

PRESSURE BIOSCIENCES INC
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

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 001-38185

PRESSURE BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The number of shares outstanding of the Issuer's common stock as of May 11, 2018 was 1,392,560.

TABLE OF CONTENTS

| | Page |
|-------------------------------------------------------------------------------------------------------------|-------------|
| <u>PART I - FINANCIAL INFORMATION</u> | 3 |
| <u>Item 1. Financial Statements</u> | 3 |
| <u>Consolidated Balance Sheets as of March 31, 2018 (Unaudited) and December 31, 2017</u> | 3 |
| <u>Consolidated Statements of Operations for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u> | 4 |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (Unaudited)</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 23 |
| <u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u> | 29 |
| <u>Item 4. Controls and Procedures</u> | 29 |
| <u>PART II - OTHER INFORMATION</u> | 30 |
| <u>Item 1. Legal Proceedings</u> | 30 |
| <u>Item 1A. Risk Factors</u> | 30 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 30 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 30 |
| <u>Item 4. Mine Safety Disclosures</u> | 30 |
| <u>Item 5. Other Information</u> | 30 |
| <u>Item 6. Exhibits</u> | 31 |
| <u>SIGNATURES</u> | 32 |

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

| | March 31, 2018 | December 31, 2017 |
|----------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$81,162 | \$81,033 |
| Accounts receivable | 322,584 | 206,848 |
| Inventories, net of \$159,650 reserve at March 31, 2018 and \$179,600 at December 31, 2017 | 892,407 | 857,662 |
| Prepaid expenses and other current assets | 199,272 | 222,158 |
| Total current assets | 1,495,425 | 1,367,701 |
| Intangible assets, net of amortization of \$21,635 and \$0, respectively | 728,365 | 750,000 |
| Investment in available-for-sale equity securities | 15,095 | 19,825 |
| Property and equipment, net | 20,798 | 22,662 |
| TOTAL ASSETS | \$2,259,683 | \$2,160,188 |
| <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$641,086 | \$589,263 |
| Accrued employee compensation | 353,032 | 368,700 |
| Accrued professional fees and other | 796,487 | 800,620 |
| Other current liabilities | 2,003,603 | 1,536,507 |
| Deferred revenue | 235,311 | 263,106 |
| Revolving note payable | 4,000,000 | 3,500,000 |
| Related party debt, net of debt discount of \$7,151 and \$0, respectively | 42,849 | - |
| Related party convertible debt, net of debt discount of \$34,973 and \$31,372, respectively | 256,161 | 259,762 |
| Convertible debt, net of unamortized debt discounts of \$327,170 and \$401,856, respectively | 8,914,450 | 8,028,014 |
| Other debt, net of unamortized discounts of \$30,175 and \$48,194, respectively | 1,448,673 | 1,379,863 |
| Total current liabilities | 18,691,652 | 16,725,835 |
| LONG TERM LIABILITIES | | |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Deferred revenue | 49,537 | 57,149 |
| TOTAL LIABILITIES | 18,741,189 | 16,782,984 |
| COMMITMENTS AND CONTINGENCIES (Note 5) | | |
| STOCKHOLDERS' DEFICIT | | |
| Series D Convertible Preferred Stock, \$.01 par value; 850 shares authorized; 300 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively (Liquidation value of \$300,000) | 3 | 3 |
| Series G Convertible Preferred Stock, \$.01 par value; 240,000 shares authorized; 80,570 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | 806 | 806 |
| Series H Convertible Preferred Stock, \$.01 par value; 10,000 shares authorized; 10,000 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | 100 | 100 |
| Series H2 Convertible Preferred Stock, \$.01 par value; 21 shares authorized; 21 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | - | - |
| Series J Convertible Preferred Stock, \$.01 par value; 6,250 shares authorized; 3,458 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | 35 | 35 |
| Series K Convertible Preferred Stock, \$.01 par value; 15,000 shares authorized; 6,880 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | 68 | 68 |
| Series AA Convertible Preferred Stock, \$.01 par value; 10,000 shares authorized; 0 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | - | - |
| Common stock, \$.01 par value; 100,000,000 shares authorized; 1,388,214 and 1,342,858 shares issued and outstanding on March 31, 2018 and December 31, 2017, respectively | 13,882 | 13,429 |
| Warrants to acquire common stock | 9,996,929 | 9,878,513 |
| Additional paid-in capital | 31,087,624 | 30,833,549 |
| Accumulated deficit | (57,580,953) | (55,349,299) |
| Total stockholders' deficit | (16,481,506) | (14,622,796) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$2,259,683 | \$2,160,188 |

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

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

| | For the Three Months | |
|---------------------------------------------------------------------------------------------------------------|-----------------------------|-------------|
| | Ended | |
| | March, | |
| | 2018 | 2017 |
| Revenue: | | |
| Products, services, other | \$ 585,244 | \$ 525,998 |
| Grant revenue | 25,530 | 25,359 |
| Total revenue | 610,774 | 551,357 |
| Costs and expenses: | | |
| Cost of products and services | 324,789 | 235,997 |
| Research and development | 324,976 | 263,456 |
| Selling and marketing | 274,468 | 213,009 |
| General and administrative | 794,605 | 837,998 |
| Total operating costs and expenses | 1,718,838 | 1,550,460 |
| Operating loss | (1,108,064) | (999,103) |
| Other (expense) income: | | |
| Interest expense, net | (1,123,145) | (1,240,373) |
| Other expense | - | (959) |
| Impairment loss on investment | (4,730) | (6,069) |
| Gain on extinguishment of debt | 4,285 | - |
| Total other expense | (1,123,590) | (1,247,401) |
| Net loss | (2,231,654) | (2,246,504) |
| Net loss per share – basic and diluted | \$(1.64) | \$(2.16) |
| Weighted average common stock shares outstanding used in the basic and diluted net loss per share calculation | 1,363,326 | 1,040,769 |

