

PRESSURE BIOSCIENCES INC  
Form 10-Q  
November 14, 2014

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014 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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Yes  No

The number of shares outstanding of the Issuer’s common stock as of November 14, 2014 was 15,787,560

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

| ASSETS  | September<br>30,<br>2014<br>(Unaudited) | December<br>31,<br>2013<br>(Audited) |
|---|---|--------------------------------------|
| <b>CURRENT ASSETS</b>   |   |                                      |
| Cash and cash equivalents   | \$98,216                                | \$31,417                             |
| Accounts receivable   | 335,041                                 | 147,635                              |
| Inventories, net of \$50,000 reserve at September 30, 2014 and December 31, 2013  | 852,523                                 | 736,676                              |
| Prepaid income taxes  | 7,381                                   | 7,381                                |
| Prepaid expenses and other current assets   | 120,055                                 | 85,573                               |
| Total current assets  | 1,413,216                               | 1,008,682                            |
| Property and equipment, net   | 42,375                                  | 58,102                               |
| Intangible assets, net  | -                                       | 36,498                               |
| <b>TOTAL ASSETS</b>   | <b>\$1,455,591</b>                      | <b>\$1,103,282</b>                   |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |   |                                      |
| <b>CURRENT LIABILITIES</b>  |   |                                      |
| Accounts payable  | \$1,085,796                             | \$1,102,772                          |
| Accrued employee compensation   | 163,159                                 | 149,333                              |
| Accrued professional fees and other   | 783,075                                 | 615,244                              |
| Deferred revenue  | 18,461                                  | 28,189                               |
| Promissory note   | -                                       | 75,000                               |
| Related party debt  | 18,788                                  | 25,182                               |
| Convertible debt, net of debt discount of \$576,116 and \$331,806 respectively  | 617,160                                 | 281,796                              |
| Other debt  | -                                       | 89,989                               |
| Warrant derivative liability  | 235,724                                 | 344,570                              |
| Conversion option liability   | 611,312                                 | 356,197                              |
| Total current liabilities   | 3,553,475                               | 3,068,272                            |
| <b>LONG TERM LIABILITIES</b>  |   |                                      |
| Deferred revenue  | -                                       | 2,785                                |
| <b>TOTAL LIABILITIES</b>  | <b>3,553,475</b>                        | <b>3,071,057</b>                     |
| <b>COMMITMENTS AND CONTINGENCIES (Note 4)</b>   |   |                                      |
| <b>STOCKHOLDERS' DEFICIT</b>  |   |                                      |
| Series D Convertible Preferred Stock, \$.01 par value; 850 shares authorized; 300 shares issued and outstanding on September 30, 2014 and on December 31, 2013                                  | 3                                       | 3                                    |
| Series G Convertible Preferred Stock, \$.01 par value; 240,000 shares authorized; 86,570 and 145,320 shares issued and outstanding on September 30, 2014 and on December 31, 2013, respectively | 865                                     | 1,453                                |
| Series H Convertible Preferred Stock, \$.01 par value; 10,000 shares authorized; 10,000 shares issued and outstanding on September 30, 2014 and on December 31, 2013                            | 100                                     | 100                                  |
| Series J Convertible Preferred Stock, \$.01 par value; 6,250 shares authorized; 3,546 and 5,087.5 shares issued and outstanding on September 30, 2014 and on December                           | 35                                      | 51                                   |

31, 2013, respectively

Series K Convertible Preferred Stock, \$.01 par value; 15,000 shares authorized;  
11,399 shares issued

and outstanding on September 30, 2014 and 4,000 shares issued and outstanding on  
December 31, 2013

|   |                    |                    |
|---|--------------------|--------------------|
|   | 114                | 40                 |
| Common stock, \$.01 par value; 50,000,000 shares authorized; 15,727,560 and<br>12,024,267 shares issued and outstanding on September 30, 2014 and on December<br>31, 2013, respectively | 157,276            | 120,243            |
| Warrants to acquire preferred stock and common stock  | 4,967,377          | 4,267,402          |
| Additional paid-in capital  | 23,471,244         | 19,509,921         |
| Accumulated deficit   | (30,674,898)       | (25,866,988)       |
| Total stockholders' deficit   | (2,077,884 )       | (1,967,775 )       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  | <b>\$1,455,591</b> | <b>\$1,103,282</b> |

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

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

|   | For the Three Months<br>Ended |              | For the Nine Months Ended |                |
|---|-------------------------------|--------------|---------------------------|----------------|
|   | September 30,<br>2014         | 2013         | September 30,<br>2014     | 2013           |
| <b>Revenue:</b>   |                               |              |                           |                |
| Products, services, other                                     | \$372,545                     | \$327,958    | \$1,084,156               | \$746,050      |
| Grant revenue   | -                             | 92,804       | -                         | 403,186        |
| Total revenue   | 372,545                       | 420,762      | 1,084,156                 | 1,149,236      |
| <b>Costs and expenses:</b>                                    |                               |              |                           |                |
| Cost of products and services                                 | 149,065                       | 175,995      | 461,124                   | 364,368        |
| Research and development                                      | 232,032                       | 280,276      | 716,358                   | 787,142        |
| Selling and marketing   | 188,129                       | 190,882      | 555,543                   | 573,174        |
| General and administrative                                    | 600,952                       | 617,642      | 1,777,887                 | 1,851,634      |
| Total operating costs and expenses                            | 1,170,178                     | 1,264,795    | 3,510,912                 | 3,576,318      |
| Operating loss  | (797,633 )                    | (844,033 )   | (2,426,756 )              | (2,427,082 )   |
| <b>Other (expense) income:</b>                                |                               |              |                           |                |
| Interest expense  | (179,942 )                    | (158,162 )   | (658,255 )                | (230,176 )     |
| Other expense   | (80,102 )                     | (2,132 )     | (80,102 )                 | (210,838 )     |
| Change in fair value of derivative liabilities                | 98,627                        | 331,113      | (156,779 )                | 349,472        |
| Total other (expense) income                                  | (161,417 )                    | 170,819      | (895,136 )                | (91,542 )      |
| Net loss  | (959,050 )                    | (673,214 )   | (3,321,892 )              | (2,518,624 )   |
| Accrued dividends on convertible preferred stock              | (43,362 )                     | (42,938 )    | (97,955 )                 | (114,348 )     |
| Deemed dividends on convertible preferred stock               | -                             | -            | (1,388,062 )              | (651,182 )     |
| Net loss applicable to common shareholders                    | \$(1,002,412 )                | \$(716,152 ) | \$(4,807,909 )            | \$(3,284,154 ) |
| <b>Net loss per share attributable to common stockholders</b> |                               |              |                           |                |
| - basic and diluted   | \$(0.07 )                     | \$(0.06 )    | \$(0.35 )                 | \$(0.28 )      |
| <b>Weighted average common stock shares outstanding</b>       |                               |              |                           |                |
| used in the basic and diluted net loss per share calculation  | 15,238,466                    | 11,664,484   | 13,648,795                | 11,776,740     |

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

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

|   | For the Nine Months<br>Ended<br>September 30, |               |
|---|---|---------------|
|   | 2014  | 2013          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |   |               |
| Net loss  | \$(3,321,892)                                 | \$(2,518,624) |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |               |
| Depreciation and amortization   | 59,364  | 62,955        |
| Accretion of interest and amortization of debt issuance costs               | 611,919                                       | 391,625       |
| Stock-based compensation expense  | 46,770  | 120,248       |
| Non-cash third party fees   | 206,226                                       | 396,525       |
| Change in fair value of derivative liability                                | 156,799                                       | (349,472 )    |
| Changes in operating assets and liabilities:                                |   |               |
| Accounts receivable   | (187,406 )                                    | 15,351        |
| Inventories   | (115,847 )                                    | 71,894        |
| Accounts payable  | (16,976 )                                     | 1,857         |
| Accrued employee compensation   | 13,826  | 46,177        |
| Deferred revenue  | 117,486                                       | (30,854 )     |
| Other accrued expenses and liabilities                                      | 4,977   | 258,806       |
| Prepaid expenses and other current assets                                   | 222,041                                       | (27,611 )     |
| Net cash used in operating activities                                       | (2,202,713)                                   | (1,561,123)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |   |               |
| Purchases of property plant and equipment                                   | (7,139 )                                      | (55,052 )     |
| Net cash used in investing activities                                       | (7,139 )                                      | (55,052 )     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |   |               |
| Payment of related party debt, net  | (6,394 )                                      | (45,736 )     |
| Net proceeds from convertible debt  | 957,744                                       | 896,503       |
| Payments on convertible debt  | (303,100 )                                    | (5,968 )      |
| Net proceeds from non-convertible debt                                      | 270,252                                       | -             |
| Payments on non-convertible debt  | (267,377 )                                    | -             |
| Payment of preferred stock dividends  | -   | (60,000 )     |
| Net proceeds from the issuance of common stock                              | 149,166                                       | -             |
| Net proceeds from the issuance of preferred stock                           | 1,476,360                                     | 896,595       |
| Net cash provided by financing activities                                   | 2,276,651                                     | 1,681,394     |
| Change in cash and cash equivalents   | 66,799  | 65,219        |
| Cash and cash equivalents, beginning of period                              | 31,417  | 1,461         |
| Cash and cash equivalents, end of period                                    | \$98,216                                      | \$66,680      |
| <b>SUPPLEMENTAL INFORMATION:</b>  |   |               |

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|  |           |             |
|--|-----------|-------------|
| Convertible debt exchanged for convertible preferred stock                   | \$270,000 | \$1,018,000 |
| Accrued dividends on preferred stock   | 97,955    | -           |
| Issuance of convertible preferred stock for interest                         | 30,000    | -           |
| Issuance of convertible preferred stock for related party debt               | -         | 25,200      |
| Issuance of convertible preferred stock for board of director and other fees | 92,750    | -           |
| Issuance of common stock for services  | -         | 320,000     |
| Deemed dividend on convertible preferred stock                               | 1,388,062 | 651,182     |
| Convertible debt exchanged for common stock                                  | 87,500    | -           |
| Common stock issued for preferred dividends                                  | 82,231    | -           |

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



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

1) Business Overview, Liquidity and Management Plans

We are focused on solving the challenging problems inherent in biological sample preparation, a crucial laboratory step performed by scientists worldwide working in biological life sciences research. Sample preparation is a term that refers to a wide range of activities that precede most forms of scientific analysis. Sample preparation is often complex, time-consuming and, in our belief, one of the most error-prone steps of scientific research. It is a widely-used laboratory undertaking – the requirements of which drive what we believe is a large and growing worldwide market. We have developed and patented a novel, enabling technology platform that can control the sample preparation process. It is based on harnessing the unique properties of high hydrostatic pressure. This process, called pressure cycling technology, or PCT, uses alternating cycles of hydrostatic pressure between ambient and ultra-high levels i.e., 35,000 pounds per square inch (“psi”) or greater to safely, conveniently and reproducibly control the actions of molecules in biological samples, such as cells and tissues from human, animal, plant and microbial sources.

Our pressure cycling technology uses internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures and specific time intervals, to rapidly and repeatedly control the interactions of bio-molecules, such as deoxyribonucleic acid (“DNA”), ribonucleic acid (“RNA”), proteins, lipids and small molecules. Our laboratory instrument, the Barocycler®, and our internally developed consumables product line, which include our Pressure Used to Lyse Samples for Extraction (“PULSE”) tubes, and other processing tubes, and application specific kits such as consumable products and reagents, together make up our PCT Sample Preparation System (“PCT SPS”).

We are also the exclusive distributor throughout all of the Americas for the Constant Systems cell disruption equipment, parts, and consumables. Constant Systems, Ltd (“CS”), a British company located about 90 minutes northwest of London, England, has been providing niche biomedical equipment, related consumable products, and services to a global client base since 1989. CS designs, develops, and manufactures high pressure cell disruption equipment required by life sciences laboratories worldwide, particularly disruption systems for the extraction of proteins. The CS equipment provides a constant and controlled cell disruptive environment, giving the user superior, constant, and reproducible results whatever the application. CS has nearly 900 units installed in over 40 countries worldwide. The CS cell disruption equipment has proven performance in the extraction of cellular components, such as protein from yeast, bacteria, mammalian cells, and other sample types.

The CS pressure-based cell disruption equipment and the PBI PCT instrumentation complement each other in several important ways. While both the CS and PBI technologies are based on high pressure, each product line has fundamental scientific capabilities that the other does not offer. PBI’s PCT Platform uses certain patented pressure mechanisms to achieve small-scale, molecular level effects. CS’s technology uses different, proprietary pressure mechanisms for larger-scale, non-molecular level processing. In a number of routine laboratory applications, such as protein extraction, both effects can be critical to success. Therefore, for protein extraction and a number of other important scientific applications, we believe laboratories will benefit by using the CS and PBI products, either separately or together.

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of September 30, 2014, we did not have adequate working capital resources to satisfy our current liabilities and as a result, there is substantial doubt regarding our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments related to the recovery of assets or classifications of liabilities that might be necessary should we be unable to continue as a going concern. Based on our

current projections, including equity and debt financing completed subsequent to September 30, 2014, we believe we will have the cash resources that will enable us to continue to fund normal operations. Please see Note 6, Subsequent Events.

Management has developed a plan to continue operations. This plan includes obtaining equity or debt financing including our most recently completed financing on January 29, 2014, February 28, 2014 and June 30, 2014, in which we sold units consisting of shares of convertible preferred stock and warrants to purchase shares of common stock for net cash proceeds of approximately \$1,676,360 in three tranches of \$826,000, \$630,360 and \$220,000, respectively; and the conversion of \$392,750 in principal and accrued interest from convertible promissory notes and other fees. The Company has received \$263,000 of the next tranche of equity financing which closed on November 12, 2014. \$130,000 was received prior to September 30, 2014 and included in the cash balance and recorded as an investor deposit at September 30, 2014. We also signed an agreement to borrow up to \$400,000 on June 4, 2014. Through August 1, 2014, we have received \$150,000 under this agreement. There is no guaranty that the Company will receive the amounts remaining under these agreements. Although we have successfully completed financings and reduced expenses in the past, we cannot assure you that our plans to address these matters in the future will be successful.

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

We need substantial additional capital to fund normal operations in future periods. 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.

