

PRESSURE BIOSCIENCES INC
Form 10-Q
November 12, 2015

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, 2015

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)

Yes No

The number of shares outstanding of the Issuer's common stock as of November 10, 2015 was 21,485,654.

TABLE OF CONTENTS

| | Page |
|---|------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | 3 |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 (Unaudited)</u> | 3 |
| <u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u> | 4 |
| <u>Consolidated Statements of Comprehensive Loss for the Three Months and Nine Months Ended September 30, 2015 and 2014</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 7 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 21 |
| <u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u> | 30 |
| <u>Item 4. Controls and Procedures</u> | 30 |
| <u>PART II - OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 31 |
| <u>Item 1A. Risk Factors</u> | 31 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 31 |
| <u>Item 4. Mine Safety Disclosures</u> | 31 |
| <u>Item 5. Other Information</u> | 31 |
| <u>Item 6. Exhibits</u> | 32 |
| <u>SIGNATURES</u> | 33 |

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

| | September 30, 2015 | December 31, 2014 |
|---|-------------------------------|------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$76,875 | \$473,948 |
| Accounts receivable | 362,822 | 272,022 |
| Inventories, net of \$50,000 reserve at September 30, 2015 and December 31, 2014 | 808,843 | 850,552 |
| Prepaid income taxes | 7,381 | 7,381 |
| Prepaid expenses and other current assets | 74,396 | 104,204 |
| Total current assets | 1,330,317 | 1,708,107 |
| Investment in available-for-sale equity securities | 322,860 | - |
| Debt issuance costs, net | 533,403 | - |
| Property and equipment, net | 24,408 | 36,025 |
| TOTAL ASSETS | \$2,210,988 | \$1,744,132 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$834,812 | \$1,035,781 |
| Accrued employee compensation | 205,953 | 157,347 |
| Accrued professional fees and other | 837,052 | 719,432 |
| Deferred revenue | 101,421 | 27,117 |
| Convertible debt, net of debt discount of \$375,378 and \$328,681, respectively | 296,818 | 1,004,513 |
| Other debt, net of discount of \$4,676 and \$0, respectively | 246,036 | 80,480 |
| Warrant derivative liability | 1,541,130 | 159,875 |
| Conversion option liability | 2,227,330 | 590,341 |
| Total current liabilities | 6,290,552 | 3,774,886 |
| LONG TERM LIABILITIES | | |
| Convertible debt, net of debt discount of \$3,297,994 | 412,325 | - |
| Deferred revenue | - | 28,977 |
| TOTAL LIABILITIES | 6,702,877 | 3,803,863 |
| COMMITMENTS AND CONTINGENCIES (Note 5) | | |
| STOCKHOLDERS' DEFICIT | | |
| Series D Convertible Preferred Stock, \$.01 par value; 850 shares authorized; 300 shares issued and outstanding on September 30, 2015 and December 31, 2014 | 3 | 3 |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

(Liquidation value of \$300,000)

| | | |
|---|--------------------|--------------------|
| Series G Convertible Preferred Stock, \$.01 par value; 240,000 shares authorized; 86,570 shares issued and outstanding on September 30, 2015 and December 31, 2014 | 866 | 866 |
| Series H Convertible Preferred Stock, \$.01 par value; 10,000 shares authorized; 10,000 shares issued and outstanding on September 30, 2015 and December 31, 2014 | 100 | 100 |
| Series H2 Convertible Preferred Stock, \$.01 par value; 21 shares authorized; 21 shares issued and outstanding on September 30, 2015 and December 31, 2014 | - | - |
| Series J Convertible Preferred Stock, \$.01 par value; 6,250 shares authorized; 3,546 shares issued and outstanding on September 30, 2015 and December 31, 2014 | 36 | 36 |
| Series K Convertible Preferred Stock, \$.01 par value; 15,000 shares authorized; 11,416 shares issued and outstanding on September 30, 2015 and December 31, 2014 | 114 | 114 |
| Common stock, \$.01 par value; 100,000,000 shares authorized; 21,319,131 and 18,673,390 shares issued and outstanding on September 30, 2015 and December 31, 2014, respectively | 213,192 | 186,734 |
| Warrants to acquire common stock | 5,347,054 | 5,253,566 |
| Additional paid-in capital | 25,594,074 | 24,617,564 |
| Accumulated other comprehensive income | (76,687) | - |
| Accumulated deficit | (35,570,641) | (32,118,714) |
| Total stockholders' deficit | (4,491,889) | (2,059,731) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$2,210,988 | \$1,744,132 |

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

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|----------------|--|----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue: | | | | |
| Products, services, other | \$481,452 | \$372,545 | \$1,174,391 | \$1,084,156 |
| Grant revenue | 98,882 | - | 259,181 | - |
| Total revenue | 580,334 | 372,545 | 1,433,572 | 1,084,156 |
| Costs and expenses: | | | | |
| Cost of products and services | 209,804 | 149,065 | 575,780 | 461,124 |
| Research and development | 355,574 | 232,032 | 878,899 | 716,358 |
| Selling and marketing | 207,888 | 188,129 | 574,289 | 555,543 |
| General and administrative | 497,796 | 600,952 | 2,034,040 | 1,777,887 |
| Total operating costs and expenses | 1,271,062 | 1,170,178 | 4,063,008 | 3,510,912 |
| Operating loss | (690,728) | (797,633) | (2,629,436) | (2,426,756) |
| Other (expense) income: | | | | |
| Interest expense | (1,584,830) | (179,942) | (2,831,106) | (658,255) |
| Other expense | - | (80,102) | (513,352) | (80,102) |
| Gain on extinguishment of embedded derivative liabilities | 1,180,251 | - | 2,028,324 | - |
| Change in fair value of derivative liabilities | 437,379 | 98,627 | 515,410 | (156,779) |
| Total other (expense) income | 32,800 | (161,417) | (800,724) | (895,136) |
| Net loss | (657,928) | (959,050) | (3,430,160) | (3,321,892) |
| Accrued dividends on convertible preferred stock | 1,711 | (43,362) | (21,768) | (97,955) |
| Deemed dividends on convertible preferred stock | - | - | - | (1,388,062) |
| Net loss applicable to common shareholders | \$(656,217) | \$(1,002,412) | \$(3,451,928) | \$(4,807,909) |
| Net loss per share attributable to common stockholders - basic and diluted | \$(0.03) | \$(0.07) | \$(0.17) | \$(0.35) |
| Weighted average common stock shares outstanding used in the basic and diluted net loss per share calculation | 20,737,827 | 15,238,466 | 19,771,323 | 13,648,795 |