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

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

| | For the Three Months Ended March 31, | |
|-----------------------------------------------------------------------------|-----------------------------------------------------|------------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(2,231,654) | \$(2,246,504) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Common stock issued for debt extension | 28,490 | 10,000 |
| Depreciation and amortization | 23,499 | 2,450 |
| Accretion of interest and amortization of debt discount | 459,232 | 1,021,630 |
| Inventory reserve recovery | (19,950) | - |
| Gain on extinguishment of debt | (4,285) | - |
| Stock-based compensation expense | 86,020 | 74,529 |
| Amortization of third party fees paid in common stock and warrants | - | 15,558 |
| Shares issued with debt | 7,800 | - |
| Impairment loss on investment | 4,730 | 6,069 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (115,736) | (237,407) |
| Inventories | (14,795) | (35,099) |
| Prepaid expenses and other assets | 22,886 | 50,358 |
| Accounts payable | 51,823 | 265,480 |
| Accrued employee compensation | (15,668) | 443 |
| Deferred revenue and other accrued expenses | 440,096 | (92,917) |
| Net cash used in operating activities | (1,277,512) | (1,165,410) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property plant and equipment | - | (15,608) |
| Net cash used in investing activities | - | (15,608) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from revolving note payable | 460,000 | 920,000 |
| Net proceeds from convertible debt | 819,350 | - |
| Net proceeds from non-convertible debt – third party | 298,600 | 773,000 |
| Net proceeds from non-convertible debt – related party | 50,000 | - |
| Payments on convertible debt | (102,500) | (300,000) |
| Payments on non-convertible debt | (247,809) | (228,907) |
| Net cash provided by financing activities | 1,277,641 | 1,164,093 |
| NET DECREASE IN CASH | 129 | (16,925) |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | |
|-------------------------------------------------------------------------------------------------------|-----------|-----------|
| CASH AT BEGINNING OF YEAR | 81,033 | 138,363 |
| CASH AT END OF PERIOD | \$81,162 | \$121,438 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid in cash | \$120,970 | \$62,802 |
| NON CASH TRANSACTIONS: | | |
| Common stock issued in lieu of cash for interest | 80,755 | 287,920 |
| Common stock issued with debt | 51,463 | 125,443 |
| Discount from warrants issued with convertible debt | 118,416 | - |
| Discount from one-time interest | 72,500 | 100,000 |
| Reclassification of derivative liabilities to equity and cumulative effect of adoption of ASU 2017-11 | - | 1,712,699 |

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(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 (45,000 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 DNA, RNA, proteins, lipids, and small molecules. Our laboratory instrument, the Barocycler®, and our internally developed consumables product line, including PULSE® (Pressure Used to Lyse Samples for Extraction) Tubes, other processing tubes, and application specific kits (which include consumable products and reagents) together make up our PCT Sample Preparation System, or 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 and we cannot reasonably predict when operations will commence. Therefore, we do not have control of the subsidiary and did not consolidate in our financial statements. PBI Europe did not have any operations in the three months ended March 31, 2018 or in fiscal year 2017.

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 March 31, 2018, 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 Notes 6 and 7. In addition we raised cash through debt financing after March 31, 2018 as described in Note 8. We have financing efforts in place to continue to raise cash through debt and equity offerings. 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. These financial statements do not include any adjustments that might result from this uncertainty.

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. (“ASU 2015-14”). Under the new standard, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management’s plans that have not been fully implemented as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company’s ability to continue as a going concern. The mitigating effect of management’s plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. This standard was adopted by the Company at January 1, 2017.

3) Interim Financial Reporting

The accompanying unaudited consolidated balance sheet as of December 31, 2017, which was derived from audited financial statements, and the unaudited interim consolidated financial statements of Pressure BioSciences, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017 as filed with the Securities and Exchange Commission on April 2, 2018.

4) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Pressure BioSciences, Inc., and its wholly-owned subsidiary PBI BioSeq, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to our current year presentation.

Recent Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either finance or an operating

lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods therein. We will adopt ASC 842 effective January 1, 2019. We are currently in the process of evaluating the impact of the guidance on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents on the statement of cash flows and disclosure of how the statement of cash flows reconciles to the balance sheet if restricted cash is shown separately from cash and cash equivalents on the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company early adopted the ASU 2016-18 on December 15, 2017.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to provide additional guidance with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company early adopted the ASU 2016-18 on December 15, 2017 starting with its purchase of BaroFold assets.

Effective January 1, 2018, the Company adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The standard amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The most significant impact to our consolidated financial statements relates to the recognition and measurement of equity investments at fair value with changes recognized in Net income. The amendment also updates certain presentation and disclosure requirements. The adoption of ASU 2016-01 did not have a material impact on the consolidated financial statements. The adoption of ASU 2016-01 is expected to increase volatility in net income as changes in the fair value of available-for-sale equity investments and changes in observable prices of equity investments without readily determinable fair values will be recorded in net income.

Effective January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers, using the modified retrospective method. This guidance supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company updated its accounting policy for the new standard based on a detailed review of its business and contracts. Based on the new guidance, the Company continues to recognize revenue at a point in time for the majority of its contracts with customers, which is generally when products are either shipped or delivered. Therefore, the adoption of ASC 606 did not have a material impact on the consolidated financial statements.

Revenue Recognition

We recognize revenue in accordance with FASB ASC 606, *ASC 606, Revenue from Contracts with Customers*, and *ASC 340-40, Other Assets and Deferred Costs—Contracts with Customers*. Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We enter into sales contracts that may consist of multiple distinct performance obligations where certain performance obligations of the sales contract are not delivered in one reporting period. We measure and allocate revenue according to ASC 606-10.

We identify a performance obligation as distinct if both the following criteria are true: the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Determining the standalone selling price ("SSP") and allocation of consideration from a contract to the individual performance obligations, and the appropriate timing of revenue recognition, is the result of significant qualitative and quantitative judgments. Management considers a variety of factors such as historical sales, usage rates, costs, and expected margin, which may vary over time depending upon the unique facts and circumstances related to each performance obligation in making these estimates. While changes in the allocation of the SSP between performance obligations will not affect the amount of total revenue recognized for a particular contract, any material changes could impact the timing of revenue recognition, which would have a material effect on our financial position and result of operations. This is because the contract consideration is allocated to each performance obligation,

delivered or undelivered, at the inception of the contract based on the SSP of each distinct performance obligation.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues as consistent with treatment in prior periods.

Our current Barocycler® instruments require a basic level of instrumentation expertise to set-up for initial operation. To support a favorable first experience for our customers, upon customer request, and for an additional fee, will send a highly trained technical representative to the customer site to install Barocycler®s that we sell, lease, or rent through our domestic sales force. The installation process includes uncrating and setting up the instrument, followed by introductory user training. Our sales arrangements do not provide our customers with a right of return. Any shipping costs billed to customers are recognized as revenue.

The majority of our instrument and consumable contracts contain pricing that is based on the market price for the product at the time of delivery. Our obligations to deliver product volumes are typically satisfied and revenue is recognized when control of the product transfers to our customers. Concurrent with the transfer of control, we typically receive the right to payment for the shipped product and the customer has significant risks and rewards of ownership of the product. Payment terms require customers to pay shortly after delivery and do not contain significant financing components.