2) Interim Financial Reporting

The accompanying unaudited condensed 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 and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013 as filed with the Securities and Exchange Commission on March 31, 2014.

3) Summary of Significant Accounting Policies

Principles of Consolidation

The condensed 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 condensed 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 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 Barocyler NEP3229 and NEP2320, require a basic level of instrumentation expertise to set-up for initial operation. To support a favorable first experience for our customers, we send a highly trained technical representative to the customer site to install every Barocyler that we sell or lease domestically. The installation process includes uncrating and setting up the instrument, followed by introductory user training. Product revenue related to current Barocyler instrumentation is recognized upon the completion of the installation and introductory training process of the Barocyler NEP3229 and NEP2320 instrumentation at the customer location, for domestic installations. Product revenue related to sales of PCT instrumentation to our foreign distributors and overseas customers, to our domestic distributors, and our new Barocyler HUB440 instrument 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 Barocyler instrument. The depreciation expense associated with assets under lease agreement is included in the "Cost of PCT products and services" line item in our condensed 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 CONDENSED 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. Our cash balance at September 30, 2014 includes restricted cash.

#### 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 Barocycler instruments 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 September 30, 2014 and December 31, 2013 is as follows:

|                   | September<br>30,<br>2014 | December<br>31,<br>2013 |
|-------------------|--------------------------|-------------------------|
| Raw materials     | \$222,989                | \$147,290               |
| Finished goods    | 679,534                  | 639,386                 |
| Inventory reserve | (50,000 )                | (50,000 )               |
| Total             | \$852,523                | \$736,676               |

#### Property and Equipment

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

#### Intangible Assets

We have classified as intangible assets, costs associated with the fair value of acquired intellectual property. Intangible assets including patents are amortized on a straight-line basis over sixteen years. 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 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.

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

### Long-Lived Assets and Deferred Costs

In accordance with FASB ASC 360-10-05, Property, Plant, and Equipment, 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 related to the long-lived assets. If impairment is indicated, we measure the amount of such impairment by comparing the carrying value of the asset to the fair value of the asset and record the impairment as a reduction in the carrying value of the related asset and a charge to operating results. While our current and historical operating losses and cash flow are indicators of impairment, we performed an impairment analysis at December 31, 2013 and determined that our long-lived assets were not impaired.

### Accounts Receivable and Allowance for Doubtful Accounts

We maintain allowances for estimated losses resulting from the inability of our customers to make required payments. Judgments are used in determining the allowance for doubtful accounts and are based on a combination of factors. Such factors include historical collection experience, credit policy and specific customer collection issues. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., due to a bankruptcy filing), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. We perform ongoing credit evaluations of our customers and continuously monitor collections and payments from our customers. While actual bad debts have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same bad debt rates that we have in the past. A significant change in the liquidity or financial position of any of our customers could result in the uncollectability of the related accounts receivable and could adversely impact our operating cash flows in that period.

### 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 and nine months ended September 30, 2014 and 2013:

|                    | For the Three Months<br>Ended<br>September 30, |   |      |   |
|--------------------|--|---|------|---|
|                    | 2014   |   | 2013 |   |
| Top Five Customers | 53   | % | 53   | % |
| Federal Agencies   | 1  | % | 27   | % |
|                    | For the Nine Months<br>Ended                   |   |      |   |

|                    | September 30, |   |      |   |
|--------------------|---------------|---|------|---|
|                    | 2014          |   | 2013 |   |
| Top Five Customers | 31            | % | 51   | % |
| Federal Agencies   | 1             | % | 41   | % |

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PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
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The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of September 30, 2014 and December 31, 2013:

|                    | September<br>30,<br>2014 | % | December<br>31,<br>2013 | % |
|--------------------|--------------------------|---|-------------------------|---|
| Top Five Customers | 58                       | % | 86                      | % |
| Federal Agencies   | 1                        | % | 16                      | % |

#### Product Supply

Bit Group, Inc. has been our sole contract manufacturer for our PCT NEP3229 and NEP2320 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.

The following table illustrates our computation of loss per share for the three months and nine months ended September 30, 2014 and 2013:

|  | For the Three Months<br>Ended<br>September 30, |              | For the Nine Months Ended<br>September 30, |                |
|--|--|--------------|--|----------------|
|  | 2014   | 2013         | 2014                                       | 2013           |
| <b>Numerator:</b>  |  |              |  |                |
| Net loss   | \$(959,050 )                                   | \$(673,214 ) | \$(3,321,892 )                             | \$(2,518,624 ) |
| Accrued dividend for Preferred Stock                     | (43,362 )                                      | (42,938 )    | (97,955 )                                  | (114,348 )     |
| Deemed dividend on Series J Convertible Preferred Stock  | -  | -            | -  | (651,182 )     |
| Deemed dividend on Series K Convertible Preferred Stock  | -  | -            | (1,388,062 )                               | -              |
| Net loss applicable to common shareholders               | \$(1,002,412 )                                 | \$(716,152 ) | \$(4,807,909 )                             | \$(3,284,154 ) |
| <b>Denominator for basic and diluted loss per share:</b> |  |              |  |                |
| Weighted average common stock shares outstanding         | 15,238,466                                     | 11,664,484   | 13,648,795                                 | 11,776,740     |

|   |          |   |          |   |          |   |          |   |
|---|----------|---|----------|---|----------|---|----------|---|
| Loss per common share - basic and diluted | \$ (0.07 | ) | \$ (0.06 | ) | \$ (0.35 | ) | \$ (0.28 | ) |
|---|----------|---|----------|---|----------|---|----------|---|

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 D Convertible Preferred Stock, Series G Convertible Preferred Stock, Series H Convertible Preferred Stock, Series J Convertible Preferred Stock and Series K Convertible Preferred Stock are presented below as if they were converted into common shares according to the conversion terms in Note 5.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
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|                                      | For the Three and Nine<br>Months Ended<br>September 30, |            |
|--------------------------------------|---|------------|
|                                      | 2014  | 2013       |
| Stock options                        | 3,356,250   | 1,793,750  |
| Convertible debt                     | 4,091,151   | 1,025,000  |
| Common stock warrants                | 17,895,717  | 12,034,599 |
| Convertible preferred stock:         |   |            |
| Series D Convertible Preferred Stock | 750,000   | 750,000    |
| Series G Convertible Preferred Stock | 865,700   | 1,453,200  |
| Series H Convertible Preferred Stock | 1,000,000   | 1,000,000  |
| Series J Convertible Preferred Stock | 3,548,000   | 5,087,500  |
| Series K Convertible Preferred Stock | 11,399,000  | -          |
|                                      | 42,905,818  | 23,144,049 |

#### 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 registered direct offering of Series D Convertible Preferred Stock (the "Series D Warrants") are measured at fair value and liability-classified because the Series D Warrants contain "down-round protection" and therefore, do not meet the scope exception 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 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 \$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 D Warrants survives for the life of the Series D Warrants which ends in May 2017.

#### Conversion Option Liability

The Company signed a number of convertible notes and has determined that conversion options are embedded in the notes and it is required to bifurcate the conversion option from the host contract under ASC 815 and account for the derivatives at fair value. The estimated fair value of the conversion options was determined using the binomial model.

The fair value of the conversion options will be classified as a liability until the debt is converted by the note holders or paid back by the Company. 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 conversion options as a liability until the conversion options are exercised, expire or are amended in a way that would no longer require these conversion options to be classified as a liability, whichever comes first. The Company has adopted a sequencing policy that reclassifies contracts (from equity to liabilities) with the most recent inception date first. Thus any available shares are allocated first to contracts with the most recent inception dates.

#### Accounting for Stock-Based Compensation Expense

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 stock-based 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.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
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### 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 2013 and 2014.

**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. The Company used this historical rate as our assumption in calculating future stock-based compensation expense.

The Company recognized stock-based compensation expense of \$6,387 and \$92,231 for the three months ended September 30, 2014 and 2013, 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 Condensed Consolidated Statements of Operations:

|  | For the Three Months Ended<br>September 30, |           |
|--|---|-----------|
|  | 2014  | 2013      |
| Research and development               | \$ 1,749                                    | \$ 44,658 |
| Selling and marketing                  | 1,391                                       | 17,024    |
| General and administrative             | 3,247                                       | 30,549    |
| Total stock-based compensation expense | \$ 6,387                                    | \$ 92,231 |

We recognized stock-based compensation expense of \$46,771 and \$120,248 for the nine months ended September 30, 2014 and 2013, 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 Condensed Consolidated Statements of Operations:

|                          | For the Nine Months<br>Ended<br>September 30, |           |
|--------------------------|---|-----------|
|                          | 2014  | 2013      |
| Research and development | \$ 19,602                                     | \$ 50,161 |
| Selling and marketing    | 13,296  | 21,216    |

|  |          |           |
|--|----------|-----------|
| General and administrative             | 13,873   | 48,871    |
| Total stock-based compensation expense | \$46,771 | \$120,248 |

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
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### Fair Value of Financial Instruments

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

### Fair Value Measurements

The Company follows the guidance of FASB ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”) 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 development of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company’s management.

The following tables set forth the Company’s financial liabilities that were accounted for at fair value on a recurring basis as of September 30, 2014.

|  | September 30, 2014 | Fair value measurements at September 30, 2014 using: |   |   |
|--|--------------------|--|---|---|
|  |                    | Quoted prices in active markets (Level 1)            | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Series D Preferred Stock Purchase Warrants | \$235,724          | -  | -   | \$ 235,724                                |
|  | January 1, 2014    | Change in Fair Value                                 | Reclassified to Equity                        | September 30, 2014                        |
| Series D Preferred Stock Purchase Warrants | \$344,570          | \$221,559  | \$(330,405 )                                  | \$235,724                                 |

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

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|                           | November<br>10, 2011 |   | Warrants<br>revalued at<br>December<br>31, 2013 |   | Warrants<br>revalued at<br>September<br>30, 2014 |   |
|---------------------------|----------------------|---|---|---|--|---|
| Expected life (in months) | 60.0                 |   | 34.0  |   | 25.0   |   |
| Expected volatility       | 104.5                | % | 154.8   | % | 129.3  | % |
| Risk-free interest rate   | 0.875                | % | 0.78  | % | 0.58   | % |
| Exercise price            | \$0.81               |   | \$0.25  |   | \$0.25   |   |
| Fair value per warrant    | \$0.54               |   | \$0.21  |   | \$0.22   |   |

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|  | Sept. 30,<br>2014 | Fair value measurements at September<br>30, 2014 using: |   |  |
|--|-------------------|---|---|--|
|  |                   | Quoted<br>prices in<br>active<br>markets (Level<br>1)   | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs (Level<br>3) |
| June 4, 2014 note, conversion option       | \$13,020          | -   | -   | \$ 13,020  |
| July 7, 2014 note, conversion option       | 55,917            | -   | -   | 55,917   |
| July 7, 2014 note, conversion option       | 78,284            | -   | -   | 78,284   |
| August 28, 2014 note, conversion option    | 42,156            | -   | -   | 42,156   |
| September 3, 2014 note, conversion option  | 125,927           | -   | -   | 125,927  |
| September 10, 2014 note, conversion option | 156,376           | -   | -   | 156,376  |
| September 26, 2014 note, conversion option | 139,632           | -   | -   | 139,632  |
| Embedded conversion options                | \$611,312         | -   | -   | \$ 611,312   |

  

|   | Jan. 1,<br>2014 | Issuance<br>fair value | Change in<br>fair value | Reclassification<br>into equity | Sept. 30,<br>2014 |
|---|-----------------|------------------------|-------------------------|---------------------------------|-------------------|
| April 11, 2013 note, conversion option        | \$130,734       | \$-                    | \$7,348                 | \$ (138,082 )                   | \$-               |
| June 26, 2013 note, conversion option         | 55,307          | -                      | 6,118                   | (61,425 )                       | -                 |
| December 4, 2013 note, conversion option      | 98,129          | -                      | (98,129 )               | -                               | -                 |
| December 23, 2013 note, conversion option     | 72,027          | -                      | 48,804                  | (120,831 )                      | -                 |
| June 4, 2014 note, conversion option          | -               | 57,071                 | (44,051 )               | -                               | 13,020            |
| July 7, 2014 note, conversion option          | -               | 64,233                 | (8,316 )                | -                               | 55,917            |
| July 7, 2014 note, conversion option          | -               | 89,926                 | (11,642 )               | -                               | 78,284            |
| August 28, 2014 note conversion option        | -               | 36,892                 | 5,264                   | -                               | 42,156            |
| September 3 2014 note, conversion option      | -               | 122,340                | 3,587                   | -                               | 125,927           |
| September 10, 2014 note, conversion<br>option | -               | 129,710                | 26,666                  | -                               | 156,376           |
| September 26, 2014 note, conversion<br>option | -               | 140,060                | (428 )                  | -                               | 139,632           |
| Embedded conversion options                   | \$356,197       | \$640,232              | \$(64,799 )             | \$ (320,338 )                   | \$611,312         |

The assumptions for the binomial pricing model are represented in the table below for the conversion options reflected on a per share common stock equivalent basis.

| Assumptions               | April 11,<br>2013 |   | Conversion<br>options<br>revalued at<br>February<br>10, 2014 |   |
|---------------------------|-------------------|---|--|---|
| Expected life (in months) | 12                |   | 2  |   |
| Expected volatility       | 206.2             | % | 116.4  | % |
| Risk-free interest rate   | 0.10              | % | 0.04   | % |
| Exercise price            | \$0.14            |   | \$0.25   |   |

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|                                  |          |   |                                |   |
|----------------------------------|----------|---|--------------------------------|---|
| Fair value per conversion option | \$0.29   |   | \$0.20                         |   |
|                                  |          |   | Conversion options revalued at |   |
|                                  |          |   | revalued at                    |   |
|                                  |          |   | February                       |   |
| Assumptions                      | June 26, |   | 10, 2014                       |   |
|                                  | 2013     |   |                                |   |
| Expected life (in months)        | 12       |   | 5                              |   |
| Expected volatility              | 189.2    | % | 137.9                          | % |
| Risk-free interest rate          | 0.13     | % | 0.07                           | % |
| Exercise price                   | \$0.17   |   | \$0.25                         |   |
| Fair value per conversion option | \$0.25   |   | \$0.23                         |   |

|                                  |          |   |                                |   |
|----------------------------------|----------|---|--------------------------------|---|
|                                  |          |   | Conversion options revalued at |   |
|                                  |          |   | revalued at                    |   |
|                                  |          |   | June 30,                       |   |
| Assumptions                      | December |   | 2014                           |   |
|                                  | 4, 2013  |   |                                |   |
| Expected life (in months)        | 24       |   | 1                              |   |
| Expected volatility              | 170.3    | % | 77.1                           | % |
| Risk-free interest rate          | 0.30     | % | 0.02                           | % |
| Exercise price                   | \$0.40   |   | \$0.40                         |   |
| Fair value per conversion option | \$0.16   |   | \$0.02                         |   |