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

| | For the Three Months Ended September 30, 2015 | | For the Nine Months Ended September 30, 2015 | |
|--|--|-------------|---|----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Comprehensive Loss | | | | |
| Net loss | \$(657,928) | \$(959,050) | \$ (3,430,160) | \$ (3,321,892) |
| Other comprehensive loss | | | | |
| Unrealized loss on marketable securities | (76,687) | - | (76,687) | - |
| Comprehensive loss | \$734,615) | \$(959,050) | \$(3,506,847) | \$(3,321,892) |

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

| | For the Nine Months Ended September 30, | |
|---|--|---------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(3,430,160) | \$(3,321,892) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 18,279 | 59,364 |
| Accretion of interest and amortization of debt discount and deferred financing fees | 2,367,381 | 611,919 |
| Debt conversion option value in excess of debt | 476,442 | - |
| Stock-based compensation expense | 185,370 | 46,770 |
| Amortization of third party fees paid in common stock and warrants | 173,538 | 206,226 |
| Gain on extinguishment of embedded derivative liabilities | (2,028,324) | - |
| Change in fair value of derivative liabilities | (515,410) | 156,799 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (90,800) | (187,406) |
| Inventories | 41,709 | (115,847) |
| Prepaid expenses and other assets | 123,808 | 222,041 |
| Accounts payable | (200,969) | (16,976) |
| Accrued employee compensation | 48,606 | 13,826 |
| Deferred revenue and other accrued expenses | 150,581 | 122,463 |
| Net cash used in operating activities | (2,679,949) | (2,202,713) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property plant and equipment | (6,662) | (7,139) |
| Net cash used in investing activities | (6,662) | (7,139) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from related party debt | 6,300 | - |
| Payment of related party debt | (12,300) | (6,394) |
| Net proceeds from convertible debt | 3,991,437 | 957,744 |
| Payments on convertible debt | (2,107,065) | (303,100) |
| Net proceeds from non-convertible debt | 1,300,000 | 270,252 |
| Payments on non-convertible debt | (537,641) | (267,377) |
| Payment of prepayment penalty | (351,193) | - |
| Net proceeds from the issuance of common stock | - | 149,166 |
| Net proceeds from the issuance of convertible preferred stock | - | 1,476,360 |
| Net cash provided by financing activities | 2,289,538 | 2,276,651 |
| NET DECREASE IN CASH | (397,073) | 66,799 |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | |
|---|-----------|-----------|
| CASH AT BEGINNING OF YEAR | 473,948 | 31,417 |
| CASH AT END OF PERIOD | \$76,875 | \$98,216 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid in cash | \$239,389 | \$33,445 |
| Income taxes paid in cash | - | - |
| NON CASH TRANSACTIONS: | | |
| Convertible debt exchanged for convertible preferred stock | - | 270,000 |
| Accrued dividends on preferred stock | 21,768 | 97,955 |
| Issuance of convertible preferred stock for interest | - | 30,000 |
| Issuance of convertible preferred stock for board of director and other fees | - | 92,750 |
| Issuance of common stock for investment in available-for-sale equity securities | 399,547 | - |
| Unrealized loss from available-for-sale equity securities | 76,687 | - |
| Deemed dividend on convertible preferred stock | - | 1,388,062 |
| Convertible debt and extension fee exchanged for common stock | 338,000 | 87,500 |
| Debt discount from derivative liability | 5,085,536 | - |
| Extension fees added to principal | 84,000 | - |
| Prepayment penalty and accrued interest enrolled into debt principal | 48,950 | - |
| Common stock issued for preferred dividends | - | 82,231 |

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2015

(UNAUDITED)

1) Business Overview, Liquidity and Management Plans

Pressure BioSciences, Inc. (“we”, “our”, “the Company”) is 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*”).

In 2015, together with an investment bank, we formed a subsidiary called Pressure BioSciences Europe (“PBI Europe”) in Poland. We have 49% ownership interest with the investment bank retaining 51%. As of now, PBI Europe does not have any operating activities but is expected to commence operations in 2016. Therefore, we don’t have control of the subsidiary and did not consolidate in our financial statements.

2) Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, we have experienced negative cash flows from operations with respect to our pressure cycling technology

business since our inception. As of September 30, 2015, we do 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. We have been successful in raising cash through debt and equity offerings in the past and as described in Note 6, completed debt financing subsequent to September 30, 2015. We have financing efforts in place to continue to raise cash through debt and equity offerings.

Management has developed a plan to continue operations. This plan includes obtaining equity or debt financing. During the nine months ended September 30, 2015 we received \$5,952,053 net proceeds, in additional convertible and non-convertible debt. 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.

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. These financial statements do not include any adjustments that might result from this uncertainty.

3) 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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014 as filed with the Securities and Exchange Commission on March 31, 2015.

4) 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.

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, 2015 and 2014.

| | For the Three Months Ended September 30, 2015 | | 2014 | |
|--------------------|---|---|------|---|
| Top Five Customers | 43 | % | 53 | % |
| Federal Agencies | 2 | % | 1 | % |

| | For the Nine Months Ended September 30, 2015 | | 2014 | |
|--------------------|---|---|------|---|
| Top Five Customers | 34 | % | 31 | % |
| Federal Agencies | 14 | % | 1 | % |

The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of September 30, 2015 and December 31, 2014:

| | September 30, 2015 | | December 31, 2014 | |
|--------------------|-----------------------|---|----------------------|---|
| Top Five Customers | 61 | % | 86 | % |
| Federal Agencies | 1 | % | 9 | % |

Product Supply

BIT Group, Inc. of California has been our sole contract manufacturer for our PCT NEP3229 and NEP2320 instrumentation. However, the Company has reached agreement for a Massachusetts-based contract manufacturer to assemble its future builds of the NEP2320 instrument, effective in early 2016.

Investment in Available-For-Sale Equity Securities

As of September 30, 2015, we held 601,500 shares of common stock of Everest Investments Holdings S.A. (“Everest”), a Polish publicly traded company listed on the Warsaw Stock Exchange. We account for this investment in accordance with ASC 320 “*Investments — Debt and Equity Securities*” as securities available for sale. On September 30, 2015, our balance sheet reflected the fair value of our investment in Everest to be \$323,860, based on the closing price of Everest shares of \$0.54 per share on that day. The carrying value of our investment in Everest common stock held will change from period to period based on the closing price of the common stock of Everest as of the balance sheet date. This change in market value will be recorded by us on a quarterly basis as an unrealized gain or loss in Comprehensive Income or Loss.

Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”, or ASU 2015-03. ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

Costs incurred in obtaining debt funding are currently deferred and amortized on an effective interest method over the terms of the loans. Amortization expense for 2015 and 2014 was \$41,085 and \$0 respectively, and has been classified with interest expense in the consolidated financial statements.

