BIOSPECIFICS TECHNOLOGIES CORP
Form 10KSB/A
June 06, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A
Amendment No. 1

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal years ended: December 31, 2003, December 31, 2004 and December 31, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transitional period from __________________ to __________________

BIOSPECIFICS TECHNOLOGIES CORP.
(Exact name of registrant as specified in its charter)

Delaware	0-19879	11-3054851
(State or Other Jurisdiction Of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

35 Wilbur Street
Lynbrook, NY 11563
(Address of Principal Executive Office, including zip code)

516.593.7000
(Registrant’s telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: Common stock, $0.001 par value

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

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

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

The issuer's revenues for the year ending December 31, 2005 were $5,478,239.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of
April 7, 2008. (See definition of affiliate in Rule 12b-2 of the Exchange Act.): $48,522,660.

The number of shares outstanding of the issuer's common stock as of April 7, 2008 is 5,722,500.

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EXPLANATORY NOTE

This Amendment No. 1 (the "Amendment") to the Registrant's Form 10-KSB for the fiscal years ended December 31, 2003, 2004 and 2005, filed with the Securities and Exchange Commission (the "SEC") on March 2, 2007 (the "Prior Report") is being filed for the purpose of amending Item 7, "Financial Statements" of the Prior Report to include (i) a report of Tabriztchi & Co., CPA, P.C., our independent registered public accounting firm (the "Auditor"), regarding its audit of the restated consolidated financial statements for the fiscal year ended December 31, 2003 (the "2003 Audit") and (ii) the Auditor's consent to the use of such report, which is filed as an exhibit hereto.

The Auditor's report included in the Prior Report addressed only the audits conducted in regards to the consolidated financial statements for the fiscal years ended December 31, 2004 and 2005. The Prior Report included a restatement of the consolidated financial statements for the one year period ended December 31, 2003. The financial statements had been previously audited by a predecessor auditor. The 2003 Audit did not result in any changes to the consolidated financial statements for years ended December 31, 2003, 2004 and 2005 presented in the Prior Report.

The consolidated financial statements for the years ended December 31, 2003, 2004 and 2005 and the related notes thereto are being filed in order to provide a reference to the Auditor's report but are identical to the financial statements and notes filed in the Prior Report. As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications of our principal executive officer and principal financial officer are being filed as exhibits to this Amendment. Except for the changes described above, the Amendment does not change any previously reported financial results, modify or update disclosures in the Prior Report, or reflect events occurring after the date of the filing of the Prior Report.

For current information regarding the Company, please refer to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, filed with the SEC on May 2, 2008 and our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008, filed with the SEC on May 15, 2008.

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PART II

Item 7. Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
BioSpecifics Technologies Corp.:

We have audited the accompanying consolidated balance sheet of BioSpecifics Technologies Corp. (the Company) as of December 31, 2003, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the accompanying consolidated financial statements, the Company has restated its consolidated balance sheet as of December 31, 2003, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year ended December 31, 2003, which were previously audited by other auditors.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BioSpecifics Technologies Corp. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ Tabriztchi & Co., CPA, P.C.

Garden City, NY
April 30, 2008

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BioSpecifics Technologies Corp. and Subsidiaries
Consolidated Balance Sheets

	Years ended December 31,		
	2005	2004	2003
Assets			
Current assets:			
Cash and cash equivalents	$ 539,380	$ 1,345,800	$ 268,998
Marketable securities	-	3,026	3,026
Accounts receivable, net	445,141	160,777	306,786
Inventories, net	2,616,716	2,005,263	880,452
Prepaid expenses and other current assets	129,234	109,041	108,540
Total current assets	3,730,471	3,623,907	1,567,802
Other assets – loan costs	-	54,817	193,707
Construction in Progress	59,106	-	-
Property, plant and equipment, net	2,795,355	3,395,391	3,845,103
Total assets	6,584,932	7,074,115	5,606,612
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued expenses	2,638,832	2,494,168	2,048,812
Deferred revenue	2,137,517	985,755	45,000
Deferred employee stock bonus plan	168,900	-	-
Notes payable to related parties	69,894	67,839	20,953
Short-term debt - Korpodeko	-	182,000	364,000
Short-term debt - promissory note	-	100,000	100,000
Total current liabilities	5,015,143	3,829,762	2,578,765
Deferred revenue - license fees	4,753,797	3,672,200	-
Minority interest in subsidiaries	(2,064)	5,345	83,354
Deferred Compensation	22,210	22,210	-
Senior secured convertible 12% note, net of discount	-	1,504,863	1,364,591
Stockholders' equity:			
Series A Preferred stock, $.50 par value, 700,000 shares authorized; none outstanding	-	-	-
Common stock, $.001 par value; 10,000,000 shares authorized; 5,362,716, 5,333,841 and 5,249,528 shares issued and outstanding at December 31, 2005, 2004 and 2003 respectively	5,363	5,334	5,250
Additional paid-in capital	4,224,964	4,250,509	4,144,207
Retained earnings	(4,877,590)	(3,580,844)	77,897
Treasury stock, 346,561 shares at cost as of December 31, 2005 and 361,380 shares at cost as of December 31, 2004 and 2003	(1,832,864)	(1,911,237)	(1,911,237)
Notes receivable from former Chairman and CEO and other related party	(724,027)	(724,027)	(736,215)
Total stockholders' equity	(3,204,154)	(1,960,265)	1,579,902
Total liabilities and stockholders' equity	$ 6,584,932	$ 7,074,115	$ 5,606,612

See accompanying notes to consolidated financial statements

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BioSpecifics Technologies Corp. and Subsidiaries
Consolidated Statements of Operations

	Twelve months ended December 31,		
	2005	2004	2003
Revenues:			
Net sales	$ 3,137,978	$ 1,664,779	$ 1,555,625
Licensing fees	1,266,641	387,045	-
Royalties	1,073,620	784,933	1,683,915
	5,478,239	2,836,757	3,239,540
Costs and expenses:			
Cost of sales	3,622,775	3,052,492	2,837,986
Research and development	686,464	1,057,009	935,443
General and administrative	2,289,160	2,094,424	2,632,399
	6,598,399	6,203,925	6,405,828
Operating loss	(1,120,160)	(3,367,168)	(3,166,288)
Other income (expense):			
Investment income	2,406	196	109,635
Interest expense	(177,764)	(369,778)	(213,677)
Other expense	(2,519)	-	-
	(177,877)	(369,582)	(104,042)
Loss before benefit (expense) for income tax	(1,298,037)	(3,736,750)	(3,270,330)
Income tax benefit (expense)	(6,118)	-	(13,000)
	(1,304,155)	(3,736,750)	(3,283,330)
Loss before minority interest	(1,304,155)	(3,736,750)	(3,283,330)
Minority interest in loss of consolidated subsidiaries	7,409	78,009	83,787
Net loss	$ (1,296,746)	$ (3,658,741)	$ (3,199,543)
Basic and diluted net loss per share	$ (0.26)	$ (0.75)	$ (0.68)
Shares used in computation of basic and diluted net loss per share	4,989,538	4,903,773	4,734,867

See accompanying notes to consolidated financial statements

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BioSpecifics Technologies Corp. and Subsidiaries
Consolidated Statements of Cash Flows