We apply ASC 845, "Accounting for Non-Monetary Transactions", to account for products and services sold through non-cash transactions based on the fair values of the products and services involved, where such values can be determined. Non-cash exchanges would require revenue to be recognized at recorded cost or carrying value of the assets or services sold if any of the following conditions apply:

a) The fair value of the asset or service involved is not determinable.

The transaction is an exchange of a product or property held for sale in the ordinary course of business for a
 b) product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange.

c) The transaction lacks commercial substance.

We currently record revenue for its non-cash transactions at recorded cost or carrying value of the assets or services sold.

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

Revenue from government grants is recorded when expenses are incurred under the grant in accordance with the terms of the grant award.

Deferred revenue represents amounts received from grants and service contracts for which the related revenues have not been recognized because one or more of the revenue recognition criteria have not been met. Revenue from service contracts is recorded ratably over the length of the contract.

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major product line, and timing of revenue recognition.

In thousands of US dollars (\$)

| Primary geographical markets | Q1 2018 | Q1 2017 |
|------------------------------|------------|------------|
| North America | 365 | 326 |

| | | |
|--------|-----|-----|
| Europe | 155 | 157 |
| Asia | 91 | 68 |
| | 611 | 551 |

| Major products/services lines | Q1 2018 | Q1 2017 |
|-------------------------------|------------|------------|
| Instruments | 420 | 396 |
| Grants | 25 | 25 |
| Consumables | 75 | 63 |
| Others | 91 | 67 |
| | 611 | 551 |

| Timing of revenue recognition | Q1 2018 | Q1 2017 |
|---------------------------------------------|--------------------|--------------------|
| Products transferred at a point in time | 576 | 514 |
| Products and services transferred over time | 35 | 37 |
| | 611 | 551 |

Contract balances

| In thousands of US dollars (\$) | March 31, 2018 | December 31, 2017 |
|----------------------------------------------------------|----------------------|----------------------|
| Receivables, which are included in 'Accounts Receivable' | 323 | 207 |
| Contract liabilities (deferred revenue) | 285 | 320 |

Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

| In thousands of US dollars (\$) | 2018 | 2019 | 2020 | Total |
|---------------------------------|------|------|------|-------|
| Extended warranty service | 235 | 50 | - | 285 |

All consideration from contracts with customers is included in the amounts presented above.

Contract Costs

The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in selling, general, and administrative expenses. The costs to obtain a contract are recorded immediately in the period when the revenue is recognized either upon shipment or installation. The costs to obtain a service contract are considered immaterial when spread over the life of the contract so the Company records the costs immediately upon billing.

Use of Estimates

To prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we are required to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates were made in projecting future cash flows to quantify 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 ended March 31, 2018 and 2017. The Top Five Customers category may include federal agency revenues if applicable.

| | For the Three Months Ended March 31, 2018 | | 2017 | |
|--------------------|----------------------------------------------------------|------|------|--|
| Top Five Customers | 40 % | 61 % | | |
| Federal Agencies | 4 % | 5 % | | |

The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of March 31, 2018 and December 31, 2017. The Top Five Customers category may include federal agency receivable balances if applicable.

| | March 31, 2018 | | December, 31, 2017 | |
|--------------------|----------------------|------|-----------------------|--|
| Top Five Customers | 75 % | 85 % | | |
| Federal Agencies | 1 % | 1 % | | |

Product Supply

CBM Industries (Taunton, MA) has recently become the manufacturer of the Barocyler® 2320EXT. CBM is ISO 13485:2003 and 9001:2008 Certified. CBM provides us with precision manufacturing services that include management support services to meet our specific application and operational requirements. Among the services provided by CBM to us are:

CNC Machining

Contract Assembly & Kitting

Component and Subassembly Design

Inventory Management

ISO certification

At this time, we believe that outsourcing the manufacturing of our new Barocyler® 2320EXT to CBM is the most cost-effective method for us to obtain and maintain ISO Certified, CE and CSA Marked instruments. CBM's close proximity to our South Easton, MA facility is a significant asset enabling interactions between our Engineering, R&D, and Manufacturing groups and their counterparts at CBM. CBM was instrumental in helping PBI achieve CE Marking on our Barocyler 2320EXT, as announced on February 2, 2017.

Although we currently manufacture and assemble the Barozyme HT48, Barocyler® HUB440, the SHREDDER SG3, and most of our consumables at our South Easton, MA facility, we plan to take advantage of the established relationship with CBM and transfer manufacturing of the entire Barocyler® product line, future instruments, and other products to CBM.

The Barocyler® NEP3229, launched in 2008, and manufactured by the BIT Group, will be phased out over the next several years and replaced by the new state-of-the-art Barocyler® HUB and Barozyme HT48 product lines.

Investment in Available-For-Sale Equity Securities

As of March 31, 2018, we held 100,250 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 March 31, 2018, our consolidated balance sheet reflected the fair value of our investment in Everest to be approximately \$15,000, based on the closing price of Everest shares of \$0.15 USD 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. The change in market value since the receipt of stock was determined to be other than temporary. We recorded \$4,730 as an impairment loss in the first quarter of 2018.

Computation of Loss per Share

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

The following table illustrates our computation of loss per share for the three months ended March 31, 2018 and 2017:

| | For the Three Months Ended March 31, | |
|---------------------------------------------------|--------------------------------------------|---------------|
| | 2018 | 2017 |
| Numerator: | | |
| Net loss | \$(2,231,654) | \$(2,246,504) |
| Denominator for basic and diluted loss per share: | | |
| Weighted average common stock shares outstanding | 1,363,326 | 1,040,769 |
| Loss per common share – basic and diluted | \$(1.64 |) \$(2.16 |

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 and H2 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.

| | As of March 31, | |
|---------------------------------------|-----------------|-----------|
| | 2018 | 2017 |
| Stock options | 247,136 | 260,475 |
| Convertible debt | 1,020,603 | 868,910 |
| Common stock warrants | 928,541 | 846,640 |
| Convertible preferred stock: | | |
| Series D Convertible Preferred Stock | 25,000 | 25,000 |
| Series G Convertible Preferred Stock | 26,857 | 28,857 |
| Series H Convertible Preferred Stock | 33,334 | 33,334 |
| Series H2 Convertible Preferred Stock | 70,000 | 70,000 |
| Series J Convertible Preferred Stock | 115,267 | 117,367 |
| Series K Convertible Preferred Stock | 229,334 | 227,200 |
| | 2,696,072 | 2,477,783 |

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 \$86,020 and \$74,529 for the three months ended March 31, 2018 and 2017, respectively. The following table summarizes the effect of this stock-based compensation expense within each of the line items of our costs and expenses within our Consolidated Statements of Operations:

| | For the Three Months Ended March 31, | |
|----------------------------------------|--------------------------------------------|-----------|
| | 2018 | 2017 |
| Research and development | \$ 15,499 | \$ 15,970 |
| Selling and marketing | 7,197 | 10,886 |
| General and administrative | 63,324 | 47,673 |
| Total stock-based compensation expense | \$ 86,020 | \$ 74,529 |

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 convertible debentures and deferred revenue 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. A slight change in an unobservable input like volatility could have a significant impact on the fair value measurement of the derivative liability.