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| Assumptions                      | December<br>23, 2013 |   | Conversion<br>options<br>revalued at<br>June 23,<br>2014 |   |
|----------------------------------|----------------------|---|--|---|
| Expected life (in months)        | 36                   |   | 30   |   |
| Expected volatility              | 151.4                | % | 159.2  | % |
| Risk-free interest rate          | 0.77                 | % | 0.73   | % |
| Exercise price                   | \$0.40               |   | \$0.40   |   |
| Fair value per conversion option | \$0.17               |   | \$0.32   |   |

| Assumptions                      | June 4,<br>2014 |   | Conversion<br>options<br>revalued at<br>Sept. 30,<br>2014 |   |
|----------------------------------|-----------------|---|---|---|
| Expected life (in months)        | 8               |   | 4   |   |
| Expected volatility              | 121.8           | % | 102.7   | % |
| Risk-free interest rate          | 0.07            | % | 0.02  | % |
| Exercise price                   | \$0.45          |   | \$0.45  |   |
| Fair value per conversion option | \$0.16          |   | \$0.04  |   |

| Assumptions                      | July 7,<br>2014 |   | Conversion<br>options<br>revalued at<br>Sept. 30,<br>2014 |   |
|----------------------------------|-----------------|---|---|---|
| Expected life (in months)        | 12              |   | 9   |   |
| Expected volatility              | 117.9           | % | 104.9   | % |
| Risk-free interest rate          | 0.12            | % | 0.09  | % |
| Exercise price                   | \$0.21          |   | \$0.20  |   |
| Fair value per conversion option | \$0.18          |   | \$0.15  |   |

| Assumptions                      | July 7,<br>2014 |   | Conversion<br>options<br>revalued at<br>Sept. 30,<br>2014 |   |
|----------------------------------|-----------------|---|---|---|
| Expected life (in months)        | 12              |   | 9   |   |
| Expected volatility              | 117.9           | % | 104.9   | % |
| Risk-free interest rate          | 0.12            | % | 0.09  | % |
| Exercise price                   | \$0.21          |   | \$0.20  |   |
| Fair value per conversion option | \$0.18          |   | \$0.15  |   |

Assumptions

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|                                  | August 28,<br>2014 |   | Conversion<br>options<br>revalued at<br>Sept. 30,<br>2014 |   |
|----------------------------------|--------------------|---|---|---|
| Expected life (in months)        | 6                  |   | 5   |   |
| Expected volatility              | 104.4              | % | 100.3   | % |
| Risk-free interest rate          | 0.05               | % | 0.03  | % |
| Exercise price                   | \$0.14             |   | \$0.14  |   |
| Fair value per conversion option | \$0.15             |   | \$0.17  |   |

| Assumptions                      | Sept. 3,<br>2014 |   | Conversion<br>options<br>revalued at<br>Sept. 30,<br>2014 |   |
|----------------------------------|------------------|---|---|---|
| Expected life (in months)        | 36               |   | 35  |   |
| Expected volatility              | 153.8            | % | 153.4   | % |
| Risk-free interest rate          | 0.99             | % | 1.05  | % |
| Exercise price                   | \$0.35           |   | \$0.35  |   |
| Fair value per conversion option | \$0.24           |   | \$0.25  |   |

| Assumptions                      | Sept. 10, 2014 |   | Conversion<br>options<br>revalued at<br>Sept. 30, 2014 |   |
|----------------------------------|----------------|---|--|---|
| Expected life (in months)        | 12             |   | 11   |   |
| Expected volatility              | 117.6          | % | 116.3  | % |
| Risk-free interest rate          | 0.12           | % | 0.11   | % |
| Exercise price                   | \$ 0.13        |   | \$ 0.13  |   |
| Fair value per conversion option | \$ 0.12        |   | \$ 0.21  |   |

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
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| Assumptions                      | Sept. 26,<br>2014 |   | Sept. 30,<br>2014 | Conversion<br>options<br>revalued at |
|----------------------------------|-------------------|---|-------------------|--------------------------------------|
| Expected life (in months)        | 12                |   | 12                |                                      |
| Expected volatility              | 116.6             | % | 116.4             | %                                    |
| Risk-free interest rate          | 0.11              | % | 0.13              | %                                    |
| Exercise price                   | \$0.16            |   | \$0.16            |                                      |
| Fair value per conversion option | \$0.19            |   | \$0.19            |                                      |

#### Advertising

Advertising costs are expensed as incurred. We did not incur significant advertising expenses during the three or nine months ended September 30, 2014 or in the same period of the prior year.

#### 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 December 31, 2014 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. This lease was amended to expire on December 31, 2014. We pay \$5,500 per month for the use of these facilities. In September 2014 the landlord exercised their right to reclaim the leased space and we are moving the lab to space in Medford, MA.

Rental costs are expensed as incurred. During the nine months ended September 30, 2014 and 2013 we incurred \$43,200 and \$41,000 in rent expense, respectively for the use of our corporate office and research and development 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 nine months ended September 30, 2014 and 2013, we incurred \$24,623 and \$7,343, 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. After re-negotiating the terms of the contract in 2013, our only obligation for 2013 was a minimum annual royalty payment of \$4,025 and our minimum annual royalty payment for 2014 is \$1,200.

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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. In April 2012 we announced an expanded license agreement and collaboration with TDI with a first target goal to meet unmet needs in treatment guidance for ovarian cancer. We did not incur a royalty liability on sales through September 30, 2014.

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.

Promissory Note

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 and a maturity date of May 4, 2012. The promissory note was interest free until May 4, 2012. On November 15, 2012, \$75,000 of principal and \$16,125 of accrued and unpaid interest were converted into 18,225 shares of the Company's Series G Convertible Preferred Stock. On February 6, 2014 the \$75,000 principal balance remaining and \$14,832 of accrued and unpaid interest were paid off in cash.

Convertible Debt

A loan in the aggregate amount of \$300,000 was received from one individual on January 7, 2014. We granted an original issue discount equal to \$30,000 and warrants to purchase 270,000 shares of common stock at \$0.3125 per share. The loan was converted to the Company's Series K Convertible Preferred Shares in January 2014.

On May 30, 2014, we signed a convertible debenture in the amount of \$400,000. The lender paid an initial payment of \$150,000 net of an original issue discount of \$12,162 on June 4, 2014. A one-time interest charge of 9% will be applied to the principal balance. The lender has the right, at any time from the issue date to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a price of \$0.45 per share subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. The Company is required to reserve at least 650,000 shares of common stock for full conversion of this debenture. The maturity date is eight months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$13,020 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.



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The proceeds from the convertible debt issued on June 4, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$57,071 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$162,162 is offset by a debt discount of \$69,233 which will be amortized to interest expense over the eight month life of the debt.

On July 7, 2014, we signed two convertible debentures in the amount of \$180,000. The lenders paid initial payments of \$66,750 and \$100,000 net of fees of \$8,250 and \$5,000 on July 7, 2014. The Company also incurred a \$6,000 finder's fee. Interest accrues at the rate of 4% on the outstanding principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the lowest VWAP price of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the notes are prepaid before the 90th day following the effective date the prepayment is 119% of the principal amount plus accrued and unpaid interest and if prepaid between the 91st day and 180th day from the effective date the prepayment is 133% of the principal amount plus accrued and unpaid interest. The maturity date is twelve months after the effective date of each payment. The Company determined that the conversion features on each note met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion features are accounted for as a note discount and will be amortized to interest expense over the life of the loans. The fair value of the conversion features was \$134,201 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on July 7, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$154,159 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$180,000 is offset by a debt discount of \$173,409 which will be amortized to interest expense over the twelve month life of the debt.

On August 28, 2014 the Company signed a note with a lender for \$35,000 and received \$32,900 in cash after deducting \$2,100 in fees. The Company has the right to prepay the note prior to the maturity date of February 28, 2015 for \$45,500. If the note is not prepaid by the maturity date the note can be converted to Company common shares for 60% of the lowest intra-day trading price for the 15 days prior to the conversion. The difference between the pre-payment price of \$45,500 and the cash received is being accounted for as debt discount and amortized to interest expense over the six month life of the note. The Company determined that the conversion features on the note met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability.

The proceeds from the convertible debt issued on August 28, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$36,892 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$45,500 is offset by a debt discount of \$45,500 which will be amortized to interest expense over the twelve month life of the debt.

On September 3, 2014, we signed a convertible debenture in the amount of \$175,000. The lender paid an initial payment of \$150,000 net of an original issue discount of \$17,500 on September 3, 2014 and fees of \$7,500. The Company also paid fees of \$8,000 and gave the lender 75,000 shares of Company common stock valued at \$21,750. Interest will not accrue on this note. The lender has the right, at any time within 180 days from the issue date to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a price of \$0.35 per share subject to adjustments for stock splits, stock dividends or rights offerings. After 180 days from the issue date the note can be converted at 65% of the lowest closing price for the 20 days preceding the conversion. The Company shall have the right to prepay the debenture for a payment of 100% of the outstanding principal at any time on or before 90 days after the effective date. Prepayment after 90 days are subject to a premium ranging from 120% - 140% of the outstanding principal. The maturity date is twelve months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$125,927 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on September 3, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$122,340 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$175,000 is offset by a debt discount of \$169,090 which will be amortized to interest expense over the twelve month life of the debt.

On September 10, 2014, we signed a convertible debenture in the amount of \$175,000. The lender paid an initial payment of \$92,000 net of an \$8,000 fee on September 10, 2014. Interest will accrue at the rate of 8% on the unpaid principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and accrued interest into shares of the Company's common stock at a price equal to 55% of the lowest closing price for the 20 day period preceding the conversion, subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time from the effective date to the maturity date for 135% of the principal. The maturity date is twelve months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$156,376 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

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The proceeds from the convertible debt issued on September 10, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$129,710 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$100,000 is offset by a debt discount of \$100,000 which will be amortized to interest expense over the twelve month life of the debt. The residual amount of debt discount of \$37,710 in excess of the principal of \$100,000 is charged to other expense on the condensed consolidated statement of operations.

On September 26, 2014, we signed a convertible debenture in the amount of \$113,000. The lender paid an initial payment of \$101,660 net of an original issue discount of \$11,340. A one-time interest charge of 9% will be applied to the principal balance. The lender has the right, at any time after 179 days from the issue date to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a 40% discount to the three lowest trading prices in the ten days preceding the conversion, subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. The Company is required to reserve at least 650,000 shares of common stock for full conversion of this debenture. The maturity date is eight months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$139,632 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on September 26, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$140,060 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$113,000 is offset by a debt discount of \$113,000 which will be amortized to interest expense over the twelve month life of the debt. The residual amount of debt discount of \$38,400, in excess of the principal of \$113,000 is charged to other expense on the condensed consolidated statement of operations.

#### Other Notes

On December 10, 2013, we signed a Merchant Agreement with Scripline LLC. Under the agreement we received \$96,000 in exchange for rights to all customer receipts until Scripline LLC is paid \$126,700, to be collected at the rate of \$874 per business day. The payments are secured by essentially all tangible assets of the Company. The outstanding balance was recorded as other debt on the balance sheet.

On June 6, 2014, we signed a Merchant Agreement with On Deck Capital. Under the agreement we received \$150,000 in exchange for rights to all customer receipts until On Deck Capital is paid \$190,499, to be collected at the rate of \$756 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid On Deck Capital \$3,750 in fees related to this transaction. The outstanding balance is recorded as other debt on the balance sheet. \$26,100 of the proceeds were used to pay off the Scripline LLC outstanding balance.

On June 23, 2014 the Company received \$50,000 on a short term interest free note from a lender. This note was repaid on July 4, 2014.

On July 31, 2014, we signed a Merchant Agreement with a lender. Under the agreement we received \$75,000 in exchange for rights to all customer receipts until the lender is paid \$101,260, to be collected at the rate of \$632 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid the lender \$999 in fees related to this transaction. The outstanding balance is recorded as other debt on the balance sheet.

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5) Stockholders' Deficit

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:

- 1) 20,000 shares have been designated as Series A Junior Participating Preferred Stock ("Junior A")
- 2) 313,960 shares have been designated as Series A Convertible Preferred Stock ("Series A")
- 3) 279,256 shares have been designated as Series B Convertible Preferred Stock ("Series B")
- 4) 88,098 shares have been designated as Series C Convertible Preferred Stock ("Series C")
- 5) 850 shares have been designated as Series D Convertible Preferred Stock ("Series D")
- 6) 500 shares have been designated as Series E Convertible Preferred Stock ("Series E")
- 7) 240,000 shares have been designated as Series G Convertible Preferred Stock ("Series G")
- 8) 10,000 shares have been designated as Series H Convertible Preferred Stock ("Series H")
- 9) 6,250 shares have been designated as Series J Convertible Preferred Stock ("Series J")
- 10) 15,000 shares have been designated as Series K Convertible Preferred Stock ("Series K")

As of September 30, 2014, there were no shares of Junior A, and Series A, B, C and E issued and outstanding.

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.

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.

The Series D Convertible Preferred Stock ranks senior to the Company's common stock, the Series G Convertible Preferred Stock, the Series H Convertible Preferred Stock, Series J Convertible Preferred Stock and Series K 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.

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Each share of Series D Convertible Preferred Stock is convertible into 2,500 shares of common stock (based upon a reset conversion price of \$0.40 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 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. In April 2012, the number of Series D Warrants increased by 530,406 to a total of 1,047,875 and each Series D Warrant had an exercise price reset to \$0.40 per share of common stock. In December of 2013 the number of Series D Warrants increased by 628,733 to a total of 1,676,608 and each Series D Warrant had an exercise price reset to \$0.25 per share of common stock. The Series D Warrants will be 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 registering, 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 is 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 thereunder shall be increased such that the aggregate exercise price payable thereunder, 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.