	Twelve months ended December 31,		
Cash flows from operating activities:	2005	2004	2003
Net loss	$ (1,296,746)	$ (3,658,741)	$ (3,199,543)
Adjustments to reconcile net loss to net cash provided			
by operating activities:			
Depreciation and amortization	653,209	644,359	699,129
Options and warrants issued for services	-	-	14,000
Issuance of stock for services	16,125	40,960	15,000
Issuance of treasury stock as employee bonus	22,969	-	-
Amortization of loan discount	70,137	140,272	70,137
Deferred compensation	-	22,210	-
Minority interest in loss of subsidiaries	(7,409)	(78,009)	(83,787)
Changes in operating assets and liabilities:			
Accounts receivable	(284,364)	146,009	562,024
Marketable securities	3,026	-	-
Inventories	(611,453)	(1,124,811)	(231,572)
Prepaid expenses and other current assets	(20,194)	(501)	(74,392)
Accounts payable and accrued expenses	144,644	445,356	264,156
Deferred revenue	2,233,359	4,612,955	-
Deferred employee stock bonus plan	168,900	-	-
Income taxes	-	-	417,000
Net cash provided by (used in) operating activities	1,092,223	1,190,059	(1,547,848)
Cash flows from investing activities:			
Net (increase) decrease of notes receivable from former Chairman and CEO	-	12,189	394,093
Expenditures for property, plant and equipment	(112,279)	(194,647)	(16,189)
Net cash provided by (used in) investing activities	(112,279)	(182,458)	377,904
Cash flows from financing activities:			
Interest accrued on notes payable to related parties	2,055	1,886	6,443
Increase in short-term debt	-	45,000	100,000
Decrease in short-term debt	(282,000)	(182,000)	(91,000)
Increase (decrease) in senior secured convertible debt	(1,575,000)	-	1,575,000
Proceeds from issuance of common stock	13,763	65,425	295
Deferred loan costs, net	54,817	138,890	(193,707)
Net cash provided by (used in) financing activities	(1,786,365)	69,201	1,397,031
Effect of exchange rates on cash and equivalents	-	-	(8,988)
Increase (decrease) in cash and cash equivalents	(806,420)	1,076,802	218,099
Cash and cash equivalents at beginning of year	1,345,800	268,998	50,899
Cash and cash equivalents at end of year	539,380	1,345,800	268,998

Supplemental disclosures of cash flow information:						
Cash paid during the year for:						
Interest	$	-	$	211,568	$	157,599

See accompanying notes to consolidated financial statements

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BioSpecifics Technologies Corp. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Shares	Amount	Additional Paid in Capital	Retained Earnings
Balances - December 31, 2002	4,939,216	$ 4,939	$ 3,834,677	$ 3,277,440
Foreign currency translation	-	-	-	-
Consultant option grants	15,000	15	14,985	-
Bio Partners loan/discount	295,312	296	280,545	-
Issuance of warrants, options	-	-	14,000	-
Proceeds from former Chairman and CEO	-	-	-	-
Net loss	-	-	-	(3,199,543)
Balances - December 31, 2003	5,249,528	$ 5,250	$ 4,144,207	$ 77,897
Shares for services	18,888	19	40,941	-
Exercise of options	65,425	65	65,360	-
Proceeds from former Chairman and CEO	-	-	-	-
Net loss	-	-	-	(3,658,741)
Balances - December 31, 2004	5,333,841	$ 5,334	$ 4,250,508	$ (3,580,844)
Shares for services	15,000	15	16,110	-
Exercise of options	13,875	14	13,749	-
Proceeds from former Chairman and CEO	-	-	-	-
Issue of treasury shares	-	-	(55,404)	-
Net loss	-	-	-	(1,296,746)
Balances - December 31, 2005	5,362,716	$ 5,363	$ 4,224,963	$ (4,877,590)

	Treasury Stock	Due from Chairman	Currency Translation	Shareholder Equity Total	Comprehensive Income (loss)
Balances - December 31, 2002	(1,911,237)	(1,130,308)	8,988	4,084,498	--
Foreign currency translation	--	--	(8,988)	(8,988)	(8,988)
Consultant option grants	--	--	--	15,000	--
Bio Partners loan/discount	--	--	--	280,841	--
Issuance of warrants, options	--	--	--	14,000	--
Proceeds from former Chairman and CEO	--	394,093	--	394,094	--
Net loss	--	--	--	(3,199,543)	(3,199,543)
Balances - December 31, 2003	(1,911,237)	$ (736,215)	$ -	$ 1,579,902	$ (3,208,531)
Shares for services	-	-	-	40,960	-
Exercise of options	-	-	-	65,425	-
Proceeds from former Chairman and CEO	-	12,188	-	12,189	-
Net loss	-	-	-	(3,658,741)	(3,658,741)
Balances - December 31, 2004	(1,911,237)	$ (724,027)	$ -	$ (1,960,265)	$ (6,867,272)
Shares for services	-	-	-	16,125	-
Exercise of options	-	-	-	13,763	-
Proceeds from former Chairman and CEO	-	-	-	--	-
Issue of treasury shares	78,373	-	-	22,969	-
Net loss	-	-	-	(1,296,746)	(1,296,746)
Balances - December 31, 2005	(1,832,864)	$ (724,027)	$ -	$ (3,204,154)	$ (8,164,018)

See accompanying notes to consolidated financial statements

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BIOSPECIFICS TECHNOLOGIES CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2005, 2004 and 2003

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

We are a biopharmaceutical company that has manufactured the active pharmaceutical ingredient, which is referred to as “API’ or “API Enzyme” in this Report, used in an FDA licensed collagenase ointment that has been marketed for over 30 years. We have a development and license agreement with Auxilium for injectable collagenase (which Auxilium has named “AA4500”) for clinical indications in Dupuytren’s disease, Peyronies’s disease and frozen shoulder (adhesive capsulitis), and Auxilium has an option to acquire additional indications that we may pursue, including cellulite and lipomas. As a result of our research and development efforts we have also developed an injectable collagenase for treatment of various diseases or indications. Injectable collagenase has completed a pivotal clinical trial for the treatment of Dupuytren’s disease. A Phase III clinical trial has been initiated and is currently on clinical hold. During its earnings conference call on February 15, 2007, Auxilium reported that it expects the Phase III clinical trial to resume in the fourth quarter of 2007.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

During the preparation of our consolidated financial statements for the year ended December 31, 2005, management revised the accounting and certain related account balances previously reported in the 2003 Form 10-KSB filing. These restatements reflect changes to the Company’s previously reported financial results for the year ended December 31, 2003. These restatements had no effect on our cash position for any of these periods.

The consolidated financial statements for the twelve months ended December 31, 2003 have been restated as follows:

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BioSpecifics Technologies Corp. and Subsidiaries
Restated Consolidated Balance Sheets

	Twelve Months Ended December 31, 2003			
	As Previously Reported	Adjustment		As Restated
Assets				
Current assets:				
Cash and cash equivalents	$ 268,998	$ -		$ 268,998
Marketable securities	3,026	-		3,026
Accounts receivable, net	306,786	-		306,786
Inventories, net	880,452	-		880,452
Prepaid expenses and other current assets	47,151	61,389	(1)	108,540
Total current assets	1,506,413	61,389		1,567,802
Other assets - loan costs	203,457	(9,750)	(2)	193,707
Property, plant and equipment, net	3,845,102	1	(3)	3,845,103
Total assets	$ 5,554,972	$ 51,640		$ 5,606,612
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued expenses	$ 1,806,850	$ 241,963	(4)	$ 2,048,813
Notes payable to related parties	15,010	5,943	(5)	20,953
Deferred revenue	45,000	-		45,000
Short-term debt – Korpodeko	364,000	-		364,000
Short-term debt - promissory note	100,000	-		100,000
Total current liabilities	2,330,860	247,906		2,578,766
Minority interest in subsidiaries	89,728	(6,374)	(6)	83,354
Senior secured convertible 12% note, net of discount	1,364,591	-		1,364,591
Stockholders' equity:				
Series A Preferred stock, $.50 par value, 700,000 shares authorized; none outstanding	-	-		-
Common stock, $.001 par value; 10,000,000 shares authorized; 5,249,528 shares issued as of December 31, 2003	5,249	1	(7)	5,250
Additional paid-in capital	4,144,207	-		4,144,207
Retained earnings	180,949	(103,052)	(8)	77,897
Accumulated other comprehensive income	-	-		-
Treasury stock, 361,380 shares at cost	(1,911,237)	-		(1,911,237)
	(649,375)	(86,841)	(9)	(736,215)

Notes receivable from former Chairman and CEO and other related party						
Total stockholders' equity		1,769,793		(189,891)		1,579,901
Total liabilities and stockholders' equity	$	5,554,972	$	51,640	$	5,606,612

See accompanying notes to consolidated financial statements

(1) Correction to prepaid insurance of $31,079 and prepaid payroll of $30,310 previously expensed.
(2) Correction to Bio Partners, a private investor group, loan amortization of $9,750.