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.

Adoption of ASU 2017-11

The Company changed its method of accounting for the Debentures, Debenture Warrants and Series D Warrants through the early adoption of ASU 2017-11 during the year ended December 31, 2017 on a modified retrospective basis. Accordingly, the Company reclassified the warrant derivative and conversion option derivative liabilities to additional paid in capital on its January 1, 2017 consolidated balance sheets totaling approximately \$2.6 million, reduced debt discount by approximately \$0.9 million and recorded the cumulative effect of the adoption to the beginning balance of accumulated deficit of approximately \$2.4 million. This resulted to an increase in stock warrants by \$2.6 million and additional paid-in capital by \$1.4 million. The following table provides a reconciliation of the warrant derivative liability, convertible debt, conversion option derivative liability, stock warrant, additional paid-in capital and accumulated deficit on the consolidated balance sheet as of December 31, 2016:

| | Convertible debt, current portion | Convertible debt, long term portion | Warrant Derivative Liability | Conversion Option Liability | Warrants to acquire common stock | Additional Paid-in Capital | Accumulated deficit |
|-----------------------------------------------------------------------|-----------------------------------|-------------------------------------|------------------------------|-----------------------------|----------------------------------|----------------------------|---------------------|
| Balance, January 1, 2017 (Prior to adoption of ASU 2017-11) | \$4,005,702 | \$ 529,742 | \$1,685,108 | \$951,059 | \$6,325,102 | \$27,544,265 | \$(42,264,190) |
| Reclassified derivative liabilities and cumulative effect of adoption | 769,316 | 154,152 | \$(1,685,108) | (951,059) | 2,636,236 | 1,446,011 | (2,369,548) |
| Balance, January 1, 2017 (After adoption of ASU 2017-11) | \$4,775,018 | \$ 683,894 | \$- | \$- | \$8,961,338 | \$28,990,276 | \$(44,633,738) |

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 March 31, 2018:

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | Fair value measurements at March 31, 2018 using: | | |
|--------------------------------------|----------------------|----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| | March 31, 2018 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Available-For-Sale Equity Securities | 15,095 | 15,095 | - | - |
| Total Financial Assets | \$ 15,095 | \$ 15,095 | \$ - | \$ - |

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 December 31, 2017:

| | | Fair value measurements at December 31, 2017 using: | | |
|--------------------------------------|----------------------|----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| | December 31, 2017 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Available-For-Sale Equity Securities | 19,825 | 19,825 | - | - |
| Total Financial Assets | \$ 19,825 | \$ 19,825 | \$ - | \$ - |

5) Commitments and Contingencies

Operating Leases

Our corporate office is currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. We are currently paying \$6,950 per month, on a lease extension, signed on December 29, 2017, that expires December 31, 2018, for our corporate office. We expanded our space to include offices, warehouse and a loading dock on the first floor starting May 1, 2017 with a monthly rent increase already reflected in the current payments.

We extended our lease for our space in Medford, MA to December 30, 2020. The lease requires monthly payments of \$6,912.75 subject to annual cost of living increases. The lease shall be automatically extended for additional three years unless either party terminates at least six months prior to the expiration of the current lease term.

Rental costs are expensed as incurred. During the three months ended March 31, 2018 and 2017 we incurred \$46,723 and \$30,896 in rent expense, respectively for the use of our corporate office and research and development facilities.

Following is a schedule by years of future minimum rental payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2018:

| | |
|------------|------------|
| 2018 | \$ 124,765 |
| 2019 | 82,953 |
| 2020 | 82,953 |
| 2021 | - |
| Thereafter | - |
| | \$ 290,671 |

Government Grants

We received a \$1.02 million NIH SBIR Phase II Grant in November 2014. 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 and other genomic applications. In March 2018, we received an extension on the SBIR Phase II grant to utilize unused funds until November 30, 2018.

6) Convertible Debt and Other Debt

Senior Secured Convertible Debentures and Warrants

We entered into Subscription Agreements (the "Subscription Agreement") with various individuals (each, a "Purchaser") between July 23, 2015 and March 31, 2016, pursuant to which the Company sold Senior Secured Convertible Debentures (the "Debentures") and warrants to purchase shares of common stock equal to 50% of the number of shares issuable pursuant to the subscription amount (the "Warrants") for an aggregate purchase price of \$6,329,549 (the "Purchase Price").

The Company issued a principal aggregate amount of \$6,962,504 in Debentures which includes a 10% original issue discount on the Purchase Price. The Debenture does not accrue any additional interest during the first year it is outstanding but accrues interest at a rate equal to 10% per annum for the second year it is outstanding. The Debenture has a maturity date of two years from issuance. The Debenture is convertible any time after its issuance date. The Purchaser has the right to convert the Debenture into shares of the Company's common stock at a fixed conversion price equal to \$8.40 per share, subject to applicable adjustments. In the second year that the Debenture is outstanding, any interest accrued shall be payable quarterly in either cash or common stock, at the Company's discretion.

In connection with the Debentures issued, the Company issued warrants exercisable into a total of 376,759 shares of our common stock. The Warrants issued in this transaction are immediately exercisable at an exercise price of \$12.00 per share, subject to applicable adjustments including full ratchet anti-dilution if we issue any securities at a price lower than the exercise price then in effect. The Warrants have an expiration period of five years from the original issue date. The Warrants are subject to adjustment for stock splits, stock dividends or recapitalizations and also include anti-dilution price protection for subsequent equity sales below the exercise price.

Subject to the terms and conditions of the Warrants, at any time commencing six months from the Final Closing, the Company has the right to call the Warrants for cancellation if the volume weighted average price of its Common Stock on the OTCQB (or other primary trading market or exchange on which the Common Stock is then traded) equals or exceeds three times the per share exercise price of the Warrants for 15 out of 20 consecutive trading days.