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.

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

The following table illustrates our computation of loss per share for the three months and nine months ended September 30, 2015 and 2014:

| | For the Three Months Ended September 30, 2015 | | For the Nine Months Ended September 30, 2014 | |
|---|--|----------------|---|----------------|
| Numerator: | | | | |
| Net loss | \$(657,928) | \$(959,050) | \$(3,430,160) | \$(3,321,892) |
| Accrued dividend for Preferred Stock | 1,711 | (43,362) | (21,768) | (97,955) |
| Deemed dividend on Series K Convertible Preferred Stock | - | - | - | (1,388,062) |
| Net loss applicable to common shareholders | \$(656,217) | \$(1,002,412) | \$(3,451,928) | \$(4,807,909) |
| Denominator for basic and diluted loss per share: | | | | |
| Weighted average common stock shares outstanding | 20,737,827 | 15,238,466 | 19,771,323 | 13,648,795 |
| Loss per common share - basic and diluted | \$(0.03) | \$(0.07) | \$(0.17) | \$(0.35) |

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.

| | For the Nine Months Ended September 30, | |
|---------------------------------------|---|------------|
| | 2015 | 2014 |
| Stock options | 3,201,250 | 3,356,250 |
| Convertible debt | 26,015,029 | 4,091,151 |
| Common stock warrants | 26,125,127 | 17,895,717 |
| Convertible preferred stock: | | |
| Series D Convertible Preferred Stock | 750,000 | 750,000 |
| Series G Convertible Preferred Stock | 865,700 | 865,700 |
| Series H Convertible Preferred Stock | 1,000,000 | 1,000,000 |
| Series H2 Convertible Preferred Stock | 2,100,000 | - |
| Series J Convertible Preferred Stock | 3,546,000 | 3,548,000 |
| Series K Convertible Preferred Stock | 11,399,000 | 11,399,000 |
| | 75,002,106 | 42,905,818 |

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.

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.

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 \$74,864 and \$6,387 for the three months ended September 30, 2015 and 2014, 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 September 30, | |
|--|--|---------|
| | 2015 | 2014 |
| Research and development | \$18,307 | \$1,749 |
| Selling and marketing | 13,310 | 1,391 |
| General and administrative | 43,247 | 3,247 |
| Total stock-based compensation expense | \$74,864 | \$6,387 |

We recognized stock-based compensation expense of \$185,370 and \$46,771 for the nine months ended September 30, 2015 and 2014, 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 Ended September 30, | |
|--|---|----------|
| | 2015 | 2014 |
| Research and development | \$41,172 | \$19,602 |
| Selling and marketing | 27,386 | 13,296 |
| General and administrative | 116,812 | 13,873 |
| Total stock-based compensation expense | \$185,370 | \$46,771 |

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 its financial assets are classified within Level 1 and its financial liabilities are currently 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 assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2015.

**Fair value measurements at
September 30, 2015 using:**

| | September 30, 2015 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
|--|-----------------------------------|--|--|--|--|
| Series D Preferred Stock Purchase Warrants | \$ 122,692 | - | - | \$ 122,692 | |
| Available-For-Sale Equity Securities | 322,860 | 322,860 | - | - | |
| Convertible Debt Warrants | 1,418,438 | - | - | 1,418,438 | |
| Conversion Option Liabilities | 2,227,330 | - | - | 2,227,330 | |
| Total Derivatives | \$4,091,320 | \$322,860 | \$ - | \$ 3,768,460 | |

| | January 1, 2015 | Issuance fair value | Change in fair value | Gain on extinguishment of derivative liabilities | September 30, 2015 |
|--|----------------------------|--------------------------------|-------------------------------------|---|-------------------------------|
| Series D Preferred Stock Purchase Warrants | \$ 159,875 | \$- | \$(37,183) | \$ - | \$ 122,692 |
| Convertible Debt Warrants | - | 1,418,927 | (489) | - | 1,418,438 |
| Conversion Option Liabilities | 590,341 | 4,143,051 | (477,738) | (2,028,324) | 2,227,330 |
| Total Derivatives | \$750,216 | \$5,561,978 | \$(515,410) | \$ (2,028,324) | \$3,768,460 |

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 | November 10, 2011 | Warrants revalued at December 31, 2014 | Warrants revalued at September 30, 2015 |
|---------------------------|----------------------|--|---|
| Expected life (in months) | 60.0 | 22.0 | 13.0 |
| Expected volatility | 104.5 % | 116.0 % | 117.5 % |
| Risk-free interest rate | 0.875 % | 0.58 % | 0.33 % |
| Exercise price | \$ 0.81 | \$ 0.25 | \$ 0.25 |
| Fair value per warrant | \$ 0.54 | \$ 0.15 | \$ 0.11 |

The assumptions for the binomial pricing model are represented in the table below for the warrants issued with the Convertible Debt throughout the year reflected on a per share common stock equivalent basis.

| Assumptions | For the three months ended September 30, 2015 | Warrants revalued at September 30, 2015 |
|---------------------------|--|--|
| Expected life (in months) | 60.0 | 60.0 |
| Expected volatility | 118.3 - 120.1 % | 136.5 - 138.2 % |
| Risk-free interest rate | 1.48-1.69 % | 1.37 % |
| Exercise price | \$0.40 | \$0.40 |
| Fair value per warrant | \$0.19-\$0.21 | \$0.20 |

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 | At Issuance fair value | At Settlement fair value | Conversion options revalued at September 30, 2015 |
|----------------------------------|---------------------------|-----------------------------|---|
| Expected life (in months) | 6-24 | 0-18 | 2-21 |
| Expected volatility | 104.2-153.8% | 86.9%-142.2% | 88.6-130.6% |
| Risk-free interest rate | 0.05-0.99% | 0.01-0.72% | 0.01-0.64% |
| Exercise price | \$0.10-\$0.35 | \$0.10-\$0.25 | \$0.11-\$0.25 |
| Fair value per conversion option | \$0.09-\$0.28 | \$0.07-\$0.26 | \$0.08-\$0.16 |

5) Commitments and Contingencies

Operating Leases

Our corporate offices are currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. In November 2007, we signed 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, 2015 with a monthly payment of \$4,800.

In September 2014 we moved to approximately 855 square feet of lab space in Medford, MA with a monthly payment of \$3,094. Effective November 1, 2015, we entered into a revised lease with the addition of 833 additional square feet of lab and office space at the existing facility in Medford, MA. The new monthly payment is \$5,385. The expiration of the new lease remains unchanged: December 31, 2017.

Rental costs are expensed as incurred. During the nine months ended September 30, 2015 and 2014 we incurred \$73,775 and \$43,200 in rent expense, respectively for the use of our corporate office and research and development facilities.