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(3) Rounding correction of property, plant and equipment, net.
(4) Increase in rent accrual for Lynbrook, NY facility of $206,963 for 2003 and prior periods and payroll tax liability for our Curacao employees of $35,000 resulting in total additional expense of $241,963.
(5) Increase in interest expense owed to a related party and a former director of $5,943
(6) Change due to restated financial statements based on ownership percentage held by minority shareholders.
(7) Correction of rounding error for outstanding shares.
(8) Correction to retained earnings based on restatement and prior period adjustments affecting the consolidated statement of operations.
(9) Correction of related party loan payment received from former Chairman and CEO, misapplied to principal instead of interest due.

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BioSpecifics Technologies Corp. and Subsidiaries
Restated Consolidated Statements of Operations

	Twelve Months ended December 31, 2003			
	As Previously Reported	Adjustment		As Restated
Revenues:				
Net sales	$ 1,555,625	$ -		$ 1,555,625
Royalties	1,683,915	-		1,683,915
	3,239,540	-		3,239,540
Costs and expenses:				
Cost of sales	2,843,921	(5,935)	(1)	2,837,986
General and administrative	2,615,007	17,392	(2)	2,632,399
Research and development	884,685	50,758	(3)	935,443
	6,343,613	62,215		6,405,828
Operating loss	(3,104,073)	(62,215)		(3,166,288)
Other income (expense):				
Investment Income	22,794	86,841	(4)	109,635
Interest expense	(207,734)	(5,943)	(5)	(213,677)
	(184,940)	80,898		(104,042)
Loss before benefit (expense) for income tax	(3,289,013)	18,683		(3,270,330)
Income tax expense	(13,000)	-		(13,000)
Loss before minority interest	(3,302,013)	18,683		(3,283,330)
Minority interest in earnings of consolidated subsidiaries	77,413	6,374	(6)	83,787
Net loss	$ (3,224,600)	$ 25,057		$ (3,199,543)
Basic and diluted net loss per share	$ (0.68)	$ 0.00		$ (0.68)
Shares used in computation of basic and diluted net loss per share	4,734,867	NA		4,734,867

See accompanying notes to consolidated financial statements

(1) Cost of sales decrease is related to a reduction in insurance expense of $19,007 and payroll costs of $30,310 partially offset by increases in payroll tax expense of $35,000 for our Curacao employees and rent expense of $8,382 resulting in a total reduction of $5,935.
(2) General and administrative expense increases include $19,714 related to rent expense and $9,750 related to loan amortization costs with a private investor group, Bio Partners, partially offset by reductions of $12,072 in insurance expenses resulting in a total increase of $17,392.
(3) Research and development expense increases include $50,758 related to rent expense.
(4) Investment income increased by $86,841due to a reclassification of interest associated with the related party loan repayment by the former Chairman and CEO.

(5) Interest expense increased by $5,943 due to a correction to a related party loan to the former Chairman and CEO.
(6) Change due to restated financial statements based on ownership percentage held by minority shareholders.

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BioSpecifics Technologies Corp. and Subsidiaries
Restated Consolidated Statements of Cash Flows

	Twelve months ended December 31, 2003		
	As Previously Reported	Adjustment	As Restated
Cash flows from operating activities:			
Net loss	$ (3,224,600)	$ 25,057 (1)	$ (3,199,543)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	699,129	-	699,129
Options and warrants issued for services	14,000	-	14,000
Issuance of stock for services	15,000	-	15,000
Amortization of loan discount	70,137	-	70,137
Minority interest in loss of subsidiaries	(77,413)	(6,374) (2)	(83,787)
Deferred taxes	-	-	-
Changes in operating assets and liabilities:			
Accounts receivable	562,024	-	562,024
Inventories	(231,572)	-	(231,572)
Prepaid expenses and other current assets	(13,003)	(61,389) (3)	(74,392)
Accounts payable and accrued expenses	150,302	113,854 (4)	264,156
Income taxes	417,000	-	417,000
Net cash provided (used) by operating activities	(1,618,996)	71,148	(1,547,848)
Cash flows from investing activities:			
Net paydown of notes receivable from former Chairman and CEO	480,934	(86,841) (5)	394,093
Expenditures for property, plant and equipment	(16,189)	-	(16,189)
Net cash provided (used) by investing activities	464,745	(86,841)	377,904
Cash flows from financing activities:			
Interest accrued on notes payable to related parties	500	5,943 (6)	6,443
Increase in short-term debt	100,000	-	100,000
Decrease in short-term debt	(91,000)	-	(91,000)
Proceeds from senior secured convertible debt	1,575,000	-	1,575,000
Proceeds from issuance of common stock	295	-	295
Deferred loan costs, net	(203,457)	9,750 (7)	(193,707)
Net cash provided by financing activities	1,381,338	15,693	1,397,031
Effect of exchange rates on cash and equivalents	(8,988)	-	(8,988)
Increase in cash and cash equivalents	218,099	-	218,099
Cash and cash equivalents at beginning of year	50,899	-	50,899

Cash and cash equivalents at end of year	$	268,998	$	-	$	268,998
Supplemental disclosures of cash flow information:						
Cash paid during the year for:						
Interest	$	157,599	$	-	$	157,599
Income taxes		-				-

See accompanying notes to consolidated financial statements

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(1) Net loss decreased due to changes reflected in the restated consolidated statement of operations above.
(2) Minority interest in loss of subsidiaries change due to restated financial statements based on ownership percentage held by minority shareholders.
(3) Prepaid expenses and other current assets change due to prepaid insurance of $31,079 and prepaid payroll of $30,310.
(4) Accounts payable and accrued expenses change due to Wilbur Street rent accrual increase of $78,854 and payroll tax liability accrual of $35,000 for our Curacao employees.
(5) Net paydown of notes receivable from former Chairman and CEO change due to the improper treatment of prior period payments.
(6) Interest accrued on notes payable to a related party and a former director.
(7) Deferred loan costs, net change due to a decrease in loan amortization of $9,750 of Bio Partners, a private investor group.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries, Advance Biofactures Corp., (“ABC-NY”), Advance Biofactures of Curacao N.V. ("ABC-Curacao"), BioSpecifics of Curacao N.V., Biota and its wholly-owned subsidiary, BioSpecifics Pharma GmbH ("Bio Pharma") of Germany, which was liquidated during December 2005. All significant intercompany transactions and balances have been eliminated in consolidation.

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires the use of management’s estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all temporary investments and time deposits with original maturities of three months or less to be cash equivalents.

Marketable Securities

Marketable securities principally consist of investments in common and preferred stocks. These investments are classified as trading securities and are adjusted to market value at the end of each accounting period. Unrealized holding gains and losses on trading securities are included in investment and other income in the accompanying consolidated statements of operations.

Inventories

Inventories are stated at the lower of cost or market, with costs approximating the first-in, first-out method. When the inventory carrying value exceeds the market estimated value, reserves are recorded for the difference between the cost and the estimated market value. These reserves are determined based on management’s estimates. Inventories consist of finished goods, work-in-process and raw materials.