In connection with the Subscription Agreement and Debenture, the Company entered into Security Agreements with the Purchasers whereby the Company agreed to grant to Purchasers an unconditional and continuing, first priority security interest in all of the assets and property of the Company to secure the prompt payment, performance and discharge in full of all of Company's obligations under the Debentures, Warrants and the other Transaction Documents.

ASC 470-20 states that the proceeds from the issuance of debt with detachable stock warrants should be allocated between the debt and warrants based on their relative fair market values. The debt discount will be amortized to interest expense over the two-year term of these loans. For the three months ended March 31, 2018, the Company recognized amortization expense related to the Debenture discounts of \$129,768.

On various dates for the three months ended March 31, 2018, the Company issued 22,606 shares of common stock based on the 10-day VWAP prior to quarter end to holders of the Debentures in payment of the quarterly interest accrued from the Debentures first anniversary date through December 31, 2017 for an aggregate amount of \$85,040. We recognized a \$4,285 gain on extinguishment of debt by calculating the difference of the shares valued on the issuance date and the amount of accrued interest through December 31, 2017.

At any time after the Issuance Date, the Company has the option, subject to certain conditions, to redeem some or all of the then outstanding principal amount of the Debenture for cash in an amount equal to the sum of (i) 120% of the then outstanding principal amount of the Debenture, (ii) accrued but unpaid interest and (iii) any liquidated damages and other amounts due in respect of the Debenture.

On September 11, 2017, we notified Debenture holders that their Debentures will be extended 180 days beyond the original maturity date as permitted in the Debenture agreement. We will continue to pay interest on the Debentures until the extended maturity date. We accounted for the Debenture extensions as debt modifications and not extinguishment of debt since the changes in fair value are not substantial in accordance with ASC 470-50. We started amortizing the remaining unamortized discount as of September 11, 2017 over the new term, which extends 180 days beyond the original maturity date. We continue to pay interest on the Debentures that matured 180 days beyond the maturity date. For the three months ended March 31, 2018, the Company recognized amortization expense related to the convertible debt discounts indicated above of \$129,768.

Other convertible notes

On various dates during the quarter ended March 31, 2018, the Company issued convertible notes for net proceeds of \$819,350 with the following terms: a) maturity ranging from 3 to 12 months; b) annual interest rates ranging from 5% to 12%; c) convertible to the Company's common stock at issuance at a fixed rate of \$7.50 or convertible at variable conversion rates either after 6 months after issuance or in the event of a default. Certain of these notes were issued with shares or warrants which were fair valued at issuance dates. The aggregate relative fair value of \$51,463 of the shares or warrants issued with the notes was recorded as a debt discount and amortized over the term of the notes. We then computed the effective conversion price of the notes, noting that no beneficial conversion feature exists. We also evaluated the convertible notes for derivative liability treatment and determined that the notes did not qualify for derivative accounting treatment as of March 31, 2018.

The specific terms of the convertible notes and outstanding balances as of March 31, 2018 are listed in the tables below.

