On April 8, 2011 and April 12, 2011, we completed the first tranche of a private placement, pursuant to which we sold an aggregate of 55,048 units for a purchase price of \$15.00 per unit, resulting in gross proceeds to us of \$825,720 (the "Series C Private Placement"). This was the first tranche of the Series C Private Placement. In connection with the second tranche, the purchase price was reduced to \$12.50 per unit and we issued an additional 11,011 units to the purchasers who participated in the first tranche, without any additional gross proceeds to us. The second tranche closed on June 20, 2011 for the sale of 22,039 Series C Units (as defined below) for a purchase price of \$12.50 per unit with gross proceeds of \$275,485. Each unit ("Series C Unit") consisted of (i) one share of Series C Convertible Preferred Stock, \$0.01 par value per share (the "Series C Convertible Preferred Stock") convertible into 10 shares of our Common Stock, (subject to adjustment for stock splits, stock dividends, recapitalization, etc.) and (ii) a three-year warrant

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to purchase 10 shares of our Common Stock at a per share exercise price equal to the sum of (i) the Common Stock equivalent of the Series C Purchase Price (ii) plus \$0.88 (the "Series C Warrant"). The Series C Warrants are exercisable until the close of business on the third anniversary of the applicable closing date.

We engaged an investment banker (the "Investment Banker") to assist with the Series C Private Placement. The Company paid the Investment Banker a cash retainer fee of \$50,000 and issued a warrant to the Investment Banker to purchase 100,000 shares of Common Stock at an exercise price of \$3.00 per share. In connection with the Series C Private Placement, we paid the Investment Banker a fee of (i) approximately \$66,000 cash, (ii) an expense allowance of approximately \$16,500, (iii) a warrant to purchase 61,638 shares of Common Stock exercisable at a purchase price of \$1.50, and (iv) a warrant to purchase 61,638 shares of Common Stock exercisable at a purchase price of \$2.38.

The proceeds from the sale of each Series C Unit were allocated between the Series C Convertible Preferred Stock and the Series C Warrants based on the residual method. The estimated fair value of the Series C Warrants was determined using a binomial formula, resulting in an allocation of the gross proceeds of \$583,250 to the total warrants issued. The allocation of the gross proceeds to the Series C Convertible Preferred Stock was \$517,958. In accordance with the provisions of ASC 470-20, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$476,434 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued. The \$476,434 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series C Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock on April 7 and June 20 issuable upon conversion of the Series C Convertible Preferred Stock from the fair market value of the Series C Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series C Convertible Preferred Stock and warrants. We used a binomial formula since the warrants have down-round protection and are recorded as a liability. See "Warrant Derivative Liability" in Note 3.

Each share of Series C Convertible Preferred Stock will receive a cumulative dividend at the rate of 5% per annum of the respective tranche purchase price, payable semi-annually on June 30 and December 31, commencing on June 30, 2011 (with the first payment being pro-rated based on the number of days occurring between the date of issuance and June 30, 2011). Dividends may be paid in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series C Convertible Preferred Stock also are entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our Company, the holders of Series C Convertible Preferred Stock will be paid out of the assets of the Company available for distribution to our stockholders before any payment shall be paid to the holders of common stock, an amount per share equal to the Series C Purchase Price, plus accrued and unpaid dividends. Prior to the conversion of all of the outstanding shares of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, the Series C Convertible Preferred Stock was treated on an equivalent basis with the Series A Convertible Preferred Stock and Series C Preferred Stock with respect to payments made in connection with a liquidation. The Company elected to pay the dividend payable on June 30, 2011 in cash.