Warranty Provisions

We warrant to Abbott that our product will comply with applicable regulatory requirements and when delivered will not be adulterated or misbranded within any federal law of the U.S. As we have had minimal claims, we do not set up a reserve until we are notified by Abbott that the product is defective and information is provided to us documenting that the failure was due to our API Enzyme. Product warranty liabilities are as follows:

	Twelve month period		
	2003	2004	2005
Beginning balance product warranty liability	$ 318,342	$ 178,342	$ 165,824
Change in liability	(140,000)	(12,518)	(67,965)
Ending balance of product warranty liability	$ 178,342	$ 165,824	$ 97,859

Revenue Recognition

We currently recognize revenues resulting from product sales, from licensing and use of our technology, and from other services we sometimes perform in connection with the licensed technology under the guidance of Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition."

If we determine that separate elements exist in a revenue arrangement under Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21), we recognize revenue for delivered

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elements only when the fair values of undelivered elements are known, when the associated earnings process is complete, when payment is reasonably assured and, to the extent the milestone amount relates to our performance obligation, when our customer confirms that we have met the requirements under the terms of the agreement.

Revenues, and their respective treatment for financial reporting purposes, are as follows:

Product Sales

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, title passes, the price is fixed or determinable and collectibility is reasonably assured. No right of return exists for our products except in the case of damaged goods. To date, we have not experienced any significant returns of our products.

Net sales include the sales of the API Enzyme that are recognized at the time the product is shipped to customers. Net sales also include fees the Company charges Abbott for testing topical collagenase products manufactured by Abbott. Net sales from testing are recognized when invoiced. The Company also earns royalties on topical collagenase sales in the U.S. pursuant to its licensing agreement with Abbott. Royalties are recognized during the period in which the product is delivered to distributors in the U.S., as reported to the Company by Abbott.

Royalty Revenue

Royalties are based on the licensees’ net sales of products that utilize our technology and are recognized as earned in accordance with the contract terms when royalties from licensees can be reliably measured, and collectibility is reasonably assured, such as upon the receipt of a royalty statement from our licensees. We have historically recognized royalty revenue in the quarter in which the sale was made by our licensees.

License Fees

We include revenue recognized from upfront licensing and milestone payments in “License Fees” in our consolidated statements of operations in this Report.

Upfront License Fees

We generally recognize revenue from upfront fees when the agreement is signed, we have completed the earnings process and we have no ongoing performance obligation with respect to the arrangement. Nonrefundable upfront technology license fees for product candidates for which we are providing continuing services related to product development are deferred and recognized as revenue over the development period.

Milestones

Milestones, in the form of additional license fees, typically represent nonrefundable payments to be received in conjunction with the achievement of a specific event identified in the contract, such as completion of specified development activities and/or regulatory submissions and/or approvals. We believe that a milestone represents the culmination of a distinct earnings process when it is not associated with ongoing research, development or other performance on our part. We recognize such milestones as revenue when they become due and collection is reasonably assured. When a milestone does not represent the culmination of a distinct earnings process, we recognize revenue in a manner similar to that of an upfront license fee.

The timing and amount of revenue that we recognize from licenses of technology, either from upfront fees or milestones where we are providing continuing services related to product development, is primarily dependent upon

our estimates of the development period. We define the development period as the point from which research activities commence up to regulatory approval of either our, or our partners' submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of our control. Should the FDA or other regulatory agencies require additional data or information, we would adjust our development period estimates accordingly. The impact on revenue of changes in our estimates and the timing thereof is recognized prospectively over the remaining estimated product development period.

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Allowance for Doubtful Accounts

Our policy is to write off bad debts as uncollectible when it is determined that they cannot be collected. We have not set up a reserve because almost all of over receivables are from one customer, Abbott.

Research and Development Expenses

Our research and development ("R&D") costs are expensed as incurred. R&D includes, but is not limited to, internal costs, such as salaries and benefits, costs of materials, lab expense, facility costs and overhead. R&D also consists of third party costs, such as medical professional fees, contract manufacturing costs for material used in clinical trials, consulting fees and costs associated with clinical study R&D arrangements. We fund R&D at medical research institutions under agreements that are generally cancelable. All of these costs are charged to R&D as incurred, which may be measured by percentage of completion, contract milestones, patient enrollment, or the passage of time.

Clinical Trial Expenses

Our cost accruals for clinical trials are based on estimates of the services received and efforts expended pursuant to contracts with various clinical trial centers and clinical research organizations. In the normal course of business we contract with third parties to perform various clinical trial activities in the ongoing development of potential drugs. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients, the completion of portions of the clinical trial, or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual cost of services received and efforts expended. As such, expenses related to each patient enrolled in a clinical trial are recognized ratably beginning upon entry into the trial and over the course of the patient's continued participation in the trial. In the event of early termination of a clinical trial, we accrue an amount based on our estimate of the remaining non-cancelable obligations associated with the winding down of the clinical trial. Our estimates and assumptions could differ significantly from the amounts that may actually be incurred.

Stock Based Compensation.

The Company has three stock-based employee compensation plans in effect which are described more fully in Note 13. We account for our plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB Opinion No. 25) and related Interpretations. Accordingly, we recognize no compensation expense in our consolidated statements of operations with respect to options awarded to our employees with exercise prices greater than or equal to the fair value of the underlying common stock at the date of grant. However, we recognize compensation expense in our consolidated statements of operations with respect to the modification of certain employee stock option awards. In 2005 and 2004, we recognized approximately $60,000 and $13,000, respectively, in stock-based compensation expense related to modification of certain employee stock option awards, compared to none in 2003. The tables below illustrate the effect on net loss and net loss per share if we had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by FASB Statement No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," ("SFAS 128") to our stock-based employee compensation plans.

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Year Ended	December 31, 2005	December 31, 2004	December 31, 2003
Net loss as reported	$ (1,296,746)	$ (3,658,741)	$ (3,199,543)
Deduct: Total stock-based employee compensation expenses determined under fair value based method for all awards, net effect of minority interest	(105,587)	(236,573)	(221,361)
Pro forma net loss	$ (1,402,333)	$ (3,895,314)	$ (3,420,904)
Basic and diluted net loss per share:			
As reported			
Basic and diluted	$ (0.26)	$ (0.75)	$ (0.68)
Pro forma			
Basic and diluted	$ (0.28)	$ (0.79)	$ (0.72)

The fair value for each option granted was estimated at the date of grant using the Black-Scholes option-pricing model, one of the allowable valuation methods under SFAS 123, as amended by SFAS 148 with the following assumptions:

Year Ended	December 31, 2005	December 31, 2004	December 31, 2003
Average risk free interest rates	6.00%	4.51%	4.75%
Average expected life (in years)	5.00	5.00	5.00
Volatility	87%	82%	82%

The weighted-average fair value of the options granted during the calendar years 2005, 2004 and 2003 were estimated to be $1.43, $1.55 and $0.95, respectively, for options granted at market value.

We account for stock options granted to non-employees at fair value using the Black-Scholes option-pricing model in accordance with EITF Issue No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.” Stock options granted to non-employees and stock options that are modified and continue to vest when an employee has a change in employment status are subject to periodic revaluation over their vesting terms. We recognize the resulting stock-based compensation expense over the service period in which the non-employee provides services to the Company. We recognized stock-based compensation expense related to stock options issued to non-employees of approximately $0, $77,000 and $14,000 for the calendar years ended December 31, 2005, 2004 and 2003, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Machinery and equipment, furniture and fixtures, and autos are depreciated on the straight-line basis over their estimated useful lives of 5 to 10 years. Leasehold improvements are being amortized over the lesser of their estimated useful lives or the life of the lease, which is approximately 8 to 10 years.