Convertible Notes

| Inception Date | Term | Loan Amount | Outstanding Balance | Original Issue Discount | Interest Rate | Conversion Price (Convertible at Inception Date) | Deferred Finance Fees | Discount related to fair value of conversion feature and warrants/shares |
|--------------------|-----------|---------------|---------------------|-------------------------|-------------------|--------------------------------------------------|-----------------------|--------------------------------------------------------------------------|
| July 22, 2015 | 30 months | 1 \$2,398,000 | \$2,398,000 | \$218,000 ² | 10 % ³ | \$ 8.40 | \$388,532 | \$ 2,163,074 |
| September 25, 2015 | 30 months | 1 1,210,000 | 1,210,000 | 110,000 ² | 10 % ³ | \$ 8.40 | 185,956 | 1,022,052 |
| October 2, 2015 | 30 months | 1 165,000 | 165,000 | 15,000 ² | 10 % ³ | \$ 8.40 | 26,345 | 140,832 |
| October 6, 2015 | 30 months | 1 33,000 | 33,000 | 3,000 ² | 10 % ³ | \$ 8.40 | 5,168 | 26,721 |
| October 14, 2015 | 30 months | 1 55,000 | 55,000 | 5,000 ² | 10 % ³ | \$ 8.40 | 8,954 | 49,377 |
| November 2, 2015 | 30 months | 1 275,000 | 275,000 | 25,000 ² | 10 % ³ | \$ 8.40 | 43,079 | 222,723 |
| November 10, 2015 | 30 months | 1 55,000 | 55,000 | 5,000 ² | 10 % ³ | \$ 8.40 | 8,790 | 46,984 |
| November 12, 2015 | 30 months | 1 236,500 | 236,500 | 21,500 ² | 10 % ³ | \$ 8.40 | 38,518 | 212,399 |
| November 20, 2015 | 30 months | 1 220,000 | 220,000 | 20,000 ² | 10 % ³ | \$ 8.40 | 37,185 | 200,000 |
| December 4, 2015 | 30 months | 1 187,000 | 187,000 | 17,000 ² | 10 % ³ | \$ 8.40 | 37,352 | 170,000 |
| December 11, 2015 | 30 months | 1 396,000 | 396,000 | 36,000 ² | 10 % ³ | \$ 8.40 | 75,449 | 360,000 |
| December 18, 2015 | 30 months | 1 60,500 | 60,500 | 5,500 ² | 10 % ³ | \$ 8.40 | 11,714 | 55,000 |
| December 31, 2015 | 30 months | 1 110,000 | 110,000 | 10,000 ² | 10 % ³ | \$ 8.40 | 20,634 | 100,000 |
| January 11, 2016 | 30 months | 1 110,000 | 110,000 | 10,000 ² | 10 % ³ | \$ 8.40 | 24,966 | 80,034 |
| January 20, 2016 | 30 months | 1 55,000 | 55,000 | 5,000 ² | 10 % ³ | \$ 8.40 | 9,812 | 40,188 |
| January 29, 2016 | 30 months | 1 330,000 | 330,000 | 30,000 ² | 10 % ³ | \$ 8.40 | 60,887 | 239,113 |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | | | | | | | | | | |
|-------------------|-----------|---|---------|---------|--------|---|----|----------------|---------|--------|---------|
| February 26, 2016 | 30 months | 1 | 220,000 | 220,000 | 20,000 | 2 | 10 | % ³ | \$ 8.40 | 43,952 | 156,048 |
| March 10, 2016 | 30 months | 1 | 137,500 | 137,500 | 12,500 | 2 | 10 | % ³ | \$ 8.40 | 18,260 | 106,740 |
| March 18, 2016 | 30 months | 1 | 396,000 | 396,000 | 36,000 | 2 | 10 | % ³ | \$ 8.40 | 94,992 | 265,008 |
| March 24, 2016 | 30 months | 1 | 117,334 | 117,334 | 10,667 | 2 | 10 | % ³ | \$ 8.40 | 15,427 | 91,240 |
| March 31, 2016 | 30 months | 1 | 195,670 | 195,670 | 17,788 | 2 | 10 | % ³ | \$ 8.40 | 2,436 | 175,446 |
| October 20, 2017 | 12 months | | 150,000 | 150,000 | - | | 5 | % | \$ 7.50 | 7,500 | - |
| October 25, 2017 | 6 months | | 103,000 | 103,000 | - | | 12 | % | - | 3,000 | - |
| October 27, 2017 | 12 months | | 170,000 | 170,000 | - | | 5 | % | - | 4,250 | 10,000 |
| November 13, 2017 | 9 months | | 380,000 | 380,000 | 15,200 | | 8 | % | \$ 7.50 | 15,200 | 46,274 |
| November 22, 2017 | 12 months | | 100,000 | 100,000 | 10,000 | | 5 | % | - | 2,000 | - |
| November 28, 2017 | 10 months | | 103,000 | 103,000 | 3,000 | | 12 | % | - | - | - |
| November 29, 2017 | 6 months | | 150,000 | 150,000 | - | | 15 | % | \$ 7.50 | - | 15,200 |
| November 30, 2017 | 3 months | | 50,000 | - | - | | 8 | % | \$ 7.50 | - | - |
| December 5, 2017 | 3 months | | 52,500 | - | - | | 10 | % | \$ 7.50 | 2,500 | - |
| December 6, 2017 | 4 months | | 100,000 | 100,000 | - | | 10 | % | \$ 7.50 | - | - |
| December 11, 2017 | 6 months | | 130,000 | 130,000 | 1,500 | | 5 | % | - | 6,500 | 6,460 |
| December 19, 2017 | 6 months | | 110,000 | 110,000 | 1,500 | | 5 | % | - | 5,500 | 5,775 |
| December 28, 2017 | 6 months | | 55,000 | 55,000 | - | | 15 | % | \$ 7.50 | 5,000 | - |
| December 29, 2017 | 12 months | | 105,000 | 105,000 | - | | 5 | % | - | 5,000 | - |
| January 3, 2018 | 12 months | | 95,000 | 95,000 | 4,750 | | 5 | % | - | 2,000 | - |
| January 16, 2018 | 12 months | | 131,250 | 131,250 | - | | | | - | 6,250 | - |
| January 19, 2018 | 6 months | | 150,000 | 150,000 | - | | 10 | % | \$ 7.50 | 6,000 | 12,267 |
| February 9, 2018 | 6 months | | 100,000 | 100,000 | - | | 15 | % | \$ 7.50 | 23,500 | - |
| February 15, 2018 | 6 months | | 100,000 | 100,000 | - | | 15 | % | \$ 7.50 | 9,000 | 10,474 |
| March 12, 2018 | 6 months | | 85,000 | 85,000 | 1,150 | | 5 | % | - | 4,250 | - |
| | 6 months | | 253,000 | 253,000 | 53,000 | | 0 | % | - | | 28,722 |

March 12,
2018

\$9,635,254 \$9,532,754 \$723,055

\$1,265,858 \$6,058,151

1. The loan term was extended by 180 days and further extended on January 15, 2018 by 60 days to repay in common stock. The July 22, 2015 Debentures of \$3,773,000 is currently past due as of March 19, 2018. The affected Debenture holders signed letter agreements on May 15, 2018 to waive default penalties relating to the maturity date.
2. The original issue discount is reflected in the first year.
3. The annual interest started accruing in the second year.

As of March 31, 2018, a total of approximately \$291,000 convertible debentures were purchased by related parties who were members of the Company's Board of Directors and management and their family members.

Deferred finance fees included cash commissions amounting to \$621,500 and the fair value of the 2,101,786 warrants issued to the placement agent amounting to \$536,908. For the three months ended March 31, 2018, the Company recognized amortization expense related to the convertible debt discounts indicated above of \$425,864. The unamortized debt discounts as of March 31, 2018 related to the convertible debentures and other convertible notes amounted to \$362,143.

Revolving Note Payable

On October 28, 2016, an accredited investor (the “*Investor*”) purchased from us a promissory note in the aggregate principal amount of up to \$2,000,000 (the “*Revolving Note*”) due and payable on the earlier of October 28, 2017 (the “*Maturity Date*”) or on the seventh business day after the closing of a Qualified Offering (as defined in the Revolving Note). Although the Revolving Note is dated October 26, 2016, the transaction did not close until October 28, 2016, when we received its initial \$250,000 advance pursuant to the Revolving Note. As a result, on the same day and pursuant to the Revolving Note, we issued to the Investor a Common Stock Purchase Warrant to purchase 20,834 shares of our common stock at an exercise price per share equal to \$12.00 per share. The Investor is obligated to provide us with advances of \$250,000 under the Revolving Note, but the Investor shall not be required to advance more than \$250,000 in any individual fifteen (15) day period and no more than \$500,000 in the thirty (30) day period immediately following the date of the initial advance. We received \$3,500,000 pursuant to the Revolving Note as amended of which \$2,070,000 net proceeds was received in 2017 and we issued to the Investor warrants to purchase 291,667 shares of our Common Stock at an exercise price per share equal to \$12.00 per share. The terms of the Warrants are identical except for the exercise date, issue date, and termination date which are based on the advance date.

The Revolving Note was amended on May 2, 2017 to increase the aggregate principal amount to \$3,000,000, to issue 16,667 shares of our Common Stock to the Investor, to decrease the exercise price per share of the warrants to the lower of (i) \$12.00 or (ii) the per share purchase price of the shares of our Common Stock sold in the Qualified Offering, and to change the references in the Revolving Note from “the six (6) month anniversary of October 28, 2016” to “July 25, 2017.” The fair value of the 16,667 shares issued of \$149,018 was accounted for as a note discount and are amortized to interest expense over the life of the loan. We evaluated the accounting impact of the Revolving Note amendment and deemed that the amendment did not have a material impact on our consolidated financial statements.

