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

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

Form 10-KSB/A

(Mark One)

x	Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2005 or
¨	Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

Commission file number 000-21615

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

Massachusetts (State or Other Jurisdiction of Incorporation or Organization)	**04-2652826** (I.R.S. Employer Identification No.)
321 Manley Street, **West Bridgewater, Massachusetts** (Address of Principal Executive Offices)	**02379-1040** (zip code)

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

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

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

Preferred Share Purchase Rights
(Title of Class)

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

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

Documents Incorporated by Reference

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

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

INTRODUCTORY NOTE

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

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

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

· Part II, Item 6, Management's Discussion and Analysis or Plan of Operations, has been amended to:

- o reflect our explanation of the increase in "Income Tax (provision) benefit from Continuing Operations" of $(22,725) for the fiscal year ended December 31, 2005;
- o revise the "Gain on Sale of Net Assets Related to Discontinued Operations"; the $921,648 previously recorded in fiscal year ended December 31, 2005 has been reduced to $703,269 to reflect the proper accounting for a deferred tax liability which was created by reflecting installment sale treatment in our 2004 federal corporate income tax return;
- o reflect our explanation of the decrease in "Net Income"; the reduction in "Gain on Sale of Net Assets Related to Discontinued Operations" of $218,379 and the additional income tax provision from continuing operations of $(22,725) result in a dollar for dollar reduction in net income for fiscal year ended December 31, 2005; and
- o revise our discussion of Liquidity and Financial Condition to reflect a decrease in working capital of $241,105 from the previously reported amount of $7,981,841, to $7,740,736; this decrease in reported working capital is entirely due to adjustments to the income tax accounts.
- o Revise our disclosure of "Critical Accounting Policies" , to explain the change in the Deferred Tax Valuation Allowance;
- o Revise our disclosure of "Recent Accounting Standards", to explain our adoption of SFAS 154, relative to the correction of the errors we found in our accounting for income taxes.

· Part II, Item 7, Financial Statements, has been amended to reflect the adjustment of our accounting for income taxes. Adjustments made impact the Consolidated Statements of Operations, Consolidated Balance Sheet, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Stockholders' Equity, Consolidated Statements of Cash Flows and Note 2 (iii) "Correction of Error", Note 2 (xii) "Computation of Earnings (loss) Per Share", Note 2 (xiv) "Recent Accounting Standards", Note 2 (xv) "Stock-based Compensation", Note 9, "Income Taxes" in the Notes to Consolidated Financial Statements.

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

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

Overview

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

To prepare our consolidated financial statements in conformity with generally accepted accounting principles, management is required to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates were made in determining the gain on the disposition of our discontinued operations including post-closing adjustments, in estimating future cash flows to quantify impairment of assets, in estimates regarding the collectibility of accounts receivable, the realizability of a loan receivable together with associated accrued interest from our President and Chief Executive Officer and a director including sufficiency of collateral, current and deferred tax assets and liabilities, and the net realizable value of our inventory. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates and assumptions used by management.

Revenue Recognition

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

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

Inventory

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

Intangible Assets

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

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

Long-Lived Assets and Deferred Costs

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

Deferred Tax Valuation Allowance

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

Discontinued Operations

BBI Diagnostics and BBI Biotech Segments

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

Clinical Laboratory Testing Services Segment

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

Assets and Liabilities Transferred Under Contractual Arrangements

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

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

Loan Receivable from Director and Chief Executive Officer

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

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

YEARS ENDED DECEMBER 31, 2005 AND 2004

Revenue

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

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

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

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

Cost of PCT Products and Services

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

Research and Development

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

Selling and Marketing

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

General and Administrative

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

Stock Based Compensation

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

Operating Loss from Continuing Operations

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

Realized gain of sale of securities held for sale

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

Other Operating (Charges), net

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

Interest Income

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

Income Tax (provision) benefit from Continuing Operations

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

Income (loss) from Discontinued Operations

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

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

Gain on Sale of Net Assets Related to Discontinued Operations

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

Net Income (Loss)

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

LIQUIDITY AND FINANCIAL CONDITION

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

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

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

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

Investment in Panacos Pharmaceuticals

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

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

CONTRACTUAL OBLIGATIONS

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

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

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

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

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

Contractual Obligations	Total	1 year or less	More than 1 year
Lease for Irvine, CA facility	$ 1,075,922	$	