Government Grants

We have received a \$1.05 million NIH SBIR Phase II Grant. Under the grant, the NIH has committed to pay the company to develop a high-throughput, high pressure-based DNA Shearing System for Next Generation Sequencing applications.

6) Convertible Debt and Other Debt

We have entered into various convertible debentures. The convertible debentures have terms ranging from 12 to 24 months and subject to annual interest rates ranging from 4% to 10%. The proceeds received are net of fees. The lenders charge interest per annum based on the principal balance. The lenders have 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 based on a volume weighted average price of the closing prices of the Company's shares during various periods 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 Company chooses to prepay it will incur pre-payment penalties ranging from 19% to 38% of the principal balance. The Company is required to reserve shares

of common stock for full conversion of these debentures. The maturity dates range from six months to two years after the effective date of the 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 on each debt agreement and accounted 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 reflected in the conversion option liability line in the condensed consolidated balance sheet.

The proceeds from these convertible debts 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 allocations 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 is offset by debt discounts which will be amortized to interest expense over the expected life of the debt.

In connection with the senior secured convertible debentures issued in our still open private placement with closings in July 2015 and September 2015, we also issued warrants to the lenders to purchase an aggregate 5,857,142 shares of the Common Stock, at an exercise price of \$0.40 per share, expiring five years after the issuance date.

ASC 470-20 states that the proceeds from the issuance of debt with detachable stock warrants should be allocated between the debt and warrants on the basis of their relative fair market values. The debt discount will be amortized to interest expense over the two year term of these loans. We amortized \$149,025 of the debt discount to interest expense in 2015. The warrants issued in connection with the convertible debentures are classified as warrant derivative liabilities because the warrants are entitled to certain rights in subsequent financings and the warrants contain "down-round protection" and therefore, do not meet the scope exception for treatment as a derivative under ASC 815, Derivatives and Hedging, ("ASC 815"). Since "down-round protection" is not an input into the calculation of the fair value of the warrants, the warrants cannot be considered indexed to the Company's own stock which is a requirement for the scope exception as outlined under ASC 815. The estimated fair value of the warrants was determined using the binomial model, resulting in an allocation of \$1,182,439 to the total warrants out of the gross proceeds of \$3,280,000. 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 specific terms of the convertible debts and outstanding balances as of September 30, 2015 are listed in the tables below.

Variable Rate Convertible Notes

| Inception Date | Term | Loan Amount | Outstanding Balance as of September 30, 2015 | Outstanding Balance as of November 10, 2015 | Interest Rate | Fees | Fair value of conversion feature | Prepayment Penalty | Discount to VWAP | Share reserve requirement |
|-------------------|------------|-------------|--|---|---------------|----------|----------------------------------|--------------------|------------------|---------------------------|
| December 4, 2013 | 12 months | \$223,000 | \$105,760 | \$- | 4% | \$10,000 | \$59,903 | 20 % | | - |
| February 2, 2015 | 12 months | 100,000 | - | - | * 4% | 5,000 | 62,219 | 19-33 % | | - |
| February 2, 2015 | 12 months | 120,000 | - | - | * 4% | 5,000 | 74,663 | 19-33 % | | - |
| February 22, 2015 | six months | 100,000 | - | - | * 4% | - | 61,597 | 19-33 % | | - |
| February 25, 2015 | 12 months | 112,500 | - | - | * 8% | 4,000 | 312,847 | 19-33 % | | - |
| March 4, 2015 | 12 months | 52,500 | - | - | * 4% | 2,500 | 53,213 | 19-38 % | | - |
| March 6, 2015 | 12 months | 236,250 | - | - | * 2% | 33,900 | 212,918 | 19-35 % | | - |
| March 17, 2015 | 24 months | 50,000 | - | - | * 4% | - | 64,382 | 19-33 % | | - |
| March 20, 2015 | 12 months | 25,000 | - | - | * 4% | - | 25,077 | 19-33 % | | - |
| March 26, 2015 | 12 months | 150,000 | - | - | * 6% | 2,000 | 164,501 | 19-37.5 % | | - |
| March 27, 2015 | 12 months | 52,500 | - | - | * 4% | 2,500 | 57,502 | 19-38 % | | - |
| March 27, 2015 | 12 months | 100,000 | - | - | * 8% | 8,000 | 154,359 | 19-38 % | | - |
| April 1, 2015 | 12 months | 100,000 | 138,046 | - | * 8% | - | 155,793 | 25-35 % | 40% of 10 days | - |
| April 20, 2015 | 12 months | 81,250 | - | - | * 4% | 6,563 | 117,679 | 20 % | | - |
| April 28, 2015 | 12 months | 54,050 | - | - | * 9% | 4,050 | 35,143 | 20 % | | - |
| May 12, 2015 | 12 months | 107,764 | 130,394 | 130,501 | * 4% | 7,763 | 145,527 | 20 % | | - |
| May 20, 2015 | 12 months | 100,000 | 135,000 | 135,000 | 4% | - | 92,715 | 9.5-33 % | 45% of 10 days | 3,000,000 |
| May 26, 2015 | 12 months | 60,000 | - | - | * 8% | 3,500 | 79,287 | 10-35 % | | - |
| | | 126,000 | 170,100 | 170,100 | 4% | 6,000 | 108,297 | 19-33 % | | 3,101,000 |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | | | | | | | | | | |
|---------------|-----------|-------------|-----------|-----------|----|-----------|-------------|-------|---|----------------|-----------|
| June 23, 2015 | 12 months | | | | | | | | | 35% of 15 days | |
| June 24, 2015 | 24 months | 50,000 | 67,500 | 67,500 | 4% | - | 54,511 | 19-33 | % | 35% of 10 days | 1,000,000 |
| July 2, 2015 | 12 months | 52,500 | 70,875 | 70,875 | 4% | 2,500 | 54,297 | 19-33 | % | 35% of 15 days | 1,500,000 |
| July 2, 2015 | 12 months | 52,500 | 67,500 | 67,500 | 4% | 2,500 | 54,297 | 19-33 | % | 35% of 15 days | 1,000,000 |
| | | \$2,105,814 | \$845,175 | \$470,975 | | \$105,776 | \$2,200,727 | | | | 9,601,000 |

The loans above with outstanding balances of zero were outstanding as of December 31, 2014 and were paid off during the nine months ended September 30, 2015.