The Revolving Note was amended on August 18, 2017 to increase the aggregate principal amount to \$3,500,000 with all other terms unchanged. The Revolving Note, previously amended, was further amended on January 30, 2018 to increase the aggregate principal amount to \$4,000,000 with all other terms unchanged.

In the event that a Qualified Offering had occurred after July 25, 2017, but prior to the Maturity Date, within seven (7) Business Days of the closing of the Qualified Offering, the Company was to pay a cash fee equal to five percent (5%) of the total outstanding amount owed by the Company to the Holder as of the closing date of the Qualified Offering or, at the option of the Company, issue to the Holder a number of restricted shares of the Company’s common stock equal to (x) five percent (5%) of the total outstanding amount owed by the Company to the Holder as of the closing date of the Qualified Offering divided by (y) the purchase price provided by the documents governing the Qualified Offering. A Qualified Offering means the completion of a public offering of the Company’s securities pursuant to which the Company receives aggregate gross proceeds of at least Seven Million United States Dollars (US\$7,000,000) in consideration of the purchase of its securities and resulting in, pursuant to the effectiveness of the registration statement for such offering, the Company’s common stock being traded on the NASDAQ Capital Market, NASDAQ

Global Select Market or the New York Stock Exchange. A Qualified Offering did not occur on or prior to the Maturity Date.

In the event that a Qualified Offering had not occurred after July 25, 2017, but prior to the Maturity Date, within seven (7) Business Days of the closing of the Qualified Offering, the Company shall pay a cash fee equal to five percent (5%) of the total outstanding amount owed by the Company to the Holder or, at the option of the Company, issue to the Holder a number of restricted shares of the Company's common stock equal to (x) five percent (5%) of the total outstanding amount owed by the Company to the Holder as of the Maturity Date divided by (y) the VWAP of the Company's common stock for the last ten trading days preceding the Maturity Date. A Qualified Offering did not occur on or prior to the Maturity Date.

Interest on the principal balance of the Revolving Note shall be paid in full on the Maturity Date, unless otherwise paid prior to the Maturity Date. Interest shall be assessed as follows: (i) a one-time interest of 10% on all principal amounts advanced prior to April 28, 2017; (ii) the foregoing and 4% on any amount remaining outstanding if the principal amount is repaid between April 28, 2017 and July 28, 2017; or (iii) both of the foregoing and 4% on any amount remaining outstanding if the principal amount is repaid between July 28, 2017 and October 28, 2017.

Broker fees amounting to \$336,500, the one-time interest of \$400,000 and the relative fair value of the 333,334 warrants issued to the Investor amounting to \$1,266,691 were recorded as debt discounts and amortized over the term of the revolving note. The unamortized debt discounts related to the Revolving Note were fully amortized as of December 31, 2017. The finance costs from advances after December 31, 2017 were charged to interest expense directly because the maturity date had passed.

The Revolving Note was still outstanding as of March 31, 2018 and is currently past due. We continue to accrue interest on the note based on the default rate of 20% and drew down an additional \$500,000 during the first quarter of 2018 in connection with the amendment on January 30, 2018.

The following table provides a summary of the changes in convertible debt and revolving note payable, net of unamortized discounts, during 2018:

| | 2018 |
|-----------------------------------------------------------------------------------------------|--------------|
| Balance at January 1, | \$11,787,776 |
| Issuance of convertible debt, face value | 1,414,250 |
| Deferred financing cost | (134,900) |
| Debt discount related to one-time interest charge | (50,000) |
| Debt discount from warrants issued with debt | (118,416) |
| Debt discount from shares and warrants issued with the notes | (51,463) |
| Payments | (102,500) |
| Accretion of interest and amortization of debt discount to interest expense through March 31, | 425,864 |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | |
|-------------------------------------|------------|
| Balance at March 31, | 13,170,611 |
| Less: current portion | 13,170,611 |
| Convertible debt, long-term portion | \$- |

Other Notes

In March 2018, we received non-convertible loans totaling \$150,000 from private investors. The loans include one-year term and 10% guaranteed interest.

On March 21, 2017, we received an eight-month, non-convertible loan of \$170,000 from an accredited investor. The loan earns an annual interest rate of 10% and includes a 10% original issue discount. We also agreed to issue the investor 5,667 shares of restricted common stock. We recorded the fair value of the shares amounting to \$35,079 as a debt discount that will be amortized to interest expense during the term of the loan. The loan still remains outstanding as of March 31, 2018 with a balance of \$170,000. The lender extended the term to December 31, 2017 and further to March 31, 2018 in exchange for a total of 9,500 shares of common stock with a fair value of \$28,490 recorded as interest expense. We fully amortized \$52,079 of the debt discount in the year ended December 31, 2017.

On May 19, 2017, we received a 45-day non-convertible loan of \$630,000 from a private investor. The loan provides guaranteed interest of \$63,000 and has an origination fee of \$32,000. We paid a broker \$31,500 in connection with this loan. The unamortized debt discount as of December 31, 2017 was zero. We used these proceeds to pay off in full our September 2016 loan of \$589,189. The loan remains outstanding and is currently past due. We continue to accrue interest at the 20% default rate from the maturity date.

On August 1, 2017, we signed a non-convertible installment loan with a lender. Under the agreement we received a loan of \$75,000 with a weekly repayment of \$3,500 until payment in full. The loan includes \$18,750 representing an original issue discount, interest and fees resulting in a total payable of \$93,750. The loan was paid off entirely as of March 31, 2018.

On September 12, 2017, we received a 9-month non-convertible loan of \$225,000 from a privately-held investment firm. The loan earns an annual interest rate of 10%. The Company paid total fees of \$25,000 including original issue discount and other costs related to this loan. We agreed to issue 3,333 shares at closing. We recorded the fair value of the shares as a debt discount that will be amortized to interest expense during the term of the loan. We amortized \$12,527 of debt discounts in the quarter ended March 31, 2018. The unamortized debt discount as of March 31, 2018 was \$10,161. In the event of default and at the option of the holder, the loan is convertible into common stock at a 35% discount to the average of the two lowest daily volume weighted average closing stock price for the 20 trading days prior to conversion. The outstanding balance was \$168,750 as of March 31, 2018.