Impairment of Long-Lived Assets

The Company evaluates the net realizable value of its property and equipment and other assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived

Assets" ("SFAS 144"), relying on a number of factors including operating results, business plans, economic projections and anticipated future cash flows. SFAS 144 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceed the estimated future undiscounted cash flows attributable to such assets or the business to which such intangible assets relate. The Company recorded no impairment charges for the years ended December 31, 2005, 2004 and 2003.

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Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, accounts payable, and accrued expenses approximate fair value based on the short-term maturity of these instruments.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company places its cash and cash equivalents with high quality credit institutions. At times, such investments may be in excess of the FDIC or SIPC insurance limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade accounts receivable, as the Company does not require collateral or other securities to support customer receivables (see Note 10 below).

Income Taxes

The Company uses the liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes, when required, are provided on the basis of the difference between the financial reporting and income tax bases of assets and liabilities at the statutory rates enacted for future periods.

Cumulative Translation Adjustment

The assets and liabilities of ABC-Curacao are denominated in U.S. dollars. ABC-Curacao conducts local transactions in local currency, which is translated using average exchange rates for the period. The local currency in Curacao is pegged to the U.S. dollar. Therefore, gains and losses resulting from translation are minimal and are included in stockholders' equity as a foreign currency translation.

Recent Accounting Pronouncements

FIN No. 46 "Consolidation of Variable Interest Entities" was effective immediately upon its issuance during fiscal 2003 for all enterprises with interests in variable interest entities created after January 31, 2003. In December 2003, FASB issued FIN No. 46 (R) that changes the effective dates for the recording of interests in variable interest entities created before February 1, 2003 beginning with the first interim reporting period ending after March 15, 2004. If an entity is determined to be a variable interest entity, it must be consolidated by the enterprise that absorbs the majority of the entity's expected losses if they occur, or receives a majority of the entity’s expected residual returns if they occur, or both. Where it is reasonably possible that the enterprise will consolidate or disclose information about a variable interest entity, the enterprise must disclose the nature, purpose, size and activity of the variable interest entity and the enterprise’s maximum exposure to loss as a result of its involvement with the variable interest entity in all financial statements issued after January 31, 2003. A determination has been made that although the lessor of our operating facility is a variable interest entity, the Company is not the primary beneficiary. Under FIN 46 the lessor will not be consolidated in the Company’s consolidated balance sheet. The adoption of this interpretation in 2004 did not have an effect on the Company’s financial statements.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs-An Amendment of ARB No. 43, Chapter 4 (“SFAS No. 151”), SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing (“ARB No. 151”), SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing (“ARB No. 43”) to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage).

Among other provisions, the new rule requires that items, such as idle facility expense, excessive spoilage, double freight, and re-handling costs, be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires the allocation of fixed production overheads in the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005, and is required to be adopted by the Company in the first quarter of fiscal 2006, beginning on January 1, 2006. The Company has determined that the adoption of SFAS No. 151 will have no effect on its consolidated results of operations and financial condition.

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In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options and restricted stock, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after December 15, 2005. The pro forma disclosures previously permitted under SFAS 123, will no longer be an alternative to financial statement recognition. We were required to adopt SFAS 123R on January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The adoption of SFAS 123R will have a material impact on our consolidated results of operations. We will adopt SFAS 123R using the prospective method and the Black-Scholes valuation model to calculate stock-based compensation expense. Based on this approach, we expect that total stock-based compensation expense for 2006 will be in the range of approximately $700,000 to $900,000. However, our estimate of future stock-based compensation expense is affected by our stock price, the number of stock-based awards our Board granted in 2006, as well as a number of complex and subjective valuation assumptions and the related tax effect. These valuation assumptions include, but are not limited to, the volatility of our stock price and employee stock option exercises. Actual results may differ materially from our estimates as a result of these factors, and we disclaim any obligation to update or revise this or any other forward-looking statements in this Report.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143 (FIN 47), which requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. We adopted the provisions of FIN 47 on December 31, 2005. No conditional asset retirement obligations were recognized and, accordingly, the adoption of FIN 47 had no effect on our financial statements.

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS No. 154), which replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle, and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 will be effective for accounting changes and corrections of errors made by us in fiscal years beginning after December 15, 2005. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS No. 154. We do not believe the adoption of SFAS No. 154 will have a material impact on our financial statements.

In July 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which is effective for fiscal years beginning after December 15, 2006. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition. We will adopt the Interpretation on January 1, 2007. We are in the process of determining the impact of the Interpretation on our financial position and results of operations.

4. NET LOSS PER SHARE

o In accordance with FASB Statement No. 128, “Earnings Per Share,” basic net loss per share amount is computed using the weighted-average number of shares of common stock outstanding during the periods presented, while diluted net loss per share is computed using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of diluted earnings per share result from the assumed exercise of stock options and restricted stock, using the treasury stock method. For all periods

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presented, we incurred a net loss, and as such, we did not include the effect of outstanding stock options and outstanding restricted stock, or in the diluted net loss per share calculations, as their effect would be anti-dilutive.

	December 31,		
(In thousands)	2005	2004	2003
Stock options	963,887	1,055,440	1,350,625
Convertible Note	--	456,750	456,750
Warrants	10,000	10,000	10,000
Total	973,887	1,522,190	1,817,375

Furthermore, for the calendar years ended December 31, 2004 and 2003, the Company also had 456,750 shares that would have been issued assuming $1,141,875 aggregate principal amount of the 2003 Convertible Note was converted into the Company's common stock at a conversion price of $2.50 per share. The investor made no election to convert the debt into equity and the 2003 Convertible Note was paid off in June 2005. These potentially dilutive securities are excluded in the calculation for calendar 2004 and 2003, since their effect would be anti-dilutive due to the net loss incurred in both years. In March 2003, the Company granted to an individual lender in consideration of a loan, warrants to purchase up to 10,000 common shares of the Company at $1.18 per share, until March 11, 2008. We repaid the total outstanding balance in March 2005.

5. MARKETABLE SECURITIES

Marketable securities at December 31, 2004 and 2003 consist of common and preferred stock, with a cost basis of $245,713 unrealized holding losses of $242,687, and fair market value of $3,026. Fair values are based upon quoted market prices.

We sold all marketable securities during 2005 realizing a loss of $2,519 for the year ended December 31, 2005.

6. INVENTORIES, NET

Inventories, net consist of:

		December 31,	
	2005	2004	2003
Raw materials	$ 84,087	$ 109,671	$ 65,166
Work-in-process	2,532,629	2,028,732	815,286
Reserved for recall	--	(133,140)	--
	$ 2,616,716	$ 2,005,263	$ 880,452

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

		December 31,	
	2005	2004	2003
Machinery and equipment	$ 2,478,966	$ 2,530,068	$ 2,379,796
	173,339	381,588	371,917

Furniture and fixtures			
Leasehold improvements	4,139,235	4,114,595	4,079,120
	6,791,540	7,026,251	6,830,833
Less accumulated depreciation and amortization	(3,996,185)	(3,630,860)	(2,985,730)
	$ 2,795,355	$ 3,395,391	$ 3,845,103

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Depreciation and amortization expense amounted to $653,209, $644,359 and $699,129 for calendar years 2005, 2004 and 2003, respectively.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2005	2004	2003
Trade accounts payable and accrued expenses	$ 1,898,002	$ 1,184,401	$ 1,191,471
Accrued legal and other professional fees	124,984	940,545	542,036
Accrued payroll and related costs	615,846	369,221	315,305
	$ 2,638,832	$ 2,494,168	$ 2,048,812