Each share of Series C Convertible Preferred Stock is convertible into 10 shares of common stock at any time at the option of the holder, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Series C Conversion Ratio"). Each share of Series C Convertible Preferred Stock will automatically be converted into shares of common stock at the Series C Conversion Ratio then in effect: (i) if, after 12 months from the closing of the applicable tranche of the Series C Private Placement, the common stock trades on the primary trading market or exchange on which the common stock is then traded at a price equal to three-tenths of the Series C Unit purchase price

for 20 out of 30 consecutive trading days with average daily trading volume of at least 10,000 shares or (ii) upon a registered public offering by the Company at a per share price equal to at least three-tenths of the Series C Unit purchase price, with aggregate gross proceeds to the Company of not less than \$10 million. Unless waived under certain circumstances by the holder of the Series C Convertible Preferred Stock, such holder's Series C Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

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

If we consummate an equity financing (other than the exercise of employee stock options under the Company's stock option plans, the Series C Private Placement or the exercise of any Series C Warrants, or the exercise or conversion of any currently outstanding Common Stock equivalents) within twelve months after the initial Closing and the gross proceeds to the Company from the sale of the Units are less than \$4 million, then each holder of Series C Units may exchange all, but not less than all, of his, her or its Series C Units

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for the equity securities issued in such next financing and shall become subject to the terms and conditions of such next financing; provided that the exchange of the purchaser's Series C Units for next financing securities is permitted under the rules and regulations of the NASDAQ Trading Market then in effect. See Note 6, Subsequent Events.

Series C Warrants

The Series C Warrants have an exercise price equal to \$2.13 with a term expiring on the third anniversary of the deal closing. The Series C Warrants permit the holder to conduct a "cashless exercise" at any time the holder of the Series C Warrant is an "affiliate" (as defined in the Securities Purchase Agreement) of the Company.

The Series C Warrant exercise price and/or number of shares issuable upon exercise of the Series C Warrant will be subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the Series C Warrants. See also "Warrant Derivative Liability" in Note 3.

Subject to the terms and conditions of the Series C Warrants, the Company has the right to call for cancellation the Series C Warrants if the volume weighted average price of our common stock on the NASDAQ Capital Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds two times the per common share exercise price for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days. See Note 6, Subsequent Events.

Series D Convertible Preferred Stock

On November 11, 2011, we completed a registered direct offering, pursuant to which we sold an aggregate of 843 units for a purchase price of \$1,000.00 per unit, resulting in gross proceeds to us of \$843,000 (the "Series D Placement"). Each unit ("Series D Unit") consisted of (i) one share of Series D Convertible Preferred Stock, \$0.01 par value per share (the "Series D Convertible Preferred Stock") convertible into 1,538.46 shares of our Common Stock, (subject to adjustment for stock splits, stock dividends, recapitalization, etc.) and (ii) one five-year warrant to purchase approximately 614 shares of our Common Stock at a per share exercise price of \$0.81, subject to adjustment as provided in the Warrants ("Series D Warrant"). The Series D Warrants will be exercisable beginning on May 11, 2012 and until the close of business on the fifth anniversary of the initial exercise date.

We engaged an investment banker to assist with the Series D Placement. In connection with the Series D Placement, we paid the investment banker a fee of approximately \$67,000 cash.

The proceeds from the sale of each Series D Unit were allocated between the Series D Convertible Preferred Stock and the Series D Warrants based on the residual method. The estimated fair value of the Series D Warrants was determined using a binomial formula, resulting in an allocation of the gross proceeds of \$283,725 to the total warrants issued. The allocation of the gross proceeds to the Series D Convertible Preferred Stock was \$559,275. In accordance with the provisions of ASC 470-20, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$530,140 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued. The \$530,140 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series D Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock on November 10, 2011 issuable upon conversion of the Series D Convertible Preferred Stock from the fair market value of the Series D Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series D Convertible Preferred Stock and warrants. The warrants are recorded as a liability. See "Warrant Derivative Liability" in Note 3.