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Series D Warrants to purchase 350,000, 100,000 and 146,658 shares of common stock were exercised on March 20, March 26 and April 3, 2014, respectively, at an exercise price of \$0.25 per share resulting in net proceeds to the Company of \$149,164.

Series G Convertible Preferred Stock

On July 6 and November 15, 2012, we completed a private placement, pursuant to which we sold an aggregate of 145,320 units for a purchase price of \$5.00 per unit (the "Series G Purchase Price"), resulting in gross proceeds to us of \$726,600 (the "Series G Private Placement"). Each unit ("Series G Unit") consists of (i) one share of Series G Convertible Preferred Stock, \$0.01 par value per share (the "Series G 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 to purchase 5 shares of our common stock at a per share exercise price of \$0.50 (the "Series G Warrant"). The Series G Warrants will be exercisable until the close of business on the third anniversary of the applicable closing date of the Series G Private Placement. Of the \$726,600 invested in the Series G Private Placement, \$31,100 was received in cash and \$695,500 was from the conversion of outstanding indebtedness and accrued board of directors' fees.

Each share of Series G Preferred Stock will receive a cumulative dividend at the annual rate of (i) four percent (4%) on those shares of Series G Preferred Stock purchased from the Company by an individual purchaser with an aggregate investment of less than \$100,000, (ii) six percent (6%) on those shares of Series G Preferred Stock purchased from the Company by an individual purchaser with an aggregate investment of at least \$100,000 but less than \$250,000, and (iii) twelve percent (12%) on those shares of Series G Preferred Stock purchased from the Company by an individual purchaser with an aggregate investment of at least \$250,000. Dividends accruing on the Series G Preferred Stock shall accrue from day to day until, and shall be paid within fifteen (15) days of, the first anniversary of, the original issue date of the Series G Preferred Stock; provided, however, if any shares of the Company's Series E Preferred Stock are outstanding at such time, payment of the accrued dividends on the Series G Preferred Stock shall be deferred until no such shares of Series E Convertible Preferred Stock remain outstanding. The Company may pay accrued dividends on the Series G Preferred Stock in cash or in shares of its common stock equal to the volume weighted average price of the common stock as reported by the OTC QB Market (or other primary trading market or exchange on which the common stock is then traded) for the ten (10) trading days immediately preceding the Series G's first anniversary.

At the election of the Company and upon required advanced notice, each share of Series G Preferred Stock will automatically be converted into shares of common stock at the Conversion Ratio then in effect: (i) if, after 6 months from the original issuance date of the Series G Preferred Stock, the common stock trades on the OTC QB Market (or other primary trading market or exchange on which the common stock is then traded) at a price equal to at least \$0.75, for 7 out of 10 consecutive trading days with average daily trading volume of at least 10,000 shares, (ii) on or after the first anniversary of the original issuance date of the Series G Preferred Stock or (iii) upon completion of a firm-commitment underwritten registered public offering by the Company at a per share price equal to at least \$0.75, with aggregate gross proceeds to the Company of not less than \$2.5 million. Unless waived under certain circumstances by the holder of the Series G Preferred Stock, such holder's Series G Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

The holders of Series G 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 as required by law.

On April 1, 2014 the Company issued 733,169 shares of common stock for the conversion of 58,750 shares of Series G Convertible Preferred Stock and \$58,267 of accrued and unpaid dividends on the Series G Convertible Preferred Stock.

#### Series G Warrants

The Series G Warrants issued in the Series G Private Placement have an exercise price equal to \$0.50 per share, with a term expiring on July 6, 2015. The Series G Warrants also permit the holder to conduct a “cashless exercise” at any time the holder of the Series G Warrant is an affiliate of the Company. The exercise price and/or number of shares issuable upon exercise of the Series G Warrants will be subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the Series G Warrants.

Subject to the terms and conditions of the Series G Warrants, at any time commencing six months from the closing date the Company has the right to call for cancellation of the Series G Warrants if the volume weighted average price of its common stock on the OTC QB Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds three times the per share exercise price of the Warrants for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

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In connection with our sale of Series G Units, we agreed that for each share of Series G Preferred Stock purchased by an investor, the exercise price of one warrant to purchase one share of common stock, previously issued to the investor in prior offerings by the Company to purchase common stock of the Company held of record by such investor, shall be reduced to \$0.60 per share and will remain at such reduced exercise price until the expiration date of the warrants.

In connection with the sale of Series G Units, we treated the reduction in exercise price as a warrant amendment and calculated the fair value of 1,495,022 warrants with the reduced exercise price of \$0.60, as described above, using the Black-Scholes model with the below assumptions. The Company has determined that the fair value of the amended warrants increased as compared with the fair value of the original warrants immediately prior to amendment.

In connection with the warrant modification, we calculated the fair value of the warrants, as described above, using a Black-Scholes model with the below assumptions:

| Assumptions                | Series A | Series A<br>(Affiliates) | Series B | Series C | Aug/Sep<br>2011<br>Notes | Feb 2012<br>PIPE |
|----------------------------|----------|--------------------------|----------|----------|--------------------------|------------------|
| Contractual life, in years | 4.1      | 3.1                      | 3.1      | 5.1      | 2.1                      | 4.6              |
| Expected volatility        | 132.0 %  | 114.1 %                  | 114.1 %  | 121.9 %  | 126.6 %                  | 126.6 %          |
| Risk-free interest rate    | 0.4 %    | 0.4 %                    | 0.4 %    | 0.4 %    | 0.4 %                    | 0.4 %            |
| Exercise price             | \$0.60   | \$0.60                   | \$0.60   | \$0.60   | \$0.60                   | \$0.60           |
| Fair value per warrant     | \$0.03   | \$0.03                   | \$0.03   | \$0.03   | \$0.03                   | \$0.03           |

We recorded an increased incremental value of \$5,347 for the warrant amendment and treated the excess of fair value of the warrants as a deemed dividend.

#### Series H Convertible Preferred Stock

On December 28, 2012 the Company amended its Articles of Organization to authorize 10,000 shares of Series H Convertible Preferred Stock. On January 4, 2013, the Company reported that it had entered into a securities purchase and exchange agreement with an investor, pursuant to which the Company agreed to exchange an aggregate of 10,000 shares of a newly created series of preferred stock, designated Series H Convertible Preferred Stock, par value \$0.01 per share (the "Series H Preferred Stock") for 1,000,000 shares of the Company's common stock, par value \$0.01 per share of common stock held by the investor in a non-cash transaction. The investor originally purchased the common stock from the Company for \$0.8025 per share. The exchange ratio was 100 shares of common stock per share of Series H Preferred Stock at a stated conversion price of \$0.8025 per share. The terms of the Series H Convertible Preferred Stock are set forth in the Company's Current Report on Form 8-K filed with the SEC on January 4, 2013.

#### Series J Convertible Preferred Stock

On February 6, March 28 and May 20, 2013, the Company entered into a Securities Purchase with various individuals pursuant to which the Company sold an aggregate of 5,087.5 units for a purchase price of \$400.00 per unit (the "Purchase Price"), or an aggregate Purchase Price of \$2,034,700. Each unit purchased in the initial tranche consists of (i) one share of a newly created series of preferred stock, designated Series J Convertible Preferred Stock, par value \$0.01 per share (the "Series J Convertible Preferred Stock"), convertible into 1,000 shares of the Company's common stock, par value \$0.01 per share and (ii) a warrant to purchase 1,000 shares of common stock at an exercise price equal to \$0.40 per share. The warrants expire three years from the issuance date. Of the \$2,034,700 invested in the Private

Placement, \$921,000 was received in cash and \$1,113,700 was from the conversion of outstanding indebtedness, interest and accrued board of directors' fees. The Company incurred \$24,405 of legal fees in conjunction with this private placement. The purchasers in the initial tranche of the private placement consisted of certain existing and new investors in the Company as well as all of the members of the Company's Board of Directors.

From the date of issuance of any shares of Series J Convertible Preferred Stock and until the earlier of the first anniversary of such date, the voluntary conversion of any shares of Series J Convertible Preferred Stock, or the date of any mandatory conversion of the Series J Convertible Preferred Stock, dividends will accrue on each share of Series J Convertible Preferred Stock at an annual rate of (i) four percent (4%) of the Purchase Price on those shares of Series J Convertible Preferred Stock purchased from the Company pursuant to the Securities Purchase Agreement by an individual purchaser who purchased from the Company shares of Series J Convertible Preferred Stock with an aggregate Purchase Price of less than \$250,000, and (ii) six percent (6%) of the Purchase Price on those shares of Series J Convertible Preferred Stock purchased from the Company pursuant to the Securities Purchase Agreement by an individual purchaser who purchased shares of Series J Convertible Preferred Stock with an aggregate purchase price of at least \$250,000. Dividends accruing on the Series J Convertible Preferred Stock shall accrue from day to day until the earlier of the first anniversary of the date of issuance of such shares of Series J Convertible Stock, the voluntary conversion of any shares of Series J Convertible Preferred Stock, or the date of any mandatory conversion of the Series J Convertible Preferred Stock, and shall be paid, as applicable, within fifteen (15) days of the first anniversary of the original issue date of the Series J Convertible Preferred Stock, within five (5) days of the voluntary conversion of shares of the Series J Convertible Preferred Stock, or within five (5) days of the mandatory conversion of shares of the Series J Convertible Preferred Stock. The Company may pay accrued dividends on the Series J Convertible Preferred Stock in cash or, in the sole discretion of the Board of Directors of the Company, in shares of its common stock in accordance with a specified formula.

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY  
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Each share of Series J Convertible Preferred Stock is convertible into 1,000 shares of common stock at the option of the holder on or after the six-month anniversary of the issuance of such share, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Conversion Ratio"). Unless waived under certain circumstances by the holder of Series J Convertible Preferred Stock, such holder's shares of Series J Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

At the election of the Company and upon required advance notice, each share of Series J Convertible Preferred Stock will automatically be converted into shares of common stock at the Conversion Ratio then in effect: (i) on or after the six-month anniversary of the original issuance date of the Series J Convertible Preferred Stock, the common stock trades on the OTC QB Market (or other primary trading market or exchange on which the common stock is then traded) at a price per share equal to at least \$0.80 for 7 out of 10 consecutive trading days with average daily trading volume of at least 50,000 shares, (ii) on the first anniversary of the original issuance date of the Series J Convertible Preferred Stock or (iii) within three days of the completion of a firm-commitment underwritten registered public offering by the Company at a per share price equal to at least \$0.80, with aggregate gross proceeds to the Company of not less than \$2.5 million. Unless waived under certain circumstances by the holder of the Series J Convertible Preferred Stock, such holder's Series J Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

The proceeds from the sale of each Series J Unit were allocated between the Series J Convertible Preferred Stock and the Series J Warrants based on the relative fair value method. The estimated fair value of the Series J Warrants was determined using a Black Scholes formula, resulting in an allocation of the gross proceeds of \$885,310 to the total warrants issued. The allocation of the gross proceeds to the Series J Convertible Preferred Stock was \$1,124,985, net of \$24,405 in legal costs. In accordance with the provisions of ASC 470-20, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$651,182 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued. The \$651,182 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series J Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock on February 6, March 28 and May 20, 2013 issuable upon conversion of the Series J Convertible Preferred Stock from the fair market value of the Series J Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series J Convertible Preferred Stock and warrants.

In connection with the Series J warrants, we calculated the fair value of the warrants received as described above using the Black- Scholes formula with the below assumptions:

| Assumptions                  | Series J<br>warrants<br>February 6,<br>2013 | Series J<br>warrants<br>March 28,<br>2013 | Series J<br>warrants<br>May 20,<br>2013 |   |      |   |
|------------------------------|---|---|---|---|------|---|
| Contractual life (in months) | 36  | 36  | 36                                      |   |      |   |
| Expected volatility          | 141.8                                       | 144.3                                     | 147.0                                   |   |      |   |
| Risk-free interest rate      | 0.39  | %   | 0.36                                    | % | 0.36 | % |
| Exercise price               | \$0.40                                      | \$0.40                                    | \$0.40                                  |   |      |   |
| Fair value per warrant       | \$0.36                                      | \$0.26                                    | \$0.30                                  |   |      |   |



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The holders of Series J 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 as required by law.

On April 1, 2014 the Company issued 92,500 shares of common stock for the conversion of 92.5 shares of Series J Convertible Preferred Stock.

On July 14, 2014 the Company issued 1,516,966 shares of common stock for the conversion of 1,449 shares of Series J Convertible Preferred Stock and \$24,648 in accrued and unpaid dividends.

#### Series J Warrants

The Warrants issued in the Private Placement have an exercise price equal to \$0.40 per share, with a term expiring three years from the issuance date. The Warrants also permit the holder to conduct a “cashless exercise” at any time the holder of the Warrant is an affiliate of the Company. The exercise price and/or number of shares issuable upon exercise of the Warrants will be subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the Warrant agreement.

Subject to the terms and conditions of the Warrants, at any time commencing six months from the closing date of the sale of Units under the Securities Purchase Agreement the Company has the right to call the Warrants for cancellation if the volume weighted average price of its common stock on the OTC QB Market (or other primary trading market or exchange on which the common stock is then traded) equals or exceeds three times the per share exercise price of the Warrants for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

#### Registration Rights Agreement

In connection with the Private Placement, the Company has agreed that, if, at any time after February 1, 2014, the Company files a Registration Statement relating to an offering of equity securities of the Company (the “Registration Statement”), subject to certain exceptions, including a Registration Statement relating solely to an offering or sale of securities having an aggregate public offering price of less than \$5,000,000, the Company shall include in the Registration Statement the resale of the shares of common stock underlying the Warrants. Shares of common stock issued upon conversion of Series J Convertible Preferred Stock or in payment of the dividend on the Series J Convertible Preferred Stock will not be registered and will not be subject to registration rights. This right is subject to customary conditions and procedures.