9. INCOME TAXES

The expense for income taxes consist of the following:

Year ended	December 31, 2005	2004	2003
Current:			
Federal	$ --	$ --	$ 13,000
State	6,118	--	--
	$ 6,118	$ --	$ 13,000
Deferred:			
Federal	--	--	--
State	--	--	--
Total	$ 6,118	$ --	$ 13,000

The effective income tax rate of the Company differs from the federal statutory tax rate of 35% in calendar years 2005, 2004 and 2003 as a result of the effect of the following items:

Year ended	December 31, 2005	2004	2003
Computed tax benefit at statutory rate	$ 453,861	$ 1,307,863	$ 1,031,677
Tax effect of foreign sourced income (loss)	(150,495)	163,923	(397,422)
State income taxes, net of federal tax benefit	(3,971)	--	--
Non-deductible expenses	(9,191)	(13,909)	(4,116)
Orphan drug and other tax credits	554,498	99,038	25,394
Increase in valuation allowance	(844,702)	(1,556,914)	(642,533)
	$ -	$ -	$ (13,000)

The components of the Company's deferred tax assets, pursuant to SFAS No. 109, are summarized as follows:

	December 31,		
	2005	2004	2003
Tax Credit carryforward	$ 2,119,864	$ 1,158,125	$ 1,059,087
Inventory	37,007	87,452	34,226
Accrued expenses	68,727	68,726	61,918
Depreciation and amortization	17,170	58,383	49,351
Capital loss carryforward	68,178	68,178	66,412

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Net operating loss carryforward	2,320,640	2,252,554	870,465
Net deferred tax assets before valuation allowance	4,631,586	3,693,418	2,141,458
Valuation allowance	(4,631,586)	(3,693,418)	(2,141,458)
Net deferred tax asset	$ -	$ -	$ -

SFAS No. 109 requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. The Company increased the valuation allowance by $844,702, $1,556,914 and $642,533 during the years ended December 31, 2005, 2004 and 2003, respectively. The net deferred tax asset has been fully reserved due to the uncertainty of the Company's ability to generate taxable income under the more likely than not criteria of FAS 109.

The Company had domestic losses before taxes of $1,537,343 for the year ended December 31, 2005 and domestic losses before taxes of $3,794,437 and $1,787,960 for the years ended December 31, 2004 and 2003, respectively. The Company had foreign income before taxes of $233,188 for the year ended December 31, 2005 and foreign income before taxes of $135,697 for the year ended December 31, 2004. For the year ended December 31, 2003 the Company had foreign losses before taxes of $1,482,370. The Company has permanently reinvested the accumulated earnings of its foreign subsidiaries, mostly in the form of plant, property and equipment, and therefore will not repatriate the net balance of such earnings (approximately $1.3 million as of December 31, 2005) to the U.S.

In November 2000, the Curacao government extended a 2% profit tax rate to ABC-Curacao for an additional 15 years. The statutory rate is 30%.

At December 31, 2005, 2004 and 2003, the Company had net operating loss carryforwards of approximately $5.8 million, $5.1 million and $2.1 million for Federal income tax purposes, respectively. At December 31, 2005, 2004 and 2003, the Company had net operating loss carryforwards of approximately $7.8 million, $7.0 million and $4.1 million for State income tax purposes, respectively. These will expire at various dates from 2022 through 2025. As of December 31, 2005, the Company has approximately $2.1 million in tax credits, which expire at various dates from 2018 through 2025.

10. CREDIT FACILITIES

In November 2001, ABC-Curacao borrowed a non-amortizing loan of $455,000 at 6.5% interest due in November 2003 from Korpodeko. In September 2003, Korpodeko agreed to modify the terms of the loan. In return, we agreed to an interest rate increase from 6.5% to 7.5% from November 2003 to the new maturity in November 2004. We repaid $91,000 of the loan in December 2003. In November 2004 we repaid $182,000 and Korpodeko agreed to extend the payment, with no additional consideration, of the balance for up to an additional twelve months. We repaid the remaining outstanding balance in full in June 2005.

In March 2003, the Company borrowed $100,000 from an individual lender, evidenced by a one-year promissory note, bearing interest of 8% per annum, which was due March 11, 2004. In March 2004, the holder of the note extended the note for one year at which time the loan was repaid in full. The Company granted to the lender warrants to purchase up to 10,000 common shares of the Company at $1.18 per share, until March 11, 2008.

On June 19, 2003, the Company entered into a financing transaction with Bio Partners, pursuant to which the Company sold to Bio Partners in a private placement (i) the $1.575 million 2003 Convertible Note issued at face value, and (ii) 295,312 shares of Company common stock, issued at par value, or $.001 per share. The net proceeds to the Company were approximately $890,000, after the payment of expenses and repayment of $500,000 previously

advanced to the Company by a principal of Bio Partners.

The 2003 Convertible Note matured on June 19, 2005 and bore interest at a rate of 12% per annum. Interest-only payments under the 2003 Convertible Note were payable monthly in arrears and the entire principal amount was payable at maturity. We repaid the loan in full on the maturity date. At the time the agreement was made, up to $1,141,875 aggregate principal amount of the 2003 Convertible Note was convertible into the Company's common stock at any time, at a conversion price of $2.50 per share, subject to customary adjustments. None of the 2003

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Convertible Note was converted into the Company's common stock. The loan discount of approximately $281,000 and loan costs of approximately $258,000 on the 2003 Convertible Note were amortized over two years, the life of the 2003 Convertible Note.

11. MAJOR CUSTOMER AND ROYALTY AND LICENSE AGREEMENTS

The Company derives most of its net sales of the product, and all of its royalty revenues, from one customer in the U.S., Abbott, who, pursuant to an exclusive licensing agreement, compounds the product into topical collagenase, which is used to debride chronic dermal ulcers and severely burned areas.

Abbott accounted for approximately $3,975,000, $2,340,000 and $2,906,000 of our product sales and royalties for the calendar years 2005, 2004 and 2003, respectively. These amounts were approximately 94%, 96% and 90% of our non licensing revenues during calendar years 2005, 2004 and 2003, respectively.

The royalty revenues from Abbott were earned on U.S. sales of topical collagenase. Royalties from Abbott were $1,073,620, $784,933 and $1,683,915 in calendar years 2005, 2004 and 2003, respectively.

In fiscal 1997, the Company entered into an agreement to license topical collagenase for sale in Germany to the German subsidiary of an international pharmaceutical company. The agreement calls for an initial payment on signing and further payments if and when the German health authority grants marketing approval of topical collagenase. Accordingly, deferred revenue at December 31, 2005 is $45,000 from this agreement. DFB has acquired this liability as part of their purchase of the topical collagenase business.

12. FOREIGN OPERATIONS

The Company had a manufacturing facility located in Curacao, Netherlands Antilles through March 6, 2006. The local currency is tied to the U.S. dollar; as a result no material gain or loss is incurred on foreign currency transactions.

13. STOCKHOLDERS' EQUITY

Stock Option Plans

In July 1994, the Company's stockholders approved a stock option plan for eligible key employees, directors, independent agents, and consultants who make a significant contribution toward the Company's success and development and to attract and retain qualified employees (the "1993 Plan"), which expired in July 2004. Under the 1993 Plan, qualified incentive stock options and non-qualified stock options may be granted to purchase up to an aggregate of 200,000 shares of the Company's common stock, subject to certain anti-dilution provisions. The exercise price per share of common stock may not be less than 100% (110% for qualified incentive stock options granted to stockholders owning at least 10% of common shares) of the fair market value of the Company's common stock on the date of grant. In general, the options vest and become exercisable in four equal annual installments following the date of grant, although the Board, at its discretion, may provide for different vesting schedules. The options expire ten years (five years for qualified incentive stock options granted to stockholders owning at least 10% of common shares) after such date. In accordance with terms of the 1993 Plan, no option shall be granted ten years after the effective date of the 1993 Plan, or July 2004.