Fixed Rate Convertible Notes

| Inception Date | Term | Loan Amount | Outstanding Balance | Original Issue Discount | Interest Rate | Fees | Fair value of conversion feature | Prepayment Penalty |
|--------------------|-----------|-------------|---------------------|-------------------------|---------------|--------------------------|----------------------------------|--------------------|
| July 22, 2015 | 24 months | \$2,180,000 | \$2,180,000 | \$218,000 ¹ | 10 | % ² \$339,930 | \$1,360,416 | 20 % |
| September 25, 2015 | 24 months | 1,100,000 | 1,100,000 | 110,000 ¹ | 10 | % ² 185,956 | 642,271 | 20 % |
| | | \$3,280,000 | \$3,280,000 | \$328,000 | | \$525,886 | \$2,002,687 | |

¹ The original issue discount is reflected in the first year.

² The annual interest starts accruing in the second year.

The following table provides a summary of the changes in convertible debt, net of unamortized discount, during 2015:

| | |
|--|-------------|
| Balance at December 31, 2014 | \$1,004,513 |
| Issuance of convertible debt, face value | 5,014,021 |
| Discount on embedded conversion option at issuance | (3,667,020) |
| Discount on fair value of warrant liability at issuance | (1,182,409) |
| Repayment of convertible debt | (2,107,065) |
| Conversion of convertible debt into common stock | (328,000) |
| Payment of prepayment penalty | (351,193) |
| Accretion of interest and amortization of debt discount to interest expense through September 30, 2015 | 2,326,296 |
| Balance at September 30, 2015 | 709,143 |
| Less: current portion | 296,818 |
| Convertible debt, long-term portion | \$412,325 |

Other Notes

On January 15, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received \$150,000 in exchange for rights to all customer receipts until the lender is paid \$187,500, which was collected at the rate of \$744 per business day. The payments were secured by essentially all tangible assets of the Company. \$67,925 of the proceeds were used to pay off the outstanding balance of a previous loan from this lender. The Company paid \$1,875

in fees in connection with this loan. The note was paid off in its entirety prior to September 30, 2015.

On January 29, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received \$200,000 in exchange for rights to all customer receipts until the lender is paid \$278,000, which was collected at the rate of \$1,985 per business day. The payments were secured by essentially all tangible assets of the Company. The Company paid \$999 in fees in connection with this loan. The note was paid off in its entirety prior to September 30, 2015.

On March 17, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received \$50,000 in exchange for rights to all customer receipts until the lender is paid \$67,450, which was collected at the rate of \$559 per business day. The payments were secured by essentially all tangible assets of the Company. The Company paid \$999 in fees in connection with this loan. The note was paid off in its entirety prior to September 30, 2015.

On May 29, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received \$100,000 in exchange for rights to all customer receipts until the lender is paid \$132,000, which was collected at the rate of \$1,098 per business day. The payments were secured by essentially all tangible assets of the Company. The Company paid \$3,999 in fees in connection with this loan. The note was paid off in its entirety prior to September 30, 2015.

On August 28, 2015 we signed a Merchant Agreement with a lender. Under the agreement we received \$300,000 in exchange for rights to all customer receipts until the lender is paid \$384,000, to be collected at the rate of \$2,560 per business day. The payments are not secured. On the closing date, \$131,710 of the proceeds were used to pay off the outstanding balances of two existing Notes. The Company paid \$6,000 in fees in connection with this loan. The outstanding balance is recorded as other debt on the balance sheet.

During the nine months ended September 30, 2015 we signed two ninety day notes with an investor. Under the terms of the notes, the Company received a total of \$500,000. The investor converted these loans in the Company's offering on July 22, 2015.

During the nine months ended September 30, 2015, the Company made payments of \$537,641 in total on the non-convertible debt from non-related parties.

7) 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*")

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

- 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) 21 shares have been designated as Series H2 Convertible Preferred Stock (“*Series H2*”)
- 10) 6,250 shares have been designated as Series J Convertible Preferred Stock (“*Series J*”)
- 11) 15,000 shares have been designated as Series K Convertible Preferred Stock (“*Series K*”)

As of September 30, 2015, there were no shares of Junior A, and Series A, B, C and E issued and outstanding. See our Annual Report on Form 10-K for the year ended December 31, 2014 for the pertinent disclosures of preferred stock.

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, 2015, options to acquire 1,720,750 shares were outstanding under the Plan with 79,250 shares available for future grant under the Plan.

As of September 30, 2015, 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, 2015 1,675,500 options have been granted under the 2013 Plan.

In connection with the convertible debentures issued in July 2015 and September 2015, we also issued warrants to the lenders to purchase an aggregate 5,857,142 shares of the Common Stock, at an exercise price of \$0.40 per share, expiring five years after the issuance date. We issued 1,171,427 warrants to the placement agent who assisted with these convertible debentures. The placement agent’s warrants have the same terms as the warrants issued to the lenders.

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

| | Stock Options | | Warrants | | Total | |
|-------------------------------|---------------|-----------|---------------|-----------|--------------|-------------|
| | Weighted | | Weighted | | | |
| | Average price | | Average price | | | |
| | Shares | per share | Shares | per share | Shares | Exercisable |
| Balance outstanding, 01/01/14 | 1,771,708 | \$0.71 | 15,012,237 | \$0.57 | 16,783,945 | 16,611,528 |
| Granted | 1,675,500 | 0.30 | 8,903,000 | 0.38 | 10,578,500 | |
| Exercised | - | | (4,208,658) | 0.25 | (4,208,658) | |
| Expired | (10,000) | 1.00 | (524,468) | 0.74 | (534,468) | |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | | | | | |
|--------------------------------|------------|--------|------------|--------|------------|------------|
| Forfeited | (30,958) | 0.71 | - | - | (30,958) | |
| Balance outstanding, 12/31/14 | 3,406,250 | \$0.51 | 19,182,111 | \$0.49 | 22,588,361 | 20,858,021 |
| Granted | - | - | 7,028,569 | 0.40 | 7,028,569 | |
| Exercised | - | - | - | - | - | |
| Expired | (205,000) | 1.00 | (85,553) | 0.50 | (290,553) | |
| Forfeited | - | - | - | - | - | |
| Balance outstanding, 9/30/2015 | 3,201,250 | \$0.48 | 26,125,127 | \$0.47 | 29,326,377 | 28,523,139 |

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Number of Options | Weighted Average Remaining Contractual Life (Years) | Exercise Price | Number of Options | Weighted Average Remaining Contractual Life (Years) | Exercise Price |
| \$0.30 - \$0.39 | 1,675,500 | 9.0 | \$ 0.30 | 888,198 | 9.0 | \$ 0.30 |
| 0.40 - 0.49 | 311,000 | 7.6 | 0.40 | 311,000 | 7.6 | 0.40 |
| 0.50 - 0.59 | 251,250 | 6.9 | 0.50 | 251,250 | 6.9 | 0.50 |
| 0.60 - 0.69 | 467,500 | 4.2 | 0.60 | 451,564 | 4.2 | 0.60 |
| 1.00 - 1.25 | 496,000 | 2.2 | 1.00 | 496,000 | 2.2 | 1.00 |
| \$0.30 - \$1.25 | 3,201,250 | 7.0 | \$ 0.48 | 2,398,012 | 6.3 | \$ 0.54 |

As of September 30, 2015, the total estimated fair value of unvested stock options to be amortized over their remaining vesting period was \$165,176. The non-cash, stock-based compensation expense associated with the vesting of these options is expected to be \$22,492 for the remainder of 2015, \$83,440 in 2016 and \$59,244 in 2017.