#### Series K Convertible Preferred Stock

On December 12, 2013, the Company entered into a Securities Purchase with various individuals pursuant to which the Company sold an aggregate of 4,000 units for a purchase price of \$250.00 per unit (the “Purchase Price”), for an aggregate Purchase Price of \$1,000,000. Each unit purchased in the initial tranche consists of (i) one share of a newly created series of preferred stock, designated Series K Convertible Preferred Stock, par value \$0.01 per share (the “Series K Convertible Preferred Stock”), convertible into 1,000 shares of the Company’s common stock, par value \$0.01 per share and (ii) a warrant to purchase 500 shares of common stock at an exercise price equal to \$0.3125 per share. The warrants expire three years from the issuance date. Of the \$1,000,000 invested in the Private Placement, \$572,044 was received in cash and \$427,956 was from the conversion of outstanding indebtedness and interest. The Company incurred \$43,334 of fees in conjunction with this private placement. The purchasers in the initial tranche of the private

placement consisted of certain existing and new investors in the Company as well as all of the members of the Company's Board of Directors.

From the date of issuance of any shares of Series K Convertible Preferred Stock and until the earlier of the first anniversary of such date, the voluntary conversion of any shares of Series K Convertible Preferred Stock, or the date of any mandatory conversion of the Series K Convertible Preferred Stock, dividends will accrue on each share of Series K Convertible Preferred Stock at an annual rate of (i) four percent (4%) of the Purchase Price on those shares of Series K Convertible Preferred Stock purchased from the Company pursuant to the Securities Purchase Agreement by an individual purchaser who purchased from the Company shares of Series K Convertible Preferred Stock with an aggregate Purchase Price of less than \$100,000, and (ii) six percent (6%) of the Purchase Price on those shares of Series K Convertible Preferred Stock purchased from the Company pursuant to the Securities Purchase Agreement by an individual purchaser who purchased shares of Series K Convertible Preferred Stock with an aggregate purchase price of at least \$100,000. Dividends accruing on the Series K Convertible Preferred Stock shall accrue from day to day until the earlier of the first anniversary of the date of issuance of such shares of Series K Convertible Stock, the voluntary conversion of any shares of Series K Convertible Preferred Stock, or the date of any mandatory conversion of the Series K Convertible Preferred Stock, and shall be paid, as applicable, within fifteen (15) days of the first anniversary of the original issue date of the Series K Convertible Preferred Stock, within five (5) days of the voluntary conversion of shares of the Series K Convertible Preferred Stock, or within five (5) days of the mandatory conversion of shares of the Series K Convertible Preferred Stock. The Company may pay accrued dividends on the Series K Convertible Preferred Stock in cash or, in the sole discretion of the Board of Directors of the Company, in shares of its common stock in accordance with a specified formula.



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Each share of Series K Convertible Preferred Stock is convertible into 1,000 shares of common stock at the option of the holder on or after the six-month anniversary of the issuance of such share, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Conversion Ratio"). Unless waived under certain circumstances by the holder of Series K Convertible Preferred Stock, such holder's shares of Series K Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

At the election of the Company and upon required advance notice, each share of Series K Convertible Preferred Stock will automatically be converted into shares of common stock at the Conversion Ratio then in effect: (i) on or after the six-month anniversary of the original issuance date of the Series K Convertible Preferred Stock, the common stock trades on the OTC QB Market (or other primary trading market or exchange on which the common stock is then traded) at a price per share equal to at least \$0.80 for 7 out of 10 consecutive trading days with average daily trading volume of at least 50,000 shares, (ii) on the first anniversary of the original issuance date of the Series K Convertible Preferred Stock or (iii) within three days of the completion of a firm-commitment underwritten registered public offering by the Company at a per share price equal to at least \$0.80, with aggregate gross proceeds to the Company of not less than \$2.5 million. Unless waived under certain circumstances by the holder of the Series K Convertible Preferred Stock, such holder's Series K Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

The proceeds from the sale of each Series K Unit were allocated between the Series K Convertible Preferred Stock and the Series K Warrants based on the relative fair value method. The estimated fair value of the Series K Warrants was determined using a Black-Scholes formula, resulting in an allocation of the gross proceeds of \$271,422 to the total warrants issued. The allocation of the gross proceeds to the Series K Convertible Preferred Stock was \$685,245, net of \$43,334 in fees. In accordance with the provisions of ASC 470-20, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$351,421 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued. The \$351,421 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series K Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock on December 12, 2013 issuable upon conversion of the Series K Convertible Preferred Stock from the fair market value of the Series K Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series K Convertible Preferred Stock and warrants.

On January 29, 2014, the company entered into a Securities Purchase Agreement with various accredited investors, pursuant to which the Company sold an aggregate of 4,875 units for a purchase price of \$250.00 per unit or an aggregate Purchase Price of \$1,218,750. This was the second tranche of a \$1.5 million private placement previously disclosed by the Company in its Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2013, which is incorporated by reference herein. The Purchasers in the second tranche of the Private Placement consisted of certain existing and new investors in the Company, as well as all of the members of the Company's Board of Directors.

Each unit purchased in the second tranche consists of (i) one share of Series K Convertible Preferred Stock, par value \$0.01 per share, convertible into 1,000 shares of the Company's common stock, par value \$0.01 per share and (ii) a warrant to purchase 500 shares of common stock at an exercise price equal to \$0.3125 per share, with a term expiring on January 29, 2017.

On February 28, 2014, the company entered into a Securities Purchase Agreement with various accredited investors, pursuant to which the Company sold an aggregate of 1,854 units for a purchase price of \$340.00 per unit or an aggregate Purchase Price of \$630,360. This was the third tranche of a \$1.5 million private placement previously disclosed by the Company in its Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2013, which is incorporated by reference herein. The Purchasers in the third tranche of the Private Placement consisted of certain existing and new investors in the Company.

Each unit purchased in the third tranche consists of (i) one share of Series K Convertible Preferred Stock, par value \$0.01 per share convertible into 1,000 shares of the Company's common stock, par value \$0.01 per share and (ii) a warrant to purchase 500 shares of common stock at an exercise price equal to \$0.425 per share, with a term expiring on February 28, 2017.

On June 30, 2014, the company entered into a Securities Purchase Agreement with various accredited investors, pursuant to which the Company sold an aggregate of 734 units for a purchase price of \$300.00 per unit or an aggregate Purchase Price of \$220,000. This was the fourth tranche of a \$1.5 million private placement previously disclosed by the Company in its Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2013, which is incorporated by reference herein. The Purchasers in the fourth tranche of the Private Placement consisted of certain existing and new investors in the Company.

Each unit purchased in the fourth tranche consists of (i) one share of Series K Convertible Preferred Stock, par value \$0.01 per share convertible into 1,000 shares of the Company's common stock, par value \$0.01 per share and (ii) a warrant to purchase 500 shares of common stock at an exercise price equal to \$0.375 per share, with a term expiring on June 30, 2017.

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The Private Placement was originally expected to raise \$1.5 million and close on or before January 31, 2014. On January 29, 2014, the Company's Board of Directors voted to increase the subscription amount of the Private Placement by \$718,750. The Board of Directors also voted to extend the Private Placement until February 28, 2014. On February 28, 2014 the Company's Board of Directors voted to increase the subscription amount once again to a total of \$3.5 million and extended the closing to April 4, 2014. On April 13, 2014 the Company's Board of Directors voted to increase the subscription amount by \$1 million, to a total of \$4.5 million, and extended the closing to May 31, 2014. On July 7, 2014 the Company's Board of Directors voted to extend the closing to August 15, 2014. Together with the initial tranche of \$1,000,000 that closed on December 12, 2013, the second tranche of \$1,218,750 that closed January 29, 2014, the third tranche of \$630,360 that closed February 28, 2014 and the fourth tranche of \$220,000 that closed June 30, 2014, the total consideration received by the Company in the Private Placement is \$3,069,110, which is comprised of \$2,248,404 in cash and \$820,706 from the conversion of outstanding indebtedness and Board of Director fees. The Company has received \$263,000 for the next tranche of the Series K Convertible Preferred Stock which closed on November 12, 2014. \$130,000 of the investment which was received prior to September 30, 2014, is accounted for as an investor deposit until the closing, and included in the cash balance as of September 30, 2014 as restricted cash.

On September 22, 2014 the Company issued 64,000 shares of common stock for the conversion of 64 shares of Series K Preferred Convertible Stock.

In connection with the Series K Warrants, we calculated the fair value of the warrants received as described above using the Black- Scholes formula with the below assumptions:

| Assumptions                  | Series K<br>Warrants<br>December<br>12,<br>2013 |   | Series K<br>Warrants<br>January 29,<br>2014 |   | Series K<br>Warrants<br>February<br>28<br>2014 |   | Series K<br>Warrants<br>June 30,<br>2014 |   |
|------------------------------|---|---|---|---|--|---|--|---|
|                              |   |   |   |   |  |   |  |   |
| Contractual life (in months) | 36  |   | 36  |   | 36   |   | 36                                       |   |
| Expected volatility          | 136.1   |   | 152.4                                       |   | 152.7  |   | 153.9                                    |   |
| Risk-free interest rate      | 0.39  | % | 0.39  | % | 0.39   | % | 0.90                                     | % |
| Exercise price               | \$0.3125  |   | \$0.3125                                    |   | \$0.425  |   | \$0.375                                  |   |
| Fair value per warrant       | \$0.20  |   | \$0.30                                      |   | \$0.37   |   | \$0.29                                   |   |

The holders of Series K 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 as required by law.

#### Series K Warrants

The warrants issued in the Private Placement have an exercise price equal to \$0.3125 per share, for the December 12, 2013 and January 29, 2014 warrants, \$0.425 per share for the February 28, 2014 warrants and \$0.375 per share for the June 30, 2014 warrants, with a term expiring three years from the issuance date. The warrants also permit the holder to conduct a "cashless exercise" at any time the holder of the warrant is an affiliate of the Company. The exercise price and/or number of shares issuable upon exercise of the warrants will be subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the warrant agreement.

Subject to the terms and conditions of the warrants, at any time commencing six months from the closing date of the sale of Units under the Securities Purchase Agreement the Company has the right to call the warrants for cancellation if the volume weighted average price of its common stock on the OTC QB Market (or other primary trading market or exchange on which the common stock is then traded) equals or exceeds three times the per share exercise price of the warrants for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

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### Registration Rights Agreement

In connection with the Private Placement, the Company has agreed that, if, at any time after February 1, 2014, the Company files a Registration Statement relating to an offering of equity securities of the Company (the "Registration Statement"), subject to certain exceptions, including a Registration Statement relating solely to an offering or sale of securities having an aggregate public offering price of less than \$5,000,000, the Company shall include in the Registration Statement the resale of the shares of common stock underlying the warrants. Shares of common stock issued upon conversion of Series K Convertible Preferred Stock or in payment of the dividend on the Series K Convertible Preferred Stock will not be registered and will not be subject to registration rights. This right is subject to customary conditions and procedures.

### 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 September 30, 2013, options to acquire 1,585,750 shares were outstanding under the Plan with 214,250 shares available for future grant under the Plan.

As of September 30, 2013, options to acquire 10,000 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.

On December 12, 2013 at the Company's special meeting the shareholders approved the 2013 Equity Incentive Plan (the "2013 Plan") pursuant to which 3,000,000 shares of our common stock were reserved for issuance upon exercise of stock options or other equity awards under the 2013 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 September 30, 2014 1,625,500 options have been granted under the 2013 Plan.

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

|  | Stock Options |                                  | Warrants   |                                  | Total Shares | Exercisable |
|--|---------------|----------------------------------|------------|----------------------------------|--------------|-------------|
|  | Shares        | Weighted Average price per share | Shares     | Weighted Average price per share |              |             |
| Balance outstanding, January 1, 2013   | 1,605,750     | \$0.80                           | 6,687,099  | \$0.81                           | 8,292,849    | 7,989,331   |
| Granted                                | 363,500       | 0.41                             | 8,346,228  | 0.37                             | 8,709,728    |             |
| Exercised                              | -             | -                                | -          | -                                | -            |             |
| Expired                                | (10,000 )     | 1.00                             | (21,000 )  | 2.38                             | (31,000 )    |             |
| Forfeited                              | (187,542 )    | 0.85                             | -          | -                                | (187,542 )   |             |
| Balance outstanding, December 31, 2013 | 1,771,708     | \$0.71                           | 15,012,327 | \$0.57                           | 16,784,035   | 16,611,528  |
| Granted                                | 1,625,500     | 0.30                             | 4,665,000  | 0.34                             | 6,290,500    |             |

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|  |           |        |              |        |              |            |
|--|-----------|--------|--------------|--------|--------------|------------|
| Exercised                                  | -         | -      | (684,125 )   | 0.25   | (684,125 )   |            |
| Expired                                    | (10,000 ) | 1.00   | (1,095,485 ) | 0.74   | (1,105,485 ) |            |
| Forfeited                                  | (30,958 ) | 0.71   | -            | -      | (30,958 )    |            |
| Balance outstanding,<br>September 30, 2014 | 3,356,250 | \$0.51 | 17,895,717   | \$0.52 | 21,251,967   | 19,558,656 |

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| Range of Exercise Prices | Options Outstanding<br>Weighted Average |                                    |                | Options Exercisable<br>Weighted Average |                                    |                |
|--------------------------|---|------------------------------------|----------------|---|------------------------------------|----------------|
|                          | Number of Options                       | Remaining Contractual Life (Years) | Exercise Price | Number of Options                       | Remaining Contractual Life (Years) | Exercise Price |
| \$0.30 - \$0.39          | 1,625,500                               | 10.0                               | \$ 0.30        | -                                       | -                                  | \$ -           |
| 0.40 - 0.49              | 311,000                                 | 8.6                                | 0.40           | 311,000                                 | 8.6                                | 0.40           |
| 0.50 - 0.59              | 251,250                                 | 7.9                                | 0.50           | 251,250                                 | 7.9                                | 0.50           |
| 0.60 - 0.69              | 467,500                                 | 5.2                                | 0.60           | 427,189                                 | 5.0                                | 0.60           |
| 1.00 - 1.25              | 701,000                                 | 2.5                                | 1.00           | 673,500                                 | 2.3                                | 1.00           |
| \$0.30 - \$1.25          | 3,356,250                               | 7.5                                | \$ 0.71        | 1,662,939                               | 5.0                                | \$ 0.71        |

As of September 30, 2014 the total estimated fair value of unvested stock options to be amortized over their remaining vesting period was \$369,151. The non-cash, stock-based compensation expense associated with the vesting of these options is expected to be \$55,042 for the remainder of 2014, \$178,459 in 2015, \$79,178 in 2016 and \$56,473 in 2017.