In July 1997, the Company's stockholders approved a stock option plan (the "1997 Plan") with terms identical to the 1993 Plan. The 1997 Plan authorizes the granting of awards of up to an aggregate of 500,000 shares of the Company's common stock, subject to certain anti-dilution provisions. The 1997 Plan expires in July 2007.

In August 2001, the Company's stockholders approved a stock option plan (the “2001 Plan"), with terms similar to the 1997 Plan. The 2001 Plan authorizes the granting of awards of up to an aggregate of 750,000 shares of the Company's common stock, subject to certain anti-dilution provisions. On December 16, 2003, stockholders approved an amendment to the 2001 Plan, which increased the number of shares authorized for grant from 750,000 shares to 1,750,000 shares, an increase of 1,000,000 shares. A total of 1,750,000 shares of common stock are now authorized for issuance under the amended 2001 Plan. The 2001 Plan, as amended expires in August 2011. The Company never filed an S-8 for the 2001 Plan.

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As of December 31, 2005 there were a total of 1,242,263 shares available for grant from the 1997 and 2001 Plans.

The summary of the stock options activity is as follows for year ended:

	December 31,					
	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,056,358	$ 1.63	1,350,625	$ 1.77	1,358,325	$ 1.98
Options granted	37,054	1.44	80,958	1.56	50,000	1.28
Options exercised	(13,875)	1.00	(65,425)	1.00	--	--
Options canceled or expired	(115,650)	2.36	(309,800)	4.62	(57,700)	2.77
Outstanding at end of year	963,887	$ 1.63	1,056,358	$ 1.63	1,350,625	$ 1.77
Options exercisable at year end	918,887	$ 1.44	920,913	$ 1.67	1,250,625	1.86
Shares available for future grant	1,242,263	--	1,226,200	--	1,006,150	--

During calendar year 2005, the Company granted 37,054 options to employees. During calendar year 2004, the Company granted 20,958 options to employees, 50,000 options to a consultant and 10,000 options to a director. The options granted in 2005 and 2004 were granted at exercise prices ranging from $0.80 to $2.05 per share. In both 2005 and 2004, 20,000 options that were granted vested over 4 years, while the remaining options that were granted vested immediately. In 2003, the Company granted 35,000 options to employees at prices ranging from $1.20 to $1.38 that vested over a 4 year period. In 2003, the Company granted 15,000 options to consultants at an exercise price of $1.23 that vested one year from the date of grant.

The following table summarizes information relating to stock options by exercise price at December 31, 2005:

	Outstanding			Exercisable	
Option Exercise Price	Shares	Weighted Average Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Option Price
$ 0.80-1.49	693,604	6.08	$ 1.01	684,224	$ 1.01
1.50-1.99	180,737	6.81	1.69	144,355	1.72
2.00-2.99	35,671	4.60	2.65	35,583	2.65
3.00-3.99	27,500	2.83	3.23	27,500	3.23
4.00-4.99	23,875	2.36	4.29	23,875	4.29
5.00-6.05	2,500	2.33	$ 5.81	2,500	$ 5.81
	963,887	5.88	$ 1.45	938,038	$ 1.44

14. COMMITMENTS AND CONTINGENCIES

Lease Agreements

The Company's operations are principally conducted on leased premises. Future minimum annual rental payments required under non-cancelable operating leases are approximated as follows:

Year ending December 31,

2006	$160,000
2007	154,000
2008	154,000
2009	153,000
2010	75,000

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thereafter	-0-

The above schedule includes the lease for the Curacao facility for the months of January and February 2006 only, as a result of the transfer of the lease to DFB as part of the sale of the topical collagenase business.

Rent expense under all operating leases amounted to approximately $240,000 for both calendar years 2005 and 2004 and $244,000 for 2003. Until the death of Edwin H. Wegman, our former Chairman and CEO, The S.J. Wegman Company was the 100% shareholder of the Wilbur Street Corporation ("WSC"), which owns and leases the Lynbrook, NY facility to ABC-NY. Edwin H. Wegman was the general partner of The S.J. Wegman Company, a limited partnership. Upon his death on February 16, 2007, The S.J. Wegman Company was legally dissolved. However, his death had no effect on the legal existence of WSC. The shares of WSC will be distributed to the partners of The S.J. Wegman Company in accordance with the provisions of the partnership agreement. At the present time, we do not know who will own or control the shares of WSC.

o In January 1998, WSC and the Company entered into a triple net lease agreement that provides for an annual rent starting at $125,000, which can increase annually by the amount of the annual increase in the consumer price index for the greater New York metropolitan region. The lease term was 7 years and expired on January 31, 2005. The Company paid and accrued approximately $204,000, $199,000 and $214,000 representing rent, real estate taxes and insurance to WSC in 2005, 2004 and 2003, respectively. Without Board approval, the lease was renewed (a related party transaction) in July 2005 for an additional 5 years, expiring on June 30, 2010. The extension of the lease may thus not be valid. The annual base rent, exclusive of taxes and related insurance, will be $150,000 ($10 per square foot) per annum commencing in February 2006. Our rent can increase annually by the amount of the annual increase in the consumer price index for the greater New York metropolitan region.

ABC-Curacao leases a building in Brievengat, Curacao, Netherlands Antilles from an unrelated company wholly-owned by the Insular Territory of Curacao. The lease term, which originally commenced on January 1, 1977, is automatically renewed upon the same terms every five years, unless either party gives three months notice prior to the expiration of the five-year period. The lessor is entitled to revalue the rent for each successive five-year period. The lease has been renewed through March 1, 2011 and was assumed by DFB effective March 6, 2006. Rent expense, exclusive of charges for guard service amounted to approximately $30,000 in calendar years 2005, 2004 and 2003.

Potential Product Liability

The sale of our topical collaganese product, as well as the development and marketing of any potential products of the Company, exposes us to potential product liability claims both directly from patients using the product or products in development, as well as from our agreement to indemnify certain distributors of the product for claims made by others. We have product liability insurance, which covers the use of our licensed topical collagenase product and clinical experiments of potential products in the U.S. No known claims are pending against us at the current time. Our insurance policy has a limit of $3 million and is renewed annually during the month of February.

Employment Agreement

We have no employment agreements with any employees. The Company had an employment agreement with the managing director of our German subsidiary, BioSpecifics Pharma GmbH, which was cancelable upon one year's written notice. The agreement provided for an annual salary of $195,000, and a severance payment if we terminated the agreement without cause. The managing director resigned from the Company in January 2004 and as a director on April 30, 2004. We believe that we have no liability to him for severance pay.

FDA Observation

Following an inspection by the FDA in 1999, the Company was informed that its license to manufacture the API Enzyme and topical collagenase would be revoked unless the Company could immediately provide satisfactory assurance of its compliance with the applicable cGMP regulations (the “1999 FDA Letter”). The Company submitted such a plan to the FDA later in 1999.

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On July 28, 2003 the Company received a letter notification from the FDA approving our supplement to our biologics license to manufacture topical collagenase. Regardless of this FDA approval, the 1999 FDA Letter will remain in effect until the Company demonstrates compliance with the applicable federal standards and regulations discussed above. During the quarter ended June 30, 2004, the FDA completed an inspection of the Company's Lynbrook facility. In May 2004, the FDA inspected the facility of Abbott, the Company's subcontractor. No action was taken by the FDA in regards to either of these inspections. In January 2005 the FDA completed an inspection of our Curacao facility. We have responded to various observations made by the FDA as a result of this inspection. The FDA letter was still in effect when BioSpecifics sold the topical collagenase business to DFB in March of 2006.