Common Stock Issuances

With respect to the convertible debenture for \$223,000 signed by the Company on December 4, 2013, a lender, with the prior approval of the Company, chose to convert a portion of the outstanding note balance into shares of the Company's common stock, and to extend the note for approximately 45 days after each conversion, as follows:

On January 14, 2015 \$25,000 was converted into 100,000 shares of the Company's common stock.

On February 25, 2015 \$38,000 was converted into 140,741 shares of the Company's common stock.

On April 10, 2015 \$35,000 was converted into 140,000 shares of the Company's common stock.

On May 29, 2015 \$35,000 was converted into 140,000 shares of the Company's common stock.

On July 21, 2015 \$20,000 was converted into 80,000 shares of the Company's common stock.

On August 13, 2015 \$40,000 was converted into 160,000 shares of the Company's common stock.

On September 25, 2015 \$30,000 was converted into 120,000 shares of the Company's common stock.

For each extension, the Company paid a fee of \$13,000, \$13,000, \$10,000, and \$8,000, respectively. This note was paid off in its entirety on November 5, 2015.

During the nine months ended September 30, 2015, the Company issued 305,000 shares with a fair value of \$80,050 for services.

On August 14, 2015, the Company closed a Securities Exchange Agreement with Everest Investments Holdings of Warsaw, Poland under which Everest purchased 1,000,000 shares of the Company's restricted Common Stock at a purchase price of \$0.50/share. In exchange, the Company received 601,500 shares of Everest Investments ("Everest"), a publicly-traded company on the Main Market of the Warsaw Stock Exchange. The shares of Everest were valued at approximately \$400,000 as of the closing date.

With respect to the convertible debenture for \$150,000 signed by the Company on June 4, 2014, a lender, with prior approval of the Company, chose to convert a portion of the outstanding note balance into shares of the Company's common stock, and to extend the note for approximately 30 days after each conversion, as follows:

On February 18, 2015 \$25,000 was converted into 100,000 shares of the Company's common stock.

On March 18, 2015 \$22,500 was converted into 90,000 shares of the Company's common stock.

On March 31, 2015 \$27,500 was converted into 110,000 shares of the Company's common stock.

On April 17, 2015 \$30,000 was converted into 120,000 shares of the Company's common stock.

For each extension, the Company paid a fee of \$10,000, \$0, \$0, and \$0. This note was paid off in its entirety on July 14, 2015.

With respect to the convertible debenture for \$75,000 signed by the Company on November 10, 2014, a lender, upon the request of the Company, on June 8, 2015 agreed to extend the conversion date of the note until July 20, 2015. The lender received 40,000 shares of the Company's common stock in exchange for the extension. The Company recorded \$10,000 to interest expense for this transaction. This note was paid off in its entirety on July 24, 2015.

8) Subsequent Events

On November 5, 2015 we paid off the balance \$105,760 of the \$223,000 convertible note from December 2013.

On November 1, 2015 the Company entered into a revised lease agreement for its research and development space in Medford, MA. The revised agreement calls for the Company to receive an additional 833 square feet of lab and office space. The monthly lease of \$5,585 will terminate on December 31, 2017.

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

On October 28, 2015 the Company issued 200,000 shares of restricted common stock to an investor relations firm for services rendered.

On October 2, 2015 we paid off the \$100,000 convertible note from April 2, 2015.

On October 1, 2015, the Company engaged an investor relations firm for which the Company has agreed to pay 125,000 shares of restricted common stock to provide services for the six months from October 1, 2015 to March 31, 2016.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY 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, 2014. 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, 2015, 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, 2015, we believe we will have the cash resources that will enable us to continue to fund normal operations into the foreseeable future.

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 2015:

October 16, 2015, the Company announced a collaboration agreement with Florida International University to co-develop an improved rape kit test method, based on the Company's patented PCT platform. With a backlog of untested rape kits estimated at approximately 400,000, and with an estimated 180,000 new sexual assaults each year, an improved testing method is vitally needed.

September 28, we announced the close of the second tranche (\$1.1M) of our \$5M Private Placement, bringing the total amount received in the PIPE since July 22, 2015 to \$3,280,000.

September 1, we announced that a recent publication in a peer-reviewed journal indicated that PBI's PCT platform could play a significant role in personalized/precision medicine, including cancer tissue biopsies.

August 26, we announced the start of a two-year collaboration with the Institute of Bioinformatics, one of India's most prestigious scientific research organizations. The collaboration will focus on the use of PBI's PCT platform for the discovery of molecular biomarkers in a number of diseases and disorders, including cancer and stroke.

August 17, we announced Q2 2015 financial results, including increases in all major revenue categories for the second quarter, and record total revenue for the six month period ended June 30, 2015.

August 14, DM WDM announced the exchange of 1M shares of PBI (valued at \$0.50/share) for 601,500 shares of Everest Investments Holdings, the formation of Pressure BioSciences Europe, and \$250,000 of market support for PBI by WDM. Everest is run by one of Poland's most recognized and respected fund managers.

July 23, we announced the close of a \$2.18M initial tranche of a \$5 Million Private Placement.

July 15, we announced that PCT was a key workflow component in a study to discover potential biomarkers and underlying pathways in the emergence and progression of COPD-associated lung cancer.

July 13, we reported that Chinese and Swiss researchers suggested a workflow that included the PCT platform that they believed could potentially accelerate the discovery of new biomarkers for the early diagnosis and prediction of complications in diabetes.

July 7, we announced promising results when our PCT Platform was incorporated in a new method for improving the extraction of DNA from rape kits and other forensic samples.

June 29, we announced that scientists from the Institute of Molecular Systems Biology in Zurich, Switzerland presented data on an improved method for the proteomic profiling and classification of prostate cancer tissue biopsy samples at an important international scientific conference.

May 4, we announced the publication of three scientific articles that show key advantages of the PCT platform in drug discovery & design, cancer detection, and in the analysis of microbial communities in soil.

April 30, we announced that scientists from Northwestern University had successfully extracted cotinine (metabolite of nicotine) from dried blood spots and theorized that the Company's new Barozyme High-throughput system might also improve the extraction of other chemical toxins and carcinogens as well.