On June 25, 2014 the company signed an agreement with an investment advisory firm. In exchange for investment and strategic advisory services the firm will receive 600,000 warrants, the warrants will vest at 50,000 each month for up to twelve months. Each warrant can be exercised to purchase one share of common stock at \$0.56 each. The warrants will be valued at \$7,500 per month and expensed when vested.

#### Common Stock Issuances

On August 1, 2013, we issued 200,000 shares of restricted common stock to an investor relations firm for payment of services to be rendered over six months. We recorded \$80,000 for this issuance and recognized \$66,087 as expense in 2013 and \$13,913 was expensed in the period ended March 31, 2014. On September 10, 2013, we issued 100,000 shares of restricted common stock to an investor relations firm for payment of services to be rendered over four months. We recorded \$40,000 for this issuance and recognized expense of \$36,721 in 2013 with \$3,279 expensed in the period ended March 31, 2014. On December 23, 2013 we issued 75,000 shares of restricted common stock to a lender in connection with the sale of debentures. We recognized \$17,250 as deferred financing costs that will be recognized over the life of the note. We valued the above stock issuances using the greater of the estimated fair value of the services received or the Company's stock price on date of issuance.

On February 10, 2014 a lender, with the prior approval of the Company, chose to convert \$37,500 of their outstanding note balance into 150,000 shares of the Company's common stock.

On June 23, 2014 a lender, with the prior approval of the Company, chose to convert \$50,000 of their outstanding note balance into 200,000 shares of the Company's common stock.

In March and April 2014, a Series D warrant holder exercised warrants to purchase 596,658 shares of common stock resulting in net proceeds to the company of \$149,164.

In April 2014 we issued 733,169 shares of common stock to holders of Series G Convertible Preferred Stock for the conversion of 58,750 shares of preferred and \$58,267 of accrued and unpaid dividends on the Series G Convertible Preferred Stock. We also issued 92,500 shares of common stock to holders of Series J Convertible Preferred Stock for the conversion of 92.5 shares of Series J Convertible Preferred Stock.

In July 2014 we issued 1,516,966 shares of common stock to holders of Series J Convertible Preferred Stock for the conversion of 1,449 shares of preferred and \$24,648 of accrued and unpaid dividends on the Series G Convertible Preferred Stock. On August 13, 2014 we issued 200,000 shares of common stock to an investor relations firm for services. The Company recorded \$52,000 as expense related to these services. On September 9, 2014 we issued 75,000 shares of common stock to a lender as a fee for a \$175,000 loan. On September 18, 2014 we issued 75,000 shares of common stock to an investor relations firm as payment for services provided to the Company in 2014. The Company recorded \$44,250 in expense related to this transaction.

On September 22, 2014 the Company issued 64,000 shares of common stock for the conversion of 64 shares of Series K Preferred Convertible Stock.



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Promissory Note

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 and a maturity date of May 4, 2012. The promissory note was interest free until May 4, 2012. On November 15, 2012, \$75,000 of principal and \$16,125 of accrued and unpaid interest were converted into 18,225 shares of the Company's Series G Convertible Preferred Stock. The \$75,000 principal balance remaining as of December 31, 2013 earns interest at a rate of 18% per year. The \$75,000 note balance along with all accrued and unpaid interest of \$14,832, was paid off in February 2014.

Convertible Debt

On April 11, 2013, we signed a promissory note in the amount of \$275,000. The initial loan taken by the Company against the note was for \$125,000, net of a \$12,500 original issue discount. The lender lent the Company an additional \$50,000, net of \$5,000 original issue discount, on June 26, 2013. The balance of the note was to be paid in the amounts and on the dates of the lender's choosing. The note and unpaid interest on the note are due and payable one year from the effective date of each payment. The Company has the right to repay the notes at any time within six months of the effective date of each closing. If the Company repays the note within 90 days of the effective date, interest is 0%. If the note is not repaid within the 90 days, a onetime interest charge of 12% will be applied. The Company has reserved at least 6,000,000 shares of common stock for conversion under this note. The Company evaluated the terms of this note in accordance with ASC 815-40, Derivatives and Hedging Contracts in Entity's Own Stock. The lender has the right to convert all or part of the unpaid principal and interest into common stock at a conversion price of 60% of the lowest trade price in the 25 trading days prior to conversion after six months from the effective date of each closing. The Company determined that the conversion feature met the definition of a liability and therefore, bifurcated the conversion feature as a derivative liability. The derivative liability is measured at the end of each reporting period and the change in fair value is recorded as other expense or income in the statement of operations. The fair value of the conversion feature was \$186,041 at December 31, 2013 and reflected in the conversion option liability line in the consolidated balance sheet. On October 10, 2013, this note was amended to change the lenders right to convert and the borrower's right to repay to December 10, 2013. On December 10, 2013, this note was amended to change the lenders right to convert and the borrower's right to repay to February 10, 2014.

The proceeds from the convertible debt issued on April 11, 2013, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$274,840 to the convertible option and accounted for as a liability in the Company's consolidated balance sheet. In accordance with the provisions of ASC 815-40, the entire gross proceeds of \$137,500 was offset by a debt discount of \$137,500 which will be amortized to interest expense over the twelve month life of the debt. The additional \$149,840 adjustment between the convertible option liability and the debt discount was charged directly to other expense.

The proceeds from the convertible debt issued on June 26, 2013, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$84,146 to the convertible option and accounted for as a liability in the Company's consolidated balance sheet. In accordance with the provisions of ASC 815-40, the entire gross proceeds of \$55,000 was offset by a debt discount of \$55,000 which will be amortized to interest expense over the twelve month life of the debt. The additional \$34,146 adjustment between the convertible option liability and the

debt discount was charged directly to other expense.

So long as the note is outstanding, the Company shall notify the lender of the issuance of any security with a term more favorable to the holder, and the lender may at its option, include the terms as a part of the transaction documents.

On February 10, 2014 the lender, with the prior approval of the Company, chose to convert \$37,500 of the outstanding note balance to 150,000 shares of the Company's common stock; the remaining note balance of \$203,100 was repaid in cash. The \$199,507 fair value of the outstanding conversion option liability associated with these notes was reclassified to additional paid-in capital.

On December 4, 2013, we signed a convertible debenture in the amount of \$223,000. The lender paid an initial payment of \$200,000 net of an "original issue" discount of \$20,000 and \$3,000 in legal fees, on the closing date. The lender has the right at any time from the issue date to convert all or part of the outstanding and unpaid principal into shares of the Company's common stock at a price of \$0.40 per share subject to adjustments for stock splits, stock dividends or rights offerings. The Company has the right to prepay the debenture for a payment of 120% of the outstanding principal plus accrued and unpaid interest. The Company is required to reserve at least 4 times the number of shares actually issuable upon full conversion of this debenture. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40, since the conversion price was subject to change the conversion shares were indeterminable and therefore bifurcated the conversion feature as a derivative liability. The derivative liability is measured at the end of each reporting period and the difference in fair value is recorded as other expense or income in the statement of operations. The fair value of the conversion feature was \$98,129 at December 31, 2013 and reflected in the conversion option liability line in the consolidated balance sheet. In addition the lender received a warrant to purchase 70,000 shares of the Company's common stock at an exercise price of \$0.3125 per share. The warrants were valued at \$11,100 which was allocated to debt discount and will be amortized to interest expense over the twenty-four month life of the debt.

The proceeds from the convertible debt issued on December 4, 2013, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$90,444 to the convertible option and accounted for as a liability in the Company's consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$223,000 was offset by a debt discount of \$111,488 which will be amortized to interest expense over the twelve month life of the debt. On June 3, 2014 the lender agreed to extend the conversion date of the loan to August 4, 2014 and received a \$10,000 fee which will be amortized to interest expense over the remaining months of the loan. On July 31, 2014 the lender agreed to extend the conversion date of the loan to October 4, 2014 and received \$12,000 in fees that will be amortized to interest expense over the remaining months of the loan. On October 2, 2014 the loan was extended to December 4, 2014. The Company incurred a fee of \$24,000 which will be paid for with 60,000 shares of Company common stock and amortized to interest expense over the remaining life of the loan.

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On December 23, 2013, we signed a convertible debenture in the amount of \$150,000. The lender paid an initial payment of \$125,000 net of an "original issue" discount of \$15,000 and \$10,000 in fees, on the closing date. The lender has the right, any time from the issue date, to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a price of \$0.40 per share subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of 120% of the outstanding principal plus accrued and unpaid interest. The Company is required to reserve at least 3 times the number of shares actually issuable upon full conversion of this debenture. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40, since the conversion price was subject to change the conversion shares were indeterminable, and therefore bifurcated the conversion feature as a derivative liability. The derivative liability is measured at the end of each reporting period and the change in fair value is recorded as other expense or income in the statement of operations. The fair value of the conversion feature was \$72,027 at December 31, 2013 and reflected in the conversion option liability line in the consolidated balance sheet. In addition the lender received 75,000 shares of Company restricted common stock, of which the fair value of \$17,250 was charged to debt discount and will be amortized to interest expense over the remaining life of the debt.

The proceeds from the convertible debt issued on December 23, 2013, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$65,003 to the convertible option and accounted for as a liability in the Company's consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$150,000 was offset by a debt discount of \$102,153 which will be amortized to interest expense over the remaining life of the debt.

On May 23, 2014 the Company chose to prepay the debt. The lender, with the prior consent of the Company, chose to convert \$50,000 of the outstanding balance to 200,000 shares of common stock and received a payment of \$125,000 for the balance of the note plus a 25% prepayment fee.

On January 7, 2014, we received \$270,000 for a six-month note from an existing shareholder. Terms of the note include a right to convert the note into the next equity transaction of the Company, at the conversion rate of the equity offering, and a three-year warrant to acquire 270,000 shares of common stock at \$0.3125 per share. The relative fair value of the warrants was determined to be \$44,073, which was accounted for as a debt discount and will be amortized to interest expense over the six-month life of the note. The investor also received an original issue discount of \$30,000. The \$300,000 note balance was converted to our Series K Convertible Preferred Stock on January 29, 2014.

On May 30, 2014, we signed a convertible debenture in the amount of \$400,000. The lender paid an initial payment of \$150,000 net of an "original issue" discount of \$12,162 on June 4, 2014. The lender has the right, any time from the issue date, to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a price of \$0.45 per share subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture at any time on or before six months from the effective date. The Company is required to reserve 650,000 shares of common stock for conversion. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40, since the conversion price was subject to change the conversion shares were indeterminable and therefore bifurcated the conversion feature as a derivative liability. The derivative liability is measured at the end of each reporting period and the change in fair value is recorded as other expense or income in the statement of operations. The fair value of the conversion feature was \$13,020 at June 30, 2014 and reflected in the conversion option liability line in the consolidated balance sheet.



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The proceeds from the convertible debt issued on May 30, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$57,071 to the convertible option and accounted for as a liability in the Company's consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$162,162 was offset by a debt discount of \$69,233 which will be amortized to interest expense over the remaining life of the debt.

On July 7, 2014, we signed two convertible debentures in the amount of \$180,000. The lender paid initial payments of \$66,750 and \$100,000 net of fees of \$8,250 and \$5,000 on July 7, 2014. The Company also incurred a \$6,000 finder's fee. Interest accrues at the rate of 4% on the outstanding principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and interest into shares of the Company's common stock at a price of 65% of the lowest VWAP price of the Company's shares during the 15 day period prior to conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. If the notes are prepaid before the 90th day following the effective date the prepayment is 119% of the principal amount plus accrued and unpaid interest and if prepaid between the 91st day and 180th day from the effective date the prepayment is 133% of the principal amount plus accrued and unpaid interest. The maturity date is twelve months after the effective date of each payment. The Company determined that the conversion features on each note met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion features are accounted for as a note discount and will be amortized to interest expense over the life of the loans. The fair value of the conversion features was \$134,201 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on July 7, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$154,159 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$180,000 is offset by a debt discount of \$173,409 which will be amortized to interest expense over the twelve month life of the debt.

On August 28, 2014 the Company signed a note with a lender for \$35,000 and received \$32,900 in cash after deducting \$2,100 in fees. The Company has the right to prepay the note prior to the maturity date of February 28, 2015 for \$45,500. If the note is not prepaid by the maturity date the note can be converted to Company common shares for 60% of the lowest intra-day trading price for the 15 days prior to the conversion. The difference between the pre-payment price of \$45,500 and the cash received is being accounted for as debt discount and amortized to interest expense over the six month life of the note.

The proceeds from the convertible debt issued on August 28, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$36,892 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$45,500 is offset by a debt discount of \$45,500 which will be amortized to interest expense over the twelve month life of the debt.

On September 3, 2014, we signed a convertible debenture in the amount of \$175,000. The lender paid an initial payment of \$150,000 net of an original issue discount of \$17,500 on September 3, 2014 and fees of \$7,500. The Company also paid fees of \$8,000 and gave the lender 75,000 shares of Company common stock valued at \$21,750. Interest will not accrue on this note. The lender has the right, at any time within 180 days from the issue date to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a price of \$0.35 per share subject to adjustments for stock splits, stock dividends or rights offerings. After 180 days from the issue date the note can be converted at 65% of the lowest closing price for the 20 days preceding the conversion. The Company shall have the right to prepay the debenture for a payment of 100% of the outstanding principal at any time on or before 90 days after the effective date. Prepayment after 90 days are subject to a premium ranging from 120% - 140% of the outstanding principal. The maturity date is twelve months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$125,927 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on September 3, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$122,340 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$175,000 is offset by a debt discount of \$169,090 which will be amortized to interest expense over the twelve month life of the debt.