As a result of the sale of the Curacao facility to DFB, the FDA has transferred all rights under our license related to the manufacturing of topical collagenase to DFB. We were only required to report any adverse events for the topical collagenase product that occurred prior to the date of sale.

15. RELATED PARTY TRANSACTIONS

The S.J. Wegman Company owns WSC, which has leased to ABC-NY a building serving as a manufacturing facility and headquarters in Lynbrook, New York for over 30 years. The building also serves as the Company's administrative headquarters. Edwin H. Wegman, the Company's former Chairman and CEO, was the President of WSC and the sole general partner of The S.J. Wegman Company, a limited partnership. Upon his death on February 16, 2007, The S.J. Wegman Company was legally dissolved. However, his death had no effect on the legal existence of WSC. The shares of WSC will be distributed to the partners of The S.J. Wegman Company in accordance with the provisions of the partnership agreement. At the present time, we do not know who will own or control the shares of WSC. These shares are subject to a pledge agreement, under which the dissolution of The S.J. Wegman Company constitutes an event of default, giving the Board the right to vote the pledged shares.

In January 1998, WSC and the Company entered into a triple net lease agreement that provides for an annual rent starting at $125,000, which was to increase annually by the amount of annual increase in the consumer price index for the greater New York metropolitan region. The lease term was 7 years and expired on January 31, 2005. Without Board approval, the lease was renewed (a related party transaction) in July 2005 for an additional 5 years, expiring on June 30, 2010. The extension of the lease may thus not be valid. The annual rent, effective February 2006, is $150,000 ($10 per square foot) per annum.

The Company has an outstanding loan to the Company's former Chairman and CEO. The loan, whose principal balance at December 31, 2005, 2004 and 2003 was $625,774 and is a demand promissory note, bears interest at 9% per annum. The Company also has two loans with WSC, an affiliate of our former Chairman and CEO. One loan is in the amount of $82,606 and bears interest at 9% per annum; the other is for advances to WSC in the amount of $15,647 and bears no interest. For financial statement purposes, all these loans, which aggregate $724,027 of principal, are classified as components of stockholders' equity in the balance sheet and appear as "Notes due from former Chairman and CEO and other related party." During calendar years 2005 and 2004, the former Chairman and CEO repaid net principal of $0 and $12,189, respectively, on these loans. There is no assurance that the Company will be able to collect on these notes. Interest income accrued for these loans, but not recognized for financial statement purposes, aggregated approximately $107,000, $99,000 and $37,000 for the calendar years 2005, 2004 and 2003, respectively.

In January 2007 we entered into amended and restated demand promissory notes with Edwin H. Wegman and WSC reflecting the prior outstanding principal amounts of the loans and compounded interest (collectively, the “Notes”). Upon the death of Edwin H. Wegman on February 16, 2007, his note became the obligation of his estate. As of December 31, 2006, the aggregate principal amounts, including compounded interest, owed to us by Edwin H. Wegman and WSC were $1,016,595 and $304,390, respectively. Under the Notes, the respective principal amounts remaining unpaid at any time shall each bear interest at the rate of nine percent (9%) per annum compounded

annually. The loans are secured by a pledge of 100% of the shares owned by The S.J. Wegman Company. Notwithstanding the dissolution of The S.J. Wegman Company upon the death of Edwin H. Wegman, the Notes continue to be secured by The S.J. Wegman Company pledge.

During March of 2005, the former Chairman and CEO received an advance, which could be considered a loan, in the amount of $6,000, which was subsequently repaid within two weeks. No interest was accrued.

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ABC-NY had notes payable to a former director of the Company and to a partner of the S.J. Wegman Company, an affiliate, amounting to $24,894 at December 31, 2005. The notes, which bore interest at nine percent (9%) per annum, were payable on demand. The loan was subsequently repaid in December 2006.

During April 2004, we received a $45,000 loan from the wife of the former Chairman and CEO. The loan was subsequently repaid in December 2006.

16. EMPLOYEE BENEFIT PLANS

ABC-NY has a 401(k) Profit Sharing Plan for employees who meet minimum age and service requirements. Contributions to the plan by ABC-NY are discretionary and subject to certain vesting provisions. The Company made no contributions to this plan for calendar years 2005, 2004 or 2003.

17. SUBSEQUENT EVENTS

In March 2006, we sold our topical collagenase business to DFB. In order to help effectuate the transaction with DFB, we repurchased all of the outstanding shares of ABC-NY and ABC-Curacao held by minority shareholders in exchange for a combination of approximately $83,000 in cash and 102,574 restricted shares of our treasury stock.

In July 2006, we entered into a settlement agreement and specific release with Edwin H. Wegman, Thomas L. Wegman, Bio Partners, (whose sole general partner, Bio Management, Inc., a New York corporation, is wholly-owned by Jeffrey K. Vogel), and Jeffrey K. Vogel to settle a dispute regarding certain loan commitment fees purportedly due from us to Bio Partners under a letter agreement, dated January 3, 2006, between Bio Partners and us and to provide for the termination of certain loan and investor related documents that were previously filed as material agreements.

In November 2006, we signed license agreements with respect to Dupuytren's disease (the "Dupuytren's Disease License Agreement") and frozen shoulder (the "Frozen Shoulder License Agreement"). In the Dupuytren's Disease License Agreement the Research Foundation granted to us and our affiliates an exclusive worldwide license, with the right to sublicense to certain third parties, to know-how owned by the Research Foundation related to the development, manufacture, use or sale of (i) the collagenase enzyme obtained by a fermentation and purification process (the "Enzyme"), and (ii) all pharmaceutical products containing the Enzyme or injectable collagenase, in each case to the extent it pertains to the treatment and prevention of Dupuytren's disease.

In the Frozen Shoulder License Agreement the Research Foundation granted to us and our affiliates an exclusive worldwide license, with the right to sublicense to certain third parties, to know-how owned by the Research Foundation related to the development, manufacture, use or sale of (i) the Enzyme and (ii) all pharmaceutical products containing the Enzyme or injectable collagenase, in each case to the extent it pertains to the treatment and prevention of Frozen Shoulder. Additionally, the Research Foundation granted to us an exclusive license to the patent applications in respect of Frozen Shoulder subject to the non-exclusive license (with right to sublicense) granted to the U.S. government by the Research Foundation in connection with the U.S. government's funding of the initial research.

On February 16, 2007 our Chairman and CEO, Edwin H. Wegman, died. As of December 31, 2006 our former Chairman and CEO owed to us an aggregate amount of $1,016,595. We entered into an amended and restated promissory note for this amount with our former Chairman and CEO, which is secured by a pledge of 100% of the shares of The S.J. Wegman Company. His death has resulted in the immediate obligation of his estate to repay the loan. However, it is uncertain whether his estate will be able to repay the loan and, if so, on what terms. His death has also resulted in the dissolution of The S.J. Wegman Company, which triggered a default under the pledge agreement, giving our Board the right to vote the pledged shares. However, it is unclear as a practical matter whether the Company will be able to foreclose on the pledge.

In addition to the foregoing subsequent events, there have been a number of additional events that are described in the Form 8-Ks that have been filed by the Company since December 31, 2005 that are listed in Item 13, "Exhibits—Reports on Form 8-K."

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EXHIBIT INDEX

The following exhibits are filed herewith:

Exhibit Number	Description
23	Consent of Tabriztchi & Co. CPA, P.C.
31	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report on Form 10-KSB/A to be signed on its behalf by the undersigned, thereto duly authorized individual.

Date: June 6, 2008

BIOSPECIFICS TECHNOLOGIES CORP.

By: /s/ Thomas L. Wegman
Thomas L. Wegman
President, Principal Executive Officer and
Principal Financial Officer