April 14, we announced a collaboration agreement with Southern University at New Orleans for improving and extending applications of the PCT platform for DNA detection in forensic samples.

March 31, we announced FY 2014 financial results, including an almost 30% increase in products and services revenue compared to FY 2013.

March 12, we released PCT-HD, "the Next Generation Protein Preparation System" in two separate presentations at a major international scientific meeting in Tempe, Arizona.

February 19, we announced the award of a \$1 million NIH SBIR Phase II Grant to develop a high-throughput, high pressure-based DNA Shearing System for Next Generation Sequencing ("NGS").

February 10, we received the first Purchase Order for our Barozyme HT48 High-Throughput System.

January 21, we announced the receipt of over \$1.16 million during the past two months from equity investments, and that we planned to expand our marketing, sales, and operations capabilities.

Results of Operations

Comparison for the three months ended September 30, 2015 and 2014

Revenue

We recognized total revenue of \$580,334 for the three months ended September 30, 2015 as compared to \$372,545 during the three months ended September 30, 2014, an increase of \$207,789 or 56%. This increase is attributable to increases in both products and services and grant revenue as detailed below.

Products, Services, Other. Revenue from the sale of products and services increased 29% to \$481,452 for the three months ended September 30, 2015 as compared to \$372,545 during the three months ended September 30, 2014. This increase was primarily attributable to an increase in the sale of pressure-based instrument systems. Sales of consumables for the three months ended September 30, 2015 were \$28,339 compared to \$51,831 during the same period in the prior year.

Grant Revenue. During the three months ended September 30, 2015, we recorded grant revenue of \$98,882 compared to no grant revenue in the comparable period in 2014. Our previous grants were completed in September of 2013 and we did not receive a new grant until December of 2014. The December 2014 grant was for approximately \$1,000,000 and will be paid over a period of two years.

Cost of Products and Services

The cost of products and services was \$209,804 for the three months ended September 30, 2015 compared to \$149,065 for the comparable period in 2014. The cost of products and services increased with the concomitant increase in the sales of instrument systems. Gross profit margin on products and services was 56% for the three months ended September 30, 2015, as compared to 60% for the prior period.

Research and Development

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

Research and development expenditures were \$355,574 during the three months ended September 30, 2015 as compared to \$232,032 in the same period in 2014. This increase resulted primarily from additional research activities funded through our SBIR Phase II grant, with the aim to develop a new pressure-based system for the extraction of DNA from samples for an analysis. We also added much needed electrical engineering and computer software support, to help enhance our entire line of pressure-based instrument systems.

Research and development expense recognized in the three months ended September 30, 2015 and 2014 included \$18,307 and \$1,749 of non-cash, stock-based compensation expense, respectively.

Selling and Marketing

Selling and marketing expenses increased to \$207,888 for the three months ended September 30, 2015 from \$188,129 for the comparable period in 2014, an increase of \$19,759 or 11%. This increase is primarily attributed to expenses incurred to attend additional tradeshows, more active marketing, and to the generation of data by our collaborative partners that can be used to introduce new and upgraded products and services.

During the three months ended September 30, 2015 and 2014, selling and marketing expense included \$13,310 and \$1,391 of non-cash, stock-based compensation expense, respectively.

General and Administrative

General and administrative costs totaled \$497,796 for the three months ended September 30, 2015 as compared to \$600,952 for the comparable period in 2014, a decrease of \$103,156 or 17%. The decrease is primarily related to cost savings from renegotiated vendor contracts.

During the three months ended September 30, 2015 and 2014, general and administrative expense included \$43,247 and \$3,247 of non-cash, stock-based compensation expense, respectively.

Operating Loss

Our operating loss was \$690,728 for the three months ended September 30, 2015 as compared to \$797,633 for the comparable period in 2014, a decrease of \$106,905 or 13%.

Other Income (Expense), Net

Interest (Expense) Income

Interest expense totaled \$1,584,830 for the three months ended September 30, 2015 as compared to interest expense of \$179,942 for the three months ended September 30, 2014. Interest expense in the current period included \$974,961 for conversion option amortization of which \$717,023 related to loan payoffs triggering immediate write down of the conversion option. The remaining interest expense included \$257,319 note discount amortization and \$87,499 prepayment penalty accruals.

Change in fair value of warrant derivative liability

During the three months ended September 30, 2015, we recorded non-cash expense of \$2,440 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 private placement offerings. We recorded \$85,391 non-cash income in the prior comparable period. This increase in fair value was primarily due to the increase in price of the Company's common stock at September 30, 2015 as compared to the price on June 30, 2015. The components for determining the fair value of the warrants are contained in the table in Note 4 of the accompanying condensed consolidated financial statements.

Change in fair value of conversion option liability

During the three months ended September 30, 2015, we recorded non-cash income of \$434,939 for conversion option revaluation expense 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, 2015 as compared to the price on June 30, 2015 or the date the debt was incurred during the quarter and the shorter time to maturity of the debt. For the three months ended September 30, 2014 we recorded non-cash income \$47,746 for conversion option liability revaluation. The components for determining the fair value of the conversion option liabilities are contained in the table in Note 4 of the accompanying condensed consolidated financial statements.

Gain on extinguishment of embedded derivative liabilities

A total of \$1,180,251 of the conversion option liability was recognized as a gain on extinguishment of embedded derivative liabilities when the underlying convertible debt was paid off and thus also extinguished the corresponding derivative liability. The components for determining the fair value of the conversion option liabilities are contained in the table in Note 4 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 excess of fair value of the conversion option liability embedded in the debt instruments over the amount of the debt incurred. The components for determining the fair value of the conversion option liability and can be found in Note 4 of these condensed consolidated financial statements.

Net Loss Applicable to Common Shareholders

During the three months ended September 30, 2015, we recorded a net loss to common shareholders of \$656,217 or \$(0.03) 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, 2014. Net loss per share decreased by \$0.04 due to the decreased net loss to common shareholders as detailed above. The weighted average common shares outstanding for the period increased because of the issuance of shares of common stock to investor relations firms for services rendered and because of Company agreed-upon conversions of Convertible Debt.

Comparison for the nine months ended September 30, 2015 and 2014

Revenue

We recognized total revenue of \$1,433,572 for the nine months ended September 30, 2015 as compared to \$1,084,156 during the nine months ended September 30, 2014, an increase of \$349,416 or 32%. This increase is attributable to an increase in products and services and grant revenue as detailed below.