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On September 10, 2014, we signed a convertible debenture in the amount of \$175,000. The lender paid an initial payment of \$92,000 net of an \$8,000 fee on September 10, 2014. Interest will accrue at the rate of 8% on the unpaid principal balance. The lender has the right, at any time after 180 days from the issue date to convert any or part of the outstanding and unpaid principal and accrued interest into shares of the Company's common stock at a price equal to 55% of the lowest closing price for the 20 day period preceding the conversion, subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time from the effective date to the maturity date for 135% of the principal. The maturity date is twelve months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$107,053 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on September 10, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$129,710 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$100,000 is offset by a debt discount of \$100,000 which will be amortized to interest expense over the twelve month life of the debt. The residual amount of debt discount of \$37,710 in excess of the principal of \$100,000 is charged to other expense on the condensed consolidated statement of operations.

On September 26, 2014, we signed a convertible debenture in the amount of \$113,000. The lender paid an initial payment of \$101,660 net of an original issue discount of \$11,340. A one-time interest charge of 9% will be applied to the principal balance. The lender has the right, at any time after 179 days from the issue date, to convert any or part of the outstanding and unpaid principal into shares of the Company's common stock at a 40% discount to the three lowest trading prices in the ten days preceding the conversion subject to adjustments for stock splits, stock dividends or rights offerings. The Company shall have the right to prepay the debenture for a payment of the outstanding principal plus unpaid interest at any time on or before six months after the effective date. The Company is required to reserve at least 650,000 shares of common stock for full conversion of this debenture. The maturity date is eight months after the effective date of each payment. The Company determined that the conversion feature met the definition of a liability in accordance with ASC 815-40 and therefore bifurcated the conversion feature and account for it as a derivative liability. The fair value of the conversion feature was accounted for as a note discount and will be amortized to interest expense over the life of the loan. The fair value of the conversion feature was \$139,632 at September 30, 2014 and reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from the convertible debt issued on September 26, 2014, were allocated between the host debt instrument and the convertible option based on the residual method. The estimated fair value of the convertible option was determined using a binomial formula, resulting in an allocation of \$140,060 to the convertible option and accounted for as a liability in the Company's condensed consolidated balance sheet. In accordance with the provisions of ASC 815-40, the gross proceeds of \$113,000 is offset by a debt discount of \$113,000 which will be amortized to interest expense over the twelve month life of the debt. The residual amount of debt discount of \$38,400 in excess of the principal of \$113,000 is charged to other expense on the condensed consolidated statement of operations.

Other Notes

On December 10, 2013, we signed a Merchant Agreement with Scripline LLC. Under the agreement we received \$96,000 in exchange for rights to all customer receipts until Scripline LLC is paid \$126,700, to be collected at the rate of \$874 per business day. The payments are secured by essentially all tangible assets of the Company. The outstanding balance was recorded as other debt on the balance sheet.

On June 6, 2014, we signed a Merchant Agreement with On Deck Capital. Under the agreement we received \$150,000 in exchange for rights to all customer receipts until On Deck Capital is paid \$190,499, to be collected at the rate of \$756 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid On Deck Capital \$3,750 in fees related to this transaction. The outstanding balance is recorded as other debt on the balance sheet. \$26,100 of the proceeds were used to pay off the Scripline LLC outstanding balance.

On June 23, 2014 the Company received \$50,000 on a short term interest free note from a lender. This note was repaid on July 4, 2014.

On July 31, 2014, we signed a Merchant Agreement with a lender. Under the agreement we received \$75,000 in exchange for rights to all customer receipts until the lender is paid \$101,260, to be collected at the rate of \$632 per business day. The payments are secured by essentially all tangible assets of the Company. The Company paid the lender \$999 in fees related to this transaction. The outstanding balance is recorded as other debt on the balance sheet.

#### 6) Subsequent Events

We performed a review of events subsequent to the balance sheet date through the date the financial statements were issued and determined, except as disclosed herein, that there were no other such events requiring recognition or disclosure in the financial statements.

On October 1, 2014 the Company engaged a financial public relations firm to provide services for the months of October and November 2014 in exchange for 100,000 shares of Company common stock.

On October 2, 2014 we received \$100,000 from a Series K investor.

On November 3, 2014 we received an additional \$69,000 net of \$6,000 in fees from the \$175,000 convertible debt dated September 10, 2014.

On November 12, 2014 the Company closed the fifth tranche of its Series K Convertible Preferred Stock offering. The total raised in the round was \$263,000, bringing the total Series K offering to over \$3.3 million. The investors included all members of the Company's board of directors. \$130,000 of the investment, received prior to September 30, 2014 and included in our cash balance at September 30, 2014, has been released.



ITEM 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our need for, and our ability to raise, additional equity or debt financing on acceptable terms, if at all;
- our need to take additional cost reduction measures, cease operations or sell our operating assets, if we are unable to obtain sufficient additional financing;
  - our belief that we have sufficient liquidity to finance normal operations;
  - the options we may pursue in light of our financial condition;
  - the amount of cash necessary to operate our business;
- the anticipated uses of grant revenue and the potential for increased grant revenue in future periods;
  - our plans and expectations with respect to our continued operations;
- our belief that PCT has achieved initial market acceptance in the mass spectrometry and other markets;
- the expected increase in the number of pressure cycling technology (“PCT”) and constant pressure (“CP”) based units installed and the increase in revenues from the sale of consumable products and extended service contracts;
  - the expected development and success of new instrument and consumables product offerings;
  - the potential applications for our instrument and consumables product offerings;
- the expected expenses of, and benefits and results from, our research and development efforts;
- the expected benefits and results from our collaboration programs, strategic alliances and joint ventures;
  - our expectation of obtaining additional research grants from the government in the future;
- our expectations of the results of our development activities funded by government research grants;
  - the potential size of the market for biological sample preparation;
  - general economic conditions;
- the anticipated future financial performance and business operations of our company;
- our reasons for focusing our resources in the market for genomic, proteomic, lipidomic and small molecule sample preparation;
  - the importance of mass spectrometry as a laboratory tool;
- the advantages of PCT over other current technologies as a method of biological sample preparation in biomarker discovery, forensics, and histology and for other applications;
  - the capabilities and benefits of our PCT sample preparation system, consumables and other products;
  - our belief that laboratory scientists will achieve results comparable with those reported to date by certain research scientists who have published or presented publicly on PCT and our other products;
  - our ability to retain our core group of scientific, administrative and sales personnel; and
- our ability to expand our customer base in sample preparation and for other applications of PCT and our other products.

These forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements, expressed or implied, by such forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in

this Quarterly Report on Form 10-Q to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial and other results include those discussed in the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. We qualify all of our forward-looking statements by these cautionary statements.

## OVERVIEW

We are focused on solving the challenging problems inherent in biological sample preparation, a crucial laboratory step performed by scientists worldwide working in biological life sciences research. Sample preparation is a term that refers to a wide range of activities that precede most forms of scientific analysis. Sample preparation is often complex, time-consuming and, in our belief, one of the most error-prone steps of scientific research. It is a widely-used laboratory undertaking – the requirements of which drive what we believe is a large and growing worldwide market. We have developed and patented a novel, enabling technology platform that can control the sample preparation process. It is based on harnessing the unique properties of high hydrostatic pressure. This process, called pressure cycling technology, or PCT, uses alternating cycles of hydrostatic pressure between ambient and ultra-high levels i.e., 35,000 pounds per square inch (“psi”) or greater to safely, conveniently and reproducibly control the actions of molecules in biological samples, such as cells and tissues from human, animal, plant and microbial sources.

Our pressure cycling technology uses internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures and specific time intervals, to rapidly and repeatedly control the interactions of bio-molecules, such as deoxyribonucleic acid (“DNA”), ribonucleic acid (“RNA”), proteins, lipids and small molecules. Our laboratory instrument, the Barocycler®, and our internally developed consumables product line, which include our Pressure Used to Lyse Samples for Extraction (“PULSE”) tubes, and other processing tubes, and application specific kits such as consumable products and reagents, together make up our PCT Sample Preparation System (“PCT SPS”).

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of September 30, 2014, we did not have adequate working capital resources to satisfy our current liabilities and as a result we have substantial doubt about our ability to continue as a going concern. Based on our current projections, including equity financing subsequent to September 30, 2014, we believe we will have the cash resources that will enable us to continue to fund normal operations. Please see Note 6, Subsequent Events.

We need substantial additional capital to fund normal operations in future periods. If we are able to obtain additional capital or otherwise increase our revenues, we may increase spending in specific research and development applications and engineering projects and may hire additional sales personnel or invest in targeted marketing programs. 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.

We hold 14 United States and 10 foreign patents covering multiple applications of PCT in the life sciences field. Our pressure cycling technology employs a unique approach that we believe has the potential for broad use in a number of established and emerging life sciences areas, including;

- sample preparation for genomic, proteomic, and small molecule studies;
- pathogen inactivation;
- protein purification;
- control of chemical (particularly enzymatic) reactions; and
- Immunodiagnostics (clinical laboratory testing).

We reported a number of accomplishments in the first ten months of 2014:

On January 29th, we closed the second tranche of our Series K PIPE, resulting in the receipt of \$1,218,750.

On February 28th, we closed the third tranche of our Series K PIPE, resulting in the receipt of \$630,360.

On March 19th, we announced the release and initial sale of the Barocycler HUB880, a “first-in-kind” ultra high pressure bench-top instrument system.

On March 30th, we announced our Q4 and FY 2013 financial results, including record quarterly instrumentation and consumables sales, and record annual product and total revenue.

On March 30th, we reiterated our guidance that the Company is on target to release our cutting-edge, microwell-based, high throughput Barocycler instrument at the annual meeting of the American Society for Mass Spectrometry in mid-June 2014.

May 5 th , PBI announced its selection to present at the Cavendish Global Health Impact Forum, whose goal was to bring together leading family offices and their foundations seeking impact investment, grant-giving, and philanthropy opportunities within health and life sciences.

June 15 th, PBI launched its much anticipated, first-in-class, bench top, high throughput, PCT-based instrument (Barozyme HT48) at the ASMS Annual Conference. The new Barozyme HT48 system was designed to integrate well with current standardized, high-throughput, liquid-handling laboratory automation and robotics installed in tens of thousands of biological research laboratories worldwide.

June 19 th, PBI announced that scientists from six separate research groups presented data at the ASMS Annual Conference showing the use of PBI's patented PCT Platform for the preparation of samples resulted in significantly improved time and/or cost efficiencies of test results.

June 23 th, PBI reported the successful launch and meeting of all key objectives for its Barozyme HT48 introduction at the annual meeting of the American Association for Mass Spectrometry ("ASMS"). PBI also reaffirmed its (i) expectation to secure one or more strategic marketing/sales partners by years' end, and (iii) guidance that sales of its new PCT microplate strip system (Barozyme HT48) will begin in the second half of FY2014.

June 26 th, PBI announced the engagement of IssuWorks and their management team to review strategic and financing alternatives, including the possible spin-off of vertical market applications into new, stand-alone businesses. Issuworks was founded by noted Wall Street executives, including David Weild (former vice chairman of NASDAQ, former head of global equity transactions at Prudential Securities and president of PrudentialSecurities.com, considered the "Father" of the JOBS Act) and Ed Kim (former biotech analyst at major Wall Street firms and former head of new products at NASDAQ).

July 22, PBI announced the plan to develop a front-end, sample preparation method for Parabase Genomics enhanced third generation sequencing test for newborn screening.

August 14, the Company announced Q2 and YTD 2014 financial results. Products and services revenue for the quarter was up 56%, led by consumables revenue which increased 86% over Q2 2013. For the six month period, products and services revenue was up 70% over the same period in 2013, while consumables revenue increased 93% during the same period. We also reported that we successfully launched the high throughput Barozyme HT48 System in mid-June.

September 19, the Company announced it had successfully completed the first phase of its commercialization plan for its recently released high throughput PCT-based instrument system, the Barozyme HT48.

October 20, the Company announced a partnership with Powertech Technology Company Ltd, to develop the China market for PBI's PCT Platform. Powertech has a strong distribution and support network of 20 offices, 60 sales/marketing/service/engineering staff, and multiple sub-dealers throughout China.

October 27, 2014, the Company announced that a breakthrough method to permit quantification of thousands of proteins in needle biopsy samples in 12 hours was presented by Professor Aebersold of ETH Austria at a recent major international scientific meeting, and that the method was enabled by PBI's PCT sample preparation platform.

## Results of Operations

Comparison for the three months ended September 30, 2014 and 2013

### Revenue

We recognized total revenue of \$372,545 for the three months ended September 30, 2014 as compared to \$420,762 during the three months ended September 30, 2013, a decrease of \$48,217 or 11%. This decrease is solely attributable to our loss of grant revenue in 2014. Although our product sales were up significantly the increase did not offset the entire loss of grant revenue as noted below.

**Products, Services, Other.** Revenue from the sale of products and services increased 14% to \$372,545 for the three months ended September 30, 2014 as compared to \$327,958 during the three months ended September 30, 2013. Sales of consumables for the three months ended September 30, 2014 were \$51,831 compared to \$51,450 during the same period in the prior year. Consumables sales in 2013 benefited from our distributors placing large initial orders of the products.

**Grant Revenue.** During the three months ended September 30, 2014, we did not record any grant revenue compared to \$92,804 in the comparable period in 2013. In February 2013, we began to work on a Phase I SBIR grant received from the National Institutes of Health, or NIH, to help fund the development of a high pressure-based system to improve the extraction of DNA for next generation sequencing platforms. Work on this grant continued throughout the second quarter. We also continued to work on a Phase II grant received in October 2011 from the Department of Defense, or DOD, to fund the development of a PCT-based system to improve the processing of pathogenic organisms, such as anthrax.

### Cost of Products and Services

The cost of products and services was \$149,065 for the three months ended September 30, 2014 compared to \$175,995 for the comparable period in 2013. Our gross profit margin on products and services was 60% for the three months ended September 30, 2014, as compared to 58% for the prior period.

### Research and Development

Research and development expenditures were \$232,032 during the three months ended September 30, 2014 as compared to \$280,276 in the same period in 2013, a decrease of \$48,244. Our work on research and development projects remained steady during both periods while we continued to control spending without sacrificing output.

Research and development expense recognized in the three months ended September 30, 2014 and 2013 included \$1,749 and \$44,658 of non-cash, stock-based compensation expense, respectively.

### Selling and Marketing

Selling and marketing expenses decreased to \$188,129 for the three months ended September 30, 2014 from \$190,882 for the comparable period in 2013, a decrease of \$2,753 or 1%. This decrease is primarily attributed to control of sales and marketing salaries somewhat offset by expenses incurred to attend trade shows in order to introduce new products.