The Series D Convertible Preferred Stock ranks senior to the Company's Common Stock and Series C Convertible Preferred Stock with respect to payments made upon liquidation, winding up or dissolution. Upon any liquidation, dissolution or winding up of the Company, after payment of the Company's debts and liabilities, and before any payment is made to the holders of any junior securities, the holders of Series D Convertible Preferred Stock are first entitled to be paid \$1,000 per share subject to adjustment for accrued but unpaid dividends.

We may not pay any dividends on shares of common stock unless we also pay dividends on the Series D Convertible Preferred Stock in the same form and amount, on an as-if-converted basis, as dividends actually paid on shares of our common stock. Except for such dividends, no other dividends may be paid on the Series D Convertible Preferred Stock.

Each share of Series D Convertible Preferred Stock is convertible into 1,538.46 shares of common stock (based upon an initial conversion price of \$0.65 per share) at any time at the option of the holder, subject to adjustment for stock splits, stock dividends, combinations, and similar recapitalization transactions (the "Series D Conversion Ratio"). Subject to certain exceptions, if the Company issues any shares of common stock or common stock equivalents at a per share price that is lower than the conversion price

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of the Series D Convertible Preferred Stock, the conversion price will be reduced to the per share price at which such shares of common stock or common stock equivalents are issued. Each share of Series D Convertible Preferred Stock will automatically be converted into shares of common stock at the Series D Conversion Ratio then in effect if, after six months from the closing of the Series D Placement, the common stock trades on the NASDAQ Capital Market (or other primary trading market or exchange on which the common stock is then traded) at a price equal to at least 300% of the then effective Series D Convertible Preferred Stock conversion price for 20 out of 30 consecutive trading days with each trading day having a volume of at least \$50,000. Unless waived under certain circumstances by the holder of the Series D Convertible Preferred Stock, such holder's Series D Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

In addition, in the event we consummate a merger or consolidation with or into another person or other reorganization event in which our shares of common stock are converted or exchanged for securities, cash or other property, or we sell, lease, license or otherwise dispose of all or substantially all of our assets or we or another person acquire 50% or more of our outstanding shares of common stock, then following such event, the holders of the Series D Convertible Preferred Stock will be entitled to receive upon conversion of the Series D Convertible Preferred Stock the same kind and amount of securities, cash or property which the holders of the Series D Convertible Preferred Stock would have received had they converted the Series D Convertible Preferred Stock immediately prior to such fundamental transaction.

The holders of Series D Convertible Preferred Stock are not entitled to vote on any matters presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), except that the holders of Series D Convertible Preferred Stock may vote separately as a class on any matters that would (i) amend, our Restated Articles of Organization, as amended, in a manner that adversely affects the rights of the Series D Convertible Preferred Stock, (ii) alter or change adversely the powers, preferences or rights of the Series D Convertible Preferred Stock or alter or amend the certificate of designation, (iii) authorize or create any class of shares ranking as to dividends, redemption or distribution of assets upon liquidation senior to, or otherwise pari passu with, the Series D Convertible Preferred Stock, or (iv) increase the number of authorized shares of Series D Convertible Preferred Stock.

If, within 12 months of the initial issuance of the Series D Convertible Preferred Stock, we issue any common stock, common stock equivalents, indebtedness or any combination thereof (a "Subsequent Financing"), the holders of Series D Convertible Preferred Stock have the right to participate on a pro-rata basis in up to 50% of such Subsequent Financing.

Series D Warrants

The Series D Warrants originally had an exercise price equal to \$0.81 per share of Common Stock. The number of Series D Warrants increased by 48,950 to a total of 566,422 and each Series D Warrant currently has an exercise price equal to \$0.74 per share of Common Stock. These adjustments were made in connection with our February 2012 private placement in accordance with the Series D Warrant. The Series D Warrants are exercisable beginning on the six month anniversary of the date of issuance and expire five years from the initial exercise date. The Series D Warrants permit the holder to conduct a "cashless exercise" at any time a registration statement, or the prospectus contained therein, is not available for the issuance of the shares of Common Stock issuable upon exercise of the Series D Warrant, and under certain circumstances at the expiration of the Series D Warrants. The exercise price and/or number of shares of Common Stock issuable upon exercise of the Series D Warrants are subject to adjustment for certain stock dividends, stock splits or similar capital reorganizations, as set forth in the Warrants. The exercise price