Products, Services, Other. Revenue from the sale of products and services was \$1,174,391 for the nine months ended September 30, 2015 as compared to \$1,084,156 during the nine months ended September 30, 2014, an increase of \$90,235 or 8%. Revenue included sales of both PBI and Constant Systems pressure-based products. Sales of consumables decreased by \$16,298 or 11.6% to \$124,687 compared to \$140,985 for the prior year period.

Grant Revenue. During the nine months ended September 30, 2015, we recorded \$259,181 of grant revenue. We did not have any grant revenue activity in the nine months ended September 30, 2014.

Cost of Products and Services

The cost of products and services was \$575,780 for the nine months ended September 30, 2015 compared to \$461,124 for the comparable period in 2014. This increase was primarily based on the concomitant increase in pressure-based systems sold. Gross profit margin on products and services was 51% and 57% for the nine months ended September 30, 2015 and September 30, 2014 respectively.

Research and Development

Research and development expenditures were \$878,899 for the nine months ended September 30, 2015 as compared to \$716,358 in the same period in 2014, an increase of \$162,541 or 23%. This increase resulted primarily from additional research activities funded through our SBIR Phase II grant, with the aim to develop a new pressure-based system for the extraction of DNA from samples for an analysis. We also added much needed electrical engineering and computer software support to help enhance our entire line of pressure-based instrument systems.

Research and development expense recognized in the nine months ended September 30, 2015 and 2014 included \$41,172 and \$19,602 of non-cash, stock-based compensation expense, respectively.

Selling and Marketing

Selling and marketing expenses remained nearly unchanged at \$574,289 for the nine months ended September 30, 2015 compared to \$555,543 for the comparable period in 2014. These expenses remained steady although we continued to attend key trade shows and more actively marketed our complete line of products.

During the nine months ended September 30, 2015 and 2014, selling and marketing expense included \$27,386 and \$13,296 of non-cash, stock-based compensation expense, respectively.

General and Administrative

General and administrative costs totaled \$2,034,040 for the nine months ended September 30, 2015 as compared to \$1,777,887 for the comparable period in 2014, an increase of \$256,153 or 14%. The increase is primarily related to increases in investor relations, patent and trademark, outside technical services, and consulting expenses.

During the nine months ended September 30, 2015 and 2014, general and administrative expense included \$116,812 and \$13,873 of non-cash, stock-based compensation expense, respectively.

Operating Loss

Our operating loss was \$2,629,436 for the nine months ended September 30, 2015 as compared to \$2,426,756 for the comparable period in 2014, an increase of \$202,680 or 8%. This increase in operating loss was primarily attributable to increased sales and marketing, research and development, and general and administrative costs as previously described.

Other Income (Expense), Net

Interest Expense

Interest expense totaled \$2,831,106 for the nine months ended September 30, 2015 as compared to interest expense of \$658,255 for the nine months ended September 30, 2014. For the nine month period in 2015 we amortized approximately \$2,339,957 of imputed interest against the debt discount on these loans relating to conversion options liabilities, fees incurred in conjunction with these loans and prepayment penalties.

Change in fair value of warrant derivative liabilities

During the nine months ended September 30, 2015, we recorded non-cash income of \$37,672 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, 2015 as compared to the price on December 31, 2014. The components for determining the fair value of the warrants are contained in the table in Note 4 of the accompanying condensed consolidated financial statements.

Change in fair value of conversion option liability

During the nine months ended September 30, 2015, we recorded a non-cash income of \$477,738 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, 2015 as compared to the price on December 31, 2014. The components for determining the fair value of the conversion option liabilities are contained in the table in Note 4 of

the accompanying condensed consolidated financial statements.

Gain on extinguishment of embedded derivative liabilities

\$2,028,324 of the conversion option liability was recognized as a gain on extinguishment of embedded derivative liabilities when the underlying convertible debt was paid off and thus also extinguished the corresponding derivative liability. The components for determining the fair value of the conversion option liabilities are contained in the table in Note 4 of the accompanying condensed consolidated financial statements.

Other Expense

During the nine months ended September 30, 2014 we also recorded a non-cash expense of \$513,352 most of which incurred upon issuance of convertible debt to account for the fair value of the conversion option liability embedded in the debt instruments over the amount of the debt incurred. The components for determining the fair value of the conversion option liability can be found in Note 4 of these condensed consolidated financial statements.

Net Loss Applicable to Common Shareholders

During the nine months ended September 30, 2015, we recorded a net loss to common shareholders of \$3,451,928 or \$(0.17) per share, as compared to a net loss to common shareholders of \$4,807,909 or \$(0.35) per share in the nine months ended September 30, 2014. The decrease in loss per share is primarily attributable to the increase in weighted average shares of common stock outstanding in 2015 and non-recurring deemed dividends in the prior period on preferred stock.

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, 2015, 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. We have been successful in raising cash through debt and equity offerings in the past and as described in Note 8, we completed several subscriptions of a \$5 million PIPE through and subsequent to September 30, 2015. We have efforts in place to continue to raise cash through debt and equity offerings.

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, 2015 was \$2,679,949 as compared to \$2,202,713 for the nine months ended September 30, 2014. The increase in cash used in operations in 2015 is principally due to the increase in loss from operations, a decrease in accounts payable, and an increase in the purchase of materials for product manufacturing.

Cash used in investing activities for the nine months ended September 30, 2015 and 2014 was not significant.

Net cash provided by financing activities for the nine months ended September 30, 2015 was \$2,289,538 as compared to \$2,276,651 for the same period in the prior year. The cash from financing activities in the period ending September 30, 2015 includes \$3,991,437 from convertible debt, net of fees and original note discounts, less convertible debt payments of \$2,107,065. We also received \$1,300,000 from non-convertible debt, net of fees, less payment on non-convertible debt of \$537,641. In the prior year we received \$957,744 from convertible debt and \$1,476,360 in proceeds from our Series K Convertible Preferred Stock offering.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This Item 3 is not applicable to us as a smaller reporting company and has been omitted.

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, 2015, 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, 2015 is due to 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, 2014. 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.

These two deficiencies were exaggerated by the resignation of our CFO, Richard Thomley, on November 6, 2015.

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 month and nine month period ended September 30, 2015, 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, 2015 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, 2014. 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, 2014.

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

Please refer to Note 6, Convertible Debt and Other Debt, for a discussion of the sale of unregistered securities that took place for the quarter ended September 30, 2015.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 6, 2015, Richard Thomley, our Chief Executive Officer, resigned from his position as Acting CFO. We have not identified a replacement at this time. Until we find an adequate replacement, our Chief Executive Officer, Ric Shumacher will sign as acting Chief Financial Officer.

Item 6. Exhibits

Exhibits

- 31.1 Principal Executive Officer and 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.

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 12, 2015 By: */s/ Richard T. Schumacher*
Richard T. Schumacher
President & Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