During the three months ended September 30, 2014 and 2013, selling and marketing expense included \$1,391 and \$17,024 of non-cash, stock-based compensation expense, respectively.

### General and Administrative

General and administrative costs totaled \$600,952 for the three months ended September 30, 2014 as compared to \$617,642 for the comparable period in 2013, a decrease of \$16,690 or 3%. The decrease is primarily related to decreases in salaries due to reduced staffing levels and reduced spending on temporary help.

During the three months ended September 30, 2014 and 2013, general and administrative expense included \$3,247 and \$30,549 of non-cash, stock-based compensation expense, respectively.

### Operating Loss

Our operating loss was \$797,633 for the three months ended September 30, 2014 as compared to \$844,033 for the comparable period in 2013, a decrease of \$46,400 or 5%. Although our overall revenue was down from the same quarter in the previous year, solely because of the loss of grant revenue, we were able to offset the lost margin through continued increase in products revenue and by control of our operating costs.

### Other Income (Expense), Net

### Interest (Expense) Income

Interest expense totaled \$179,942 for the three months ended September 30, 2014 as compared to interest expense of \$158,162 for the three months ended September 30, 2013. We recorded \$41,951 of accrued interest and \$137,991 of amortized debt discount for the three months ended September 30, 2014 related to a series of convertible and other notes.

### Change in fair value of warrant derivative liability

During the three months ended September 30, 2014, we recorded non-cash income of \$85,391 for warrant revaluation income in our consolidated statements of operations due to a decrease in the fair value of the warrant liability related to warrants issued in our Series D private placement. This decrease in fair value was primarily due to the decrease in price of the Company's common stock at September 30, 2014 as compared to the price on June 30, 2014. The components for determining the fair value of the warrants are contained in the table in Note 3 of the accompanying condensed consolidated financial statements.

### Change in fair value of conversion option liability

During the three months ended September 30, 2014, we recorded a non-cash income of \$47,746 for conversion option revaluation income in our condensed consolidated statements of operations due to a decrease in the fair value of the conversion option liability related to convertible debt. This decrease in fair value was primarily due to the decrease in price of the Company's common stock on September 30, 2014 as compared to the price on June 30, 2014. The components for determining the fair value of the conversion option liabilities are contained in the table in Note 3 of the accompanying condensed consolidated financial statements.

### Other Expense

During the three months ended September 30, 2014 we also recorded a non-cash expense of \$80,102 upon issuance of convertible debt to account for the fair value of the conversion option liability, in excess of the debt, embedded in the debt instruments. The components for determining the fair value of the warrant liability and can be found in Note 3 of these condensed consolidated financial statements.

### Net Loss Applicable to Common Shareholders

During the three months ended September 30, 2014, we recorded a net loss to common shareholders of \$1,002,412 or \$(0.07) per share, as compared to a net loss to common shareholders of \$1,002,412 or \$(0.07) per share in the three months ended September 30, 2013. Net loss to common shareholders is unchanged due to the increase in the weighted average common shares outstanding for the period due to the issuance of shares of common stock upon conversion of Convertible Preferred Stock. See Note 3 of the Notes to Consolidated Condensed Financial Statements under the "Computation of Loss per Share" heading.



Comparison for the nine months ended September 30, 2014 and 2013

Revenue

We recognized total revenue of \$1,084,156 for the nine months ended September 30, 2014 as compared to \$1,149,236 during the nine months ended September 30, 2013, a decrease of \$65,080 or 6%. This decrease is due solely to the loss of \$403,186 in grant revenue offset by a 45% increase in products and services revenue as noted below.

**Products, Services, Other.** Revenue from the sale of products and services was \$1,084,156 for the nine months ended September 30, 2014 as compared to \$746,050 during the nine months ended September 30, 2013, an increase of \$338,106 or 45%. The revenue increase included sales of both PCT and CS products. Sales of consumables increased by \$51,152 or 48% to \$154,860 compared to \$104,708 for the prior year period.

**Grant Revenue.** During the nine months ended September 30, 2014, we did not record any grant revenue compared to \$403,186 in the nine months ended September 30, 2013. We completed the work on a Phase II grant received from the Department of Defense, or DOD, to fund the development of a PCT-based system to improve the processing of pathogenic organisms and on a Phase I grant received from the National Institutes of Health, or NIH, to help fund the development of a high pressure-based system to improve the processing of DNA for next generation sequencing systems in the third quarter of 2013 and have not received any grants to replace them at this time. We are actively pursuing additional grants.

### Cost of Products and Services

The cost of products and services was \$461,124 for the nine months ended September 30, 2014 compared to \$364,368 for the comparable period in 2013, a 27% increase attributable to our 45% increase in product and services revenue. Our gross profit margin on products and services was 57% and 68% for the nine months ended September 30, 2014 and September 30, 2013 respectively. Our grant awards carry higher margins than our products and services revenue because much of the cost of the grants is accounted for as Research and Development and carried out by our existing staff.

### Research and Development

Research and development expenditures were \$716,358 for the nine months ended September 30, 2014 as compared to \$787,142 in the same period in 2013, a decrease of \$70,784 or 9%.

Research and development expense recognized in the nine months ended September 30, 2014 and 2013 included \$19,602 and \$50,161 of non-cash, stock-based compensation expense, respectively.

### Selling and Marketing

Selling and marketing expenses decreased to \$555,543 for the nine months ended September 30, 2014 from \$573,174 for the comparable period in 2013, a decrease of \$17,631 or 3%. This decrease was primarily due to employee related savings from a smaller part time headcount offset by tradeshow and travel related expenses.

During the nine months ended September 30, 2014 and 2013, selling and marketing expense included \$13,296 and \$21,216 of non-cash, stock-based compensation expense, respectively.

### General and Administrative

General and administrative costs totaled \$1,777,887 for the nine months ended September 30, 2014 as compared to \$1,851,634 for the comparable period in 2013, a decrease of \$73,747 or 4%. Salaries and temporary help expenses are both down in the current year compared to the prior year period.

During the nine months ended September 30, 2014 and 2013, general and administrative expense included \$13,873 and \$48,871 of non-cash, stock-based compensation expense, respectively.

### Operating Loss

Our operating loss was \$2,426,756 for the nine months ended September 30, 2014 as compared to \$2,427,082 for the comparable period in 2013, essentially unchanged. Although gross margin were lower because of the loss of grant revenues, we were able to offset those lost margin dollars by controlling expenses.

### Other Income (Expense), Net

### Interest (Expense) Income

Interest expense totaled \$658,235 for the nine months ended September 30, 2014 as compared to interest expense of \$230,176 for the nine months ended September 30, 2013. We recorded \$100,073 of interest expense for the nine months ended September 30, 2014 related to our convertible loans and promissory notes. For the nine month period we also amortized approximately \$558,162 of imputed interest against the debt discount on these loans relating to

warrants issued, conversion options liabilities and fees incurred in conjunction with these loans.

#### Change in fair value of warrant derivative liability

During the nine months ended September 30, 2014, we recorded non-cash expense of \$221,559 for warrant revaluation in our consolidated statements of operations due to an increase in the fair value of the warrant liability related to warrants issued in our Series D private placement. This increase in fair value was primarily due to the increase in price of the Company's common stock at March 31, 2014 as compared to the price on December 31, 2013. \$330,405 of the warrant liability was reclassified to equity when the underlying warrants were exercised and no longer required revaluation. The components for determining the fair value of the warrants are contained in the table in Note 3 of the accompanying condensed consolidated financial statements.

#### Change in fair value of conversion option liability

During the nine months ended September 30, 2014, we recorded a non-cash income of \$64,799 for conversion option revaluation income in our condensed consolidated statements of operations due to a decrease in the fair value of the conversion option liability related to convertible debt. This decrease in fair value was primarily due to the decrease in price of the Company's common stock on September 30, 2014 as compared to the price on December 31, 2013 or the price when the debt was incurred and, the reduced term to maturity of the debt. \$320,338 of the conversion option liability was reclassified to equity when the underlying convertible debt was paid off and no longer required revaluation. The components for determining the fair value of the conversion option liabilities are contained in the table in Note 3 of the accompanying condensed consolidated financial statements.

#### Other Expense

During the nine months ended September 30, 2014 we recorded a non-cash expense of \$80,102 upon issuance of convertible debt to account for the fair value of the conversion option liability embedded in the debt instruments in excess of the debt this compares to \$210,838 in 2013. The components for determining the fair value of the warrant liability and can be found in Note 3 of these condensed consolidated financial statements

#### Net Loss Applicable to Common Shareholders

During the nine months ended September 30, 2014, we recorded a net loss to common shareholders of \$4,807,909 or \$(0.35) per share, as compared to a net loss to common shareholders of \$3,284,154 or \$(0.28) per share in the nine months ended September 30, 2013. The increase in net loss to common shareholders is primarily due to the change in fair value of derivatives and amortization of derivatives related to our debt. We recorded a deemed dividend of \$1,388,062 in connection with the Series K Convertible Preferred Stock in 2014 compared to a deemed dividend of \$651,182 in connection with the Series J Convertible Preferred Stock in 2013. These losses were offset by an increase in the number of outstanding shares of common stock resulting from the issuance of shares of common stock upon conversion of Convertible Preferred Stock. See Note 3 of the Notes to Consolidated Condensed Financial Statements under the "Computation of Loss per Share" heading.

#### Liquidity and Financial Condition

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of September 30, 2014, 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 and debt financing subsequent to September 30, 2014, described in Note 6, we believe our current cash resources will enable us to continue to fund normal operations.

We will need substantial additional capital to fund our operations in future periods. 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.

Net cash used in operations for the nine months ended September 30, 2014 was \$2,202,713 as compared to \$1,516,123 for the nine months ended September 30, 2013. The increase in cash used in operations in 2014 as compared to 2013 is principally due to an increase in the loss from operations and an increase in inventory and accounts receivable at September 30, 2014.

Cash used in investing activities for the nine months ended September 30, 2014 and 2013 was not significant.

Net cash provided by financing activities for the nine months ended September 30, 2014 was \$2,276,651 as compared to \$1,681,394 for the same period in the prior year. The cash from financing activities in the period ending September 30, 2014 includes \$957,744 from convertible debt, net of fees and original note discounts, \$1,476,360 in proceeds, net of \$8,000 in legal fees, from our Series K Convertible Preferred Stock offering and \$149,154 from the exercise of warrants.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 filings are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective.

Our conclusion that our disclosure controls and procedures were not effective as of September 30, 2014 is due to our continued limited resources for adequate personnel to prepare and file reports under the Securities Exchange Act of 1934 within the required periods and the continued presence of the material weaknesses in our internal control over financial reporting identified in our Annual Report on Form 10-K for the year ended December 31, 2013. These material weaknesses are the following:

A lack of sufficient segregation of duties. Specifically, this material weakness is such that the design over these areas relies primarily on detective controls and could be strengthened by adding preventative controls to properly safeguard company assets.

A lack of sufficient personnel in the accounting function due to our limited resources with appropriate skills, training and experience to perform the review processes to ensure the complete and proper application of generally accepted accounting principles, particularly as it relates to valuation of warrants and other complex debt /equity transactions. Specifically, this material weakness led to segregation of duties issues and resulted in audit adjustments to the annual consolidated financial statements and revisions to related disclosures, valuation of warrants and other equity transactions.

We continue to plan to remediate those material weaknesses as follows:

Improve the effectiveness of the accounting group by continuing to augment our existing resources with additional consultants or employees to improve segregation procedures and to assist in the analysis and recording of complex accounting transactions. We plan to hire additional senior accounting personnel or additional independent consultants once we generate significantly more revenue or raise significant additional working capital.

Improve segregation procedures by strengthening cross approval of various functions including quarterly internal audit procedures where appropriate.

During the period covered by this Report, we implemented and performed additional substantive procedures, such as supervisory review of work papers and consistent use of financial models used in equity valuations, to ensure our condensed consolidated financial statements as of and for the three and nine month period ended September 30, 2014, are fairly stated in all material respects in accordance with GAAP. We have not, however, been able to fully remediate the material weaknesses due to our limited financial resources. Our remediation efforts are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

Except as described above, there have been no changes in our internal controls over financial reporting that occurred during the period ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1, Legal Proceedings.

We are not currently involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

### Item 1A. Risk Factors

Factors that could cause or contribute to differences in our future financial and operating results include those discussed in the risk factors set forth in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2013. The risks described in our Form 10-K and this Report are not the only risks that we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on us. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

There have been no material changes to the risk factors set forth in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2013.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Sale of Common Stock and Common Stock Issuances

Please reference footnote (6) Subsequent Events, of these condensed consolidated financial statements, for certain issuances of shares of common stock after September 30, 2014. The shares were issued without registration under the Securities Act, in reliance upon the exemption set forth in Section 4(2) of the Securities Act, for transactions not involving a public offering.

Please reference footnote (5) Stockholder's Deficit, of these condensed consolidated financial statements under the heading Common Stock Issuances. The shares were issued without registration under the Securities Act, in reliance upon the exemption set forth in Section 4(2) and Rule 506 of Regulation D under the Securities Act, for transactions not involving a public offering.

#### Series K Convertible Preferred Stock

Please reference footnote (5) Stockholder's Deficit, of these condensed consolidated financial statements under the heading Series K Convertible Preferred Stock. The shares were issued without registration under the Securities Act, in reliance upon the exemption set forth in Section 4(2) and Rule 506 of Regulation D under the Securities Act, for transactions not involving a public offering.

#### Convertible Debt

See footnote 5 of the condensed consolidated financial statements.



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The above securities issued to the individuals identified in connection with a transaction made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933, as amended (the 'Securities Act') and/or Rule 506 promulgated under the Securities Act. The investors are accredited investors as defined in Rule 501 of Regulation D promulgated under the Securities Act.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

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Item 6. Exhibits

Exhibits Description

31.1 Principal Executive Officer Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are furnished and not filed.

† Furnished herewith. XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

PRESSURE BIOSCIENCES, INC.

Date: November 14, 2014

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

PRESSURE BIOSCIENCES, INC.

Date: November 14, 2014

By: /s/Richard P. Thomley  
Richard P. Thomley  
Chief Financial Officer  
(Principal Financial Officer)