and/or number of shares of Common Stock issuable upon exercise of the Series D Warrants are also subject to adjustment in the event that we issue any shares of common stock or common stock equivalents at a per share price that is lower than the exercise price for the Series D Warrants then in effect. Upon any such issuance, subject to certain exceptions, the exercise price will be reduced to the per share price at which such shares of common stock or common stock equivalents are issued and number of Series D Warrant shares issuable hereunder shall be increased such that the aggregate exercise price payable hereunder, after taking into account the decrease in the exercise price, shall be equal to the aggregate exercise price prior to such adjustment. Unless waived under certain circumstance by the holder of a Series D Warrant, such holder may not exercise the Series D Warrant if upon such exercise the holder's beneficial ownership of the Company's Common Stock would exceed certain thresholds. In the event we consummate a merger or consolidation with or into another person or other reorganization event in which our shares of common stock are converted or exchanged for securities, cash or other property, or we sell, lease, license or otherwise dispose of all or substantially all of our assets or we or another person acquire 50% or more of our outstanding shares of common stock, then following such event, the holders of the Series D Warrants will be entitled to receive upon exercise of the Series D Warrants the same kind and amount of securities, cash or property which the holders would have received had they exercised the Series D Warrants immediately prior to such fundamental transaction.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock

Shareholders Purchase Rights Plan

On March 3, 2003, our Board of Directors adopted a shareholder purchase 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 its consolidated assets or earning power are sold, each holder of a Right will thereafter have the right to purchase, upon payment of the purchase price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the purchase price of the Right.

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 and Warrants

Our stockholders approved our amended 2005 Equity Incentive Plan (the “Plan”) pursuant to which an aggregate of 1,800,000 shares of our common stock were reserved for issuance upon exercise of stock options or other equity awards made under the Plan. Under the Plan, we may award stock options, shares of common stock, and other equity interests in the Company to employees, officers, directors, consultants, and advisors, and to any other persons the Board of Directors deems appropriate. As of March 31, 2012, options to acquire 1,555,500 shares were outstanding under the Plan with 267,500 shares available for future grant under the Plan.

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As of March 31, 2012, options to acquire 83,000 shares are outstanding under the 1999 Non-qualified Stock Option Plan. No additional options may be granted under the 1999 Non-qualified Stock Option Plan.

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

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PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Stock Options		Warrants		Total Shares	Exercisable
	Shares	Weighted Average price per share	Shares	Weighted Average price per share		
Balance outstanding, 12/31/2010	1,605,603	\$2.49	2,681,350	\$2.24	4,286,953	4,114,792
Granted	180,000	1.00	2,094,151	1.44	2,274,151	
Exercised	(41,103)	1.07	-	-	(41,103)	
Expired	(161,000)	2.78	-	-	(161,000)	
Forfeited	(75,000)	2.57	-	-	(75,000)	
Balance outstanding, 12/31/2011	1,508,500	\$2.33	4,775,501	\$1.35	6,284,001	6,112,335
Granted	127,000	0.80	534,887	0.74	661,887	
Exercised	-	-	-	-	-	
Expired	(80,000)	3.08	-	-	(80,000)	
Forfeited	-	-	-	-	-	
Balance outstanding, 3/31/2012	1,555,500	\$2.17	5,310,388	\$1.28	6,865,888	6,567,222

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (Years)	Exercise Price
\$0.55 - \$2.70	870,000	7.5	\$1.07	571,334	6.3	\$1.14
2.71 - 3.08	219,500	4.0	2.88	219,500	4.0	2.88
3.09 - 3.95	302,000	4.2	3.67	302,000	4.2	3.67