Merchant Agreements

We have signed various Merchant Agreements which entitle the lenders to our customer receipts. We accounted for the Merchant Agreements as loans under ASC 860 because while we provided rights to current and future receipts, we still had control over the receipts. The following table shows our Merchant Agreements as of March 31, 2018.

| Inception Date | Purchase Price | Purchased Amount | Outstanding Balance | Daily Payment | Interest Rate | Deferred Finance Fees |
|--------------------|----------------|------------------|---------------------|---------------|---------------|-----------------------|
| September 29, 2017 | 75,000 | 102,000 | \$ - | 1,200.00 | 15 % | 1,500 |
| October 25, 2017 | 110,000 | 153,890 | (7,705) | 1,539.00 | 15 % | 8,800 |
| December 7, 2017 | 160,000 | 212,800 | 118,918 | 1,251.76 | 25 % | 5,799 |
| December 12, 2017 | 160,000 | 212,800 | 122,674 | 1,251.76 | 15 % | 5,258 |
| February 27, 2018 | 110,000 | 147,400 | 126,211 | 921.25 | 25 % | 1,650 |
| | \$615,000 | \$828,890 | \$360,098 | | | \$23,007 |

We amortized \$33,368 and \$40,802 of debt discounts during the three months ended March 31, 2018 and 2017, respectively for all non-convertible notes. The total unamortized discount for all non-convertible notes as of March 31, 2018 was \$37,326.

Related Party Notes

On March 14, 2018, we received a one-year, non-convertible loan of \$50,000 from a related party who was a member of the Company's Board of Directors. This loan is included in net proceeds from non-convertible debt in the Statement of Cash Flows. The amount of \$50,000 was outstanding as of March 31, 2018 and includes \$7,500 guaranteed interest that was recorded as debt discount and amortized over the term of the debt.

7) Stockholders' Deficit*Preferred Stock*

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

We are authorized to issue 1,000,000 shares of preferred stock with a par value of \$0.01. Of the 1,000,000 shares of preferred stock:

- 1) 20,000 shares have been designated as Series A Junior Participating Preferred Stock (“*Junior A*”)
- 2) 313,960 shares have been designated as Series A Convertible Preferred Stock (“*Series A*”)
- 3) 279,256 shares have been designated as Series B Convertible Preferred Stock (“*Series B*”)
- 4) 88,098 shares have been designated as Series C Convertible Preferred Stock (“*Series C*”)
- 5) 850 shares have been designated as Series D Convertible Preferred Stock (“*Series D*”)
- 6) 500 shares have been designated as Series E Convertible Preferred Stock (“*Series E*”)
- 7) 240,000 shares have been designated as Series G Convertible Preferred Stock (“*Series G*”)
- 8) 10,000 shares have been designated as Series H Convertible Preferred Stock (“*Series H*”)
- 9) 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*”)
- 12) 10,000 shares have been designated on May 1, 2018 as Series AA Convertible Preferred Stock (“*Series AA*”)

As of March 31, 2018, there were no shares of Junior A, and Series A, B, C, E and AA issued and outstanding. See our Annual Report on Form 10-K for the year ended December 31, 2017 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 March 31, 2018, options to acquire 35,274 shares were outstanding under the Plan.

At the Company’s December 12, 2013 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, we may award stock options, shares of common stock, and other equity interests in the Company to employees, officers, directors, consultants, and advisors, and to any other persons the Board of Directors deems appropriate. As of March 31, 2018, options to acquire 81,925 shares were outstanding under the Plan with 2,917,519 shares available for future grant under the 2013 Plan.

On November 29, 2015 the Company’s Board of Directors adopted the 2015 Nonqualified Stock Option Plan (the “2015 Plan”) pursuant to which 5,000,000 shares of our common stock were reserved for issuance upon exercise of non-qualified stock options. Under the 2015 Plan, we may award non-qualified stock options in the Company to employees, officers, directors, consultants, and advisors, and to any other persons the Board of Directors deems appropriate. As of March 31, 2018, non-qualified options to acquire 129,937 shares were outstanding under the Plan.

All of the outstanding non-qualified options had an exercise price that was at or above the Company’s common stock share price at time of issuance.

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

| | Stock Options | | Warrants | | Total | |
|-------------------------------|---------------------|--------------|---------------------|--------------|-----------|-------------|
| | Weighted Average | Price | Weighted Average | Price | Shares | Exercisable |
| | Shares | per share | Shares | per share | | |
| Balance outstanding, 12/31/17 | 247,692 | \$10.95 | 899,542 | \$12.03 | 1,147,234 | 1,073,850 |
| Granted | - | - | 41,667 | 12.00 | 41,667 | |

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

| | | | | | | |
|--------------------------------|---------|---------|-----------|---------|-----------|-----------|
| Exercised | - | - | - | - | - | |
| Expired | - | - | (12,668) | 12.00 | (12,668) | |
| Forfeited | (556) | 8.40 | - | - | (556) | |
| Balance outstanding, 3/31/2018 | 247,136 | \$10.95 | 928,541 | \$12.03 | 1,175,677 | 1,118,186 |

| 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 |
| \$7.50 - \$11.99 | 133,024 | 8.0 | \$ 8.63 | 91,132 | 7.6 | \$ 8.73 |
| 12.00 - 14.99 | 88,705 | 7.5 | 12.00 | 73,106 | 7.4 | 12.00 |
| 15.00 - 17.99 | 7,547 | 4.4 | 15.00 | 7,547 | 4.4 | 15.00 |
| 18.00 - 20.99 | 12,854 | 1.9 | 18.00 | 12,854 | 1.9 | 18.00 |
| 21.00 - 30.00 | 5,006 | 2.4 | 30.00 | 5,006 | 2.4 | 30.00 |
| \$7.50 - \$30.00 | 247,136 | 7.3 | \$ 10.95 | 189,645 | 6.9 | \$ 11.43 |

As of March 31, 2018, total unrecognized compensation cost related to the unvested stock-based awards was \$311,352, which is expected to be recognized over weighted average period of 1.53 years. The aggregate intrinsic value associated with the options outstanding and exercisable as of March 31, 2018 was zero. The aggregate intrinsic value associated with the warrants outstanding and exercisable as of March 31, 2018 was zero.

Common Stock Issuances

During the three months ended March 31, 2018, we issued to Debenture holders 22,606 shares of common stock for quarterly interest of \$85,040 issued in stock in lieu of cash. Of the 22,606 shares issued, 1,092 shares were issued to members of the Company's Board of Directors, who are also Debenture holders.

On March 12, 2018, we received a six-month, convertible loan of \$253,000 from an accredited investor. The loan has an original issue discount of \$53,000. The loan can be converted at any time into common stock at a conversion price of \$7.50. We agreed to issue the investor 6,750 shares of restricted common stock with a relative fair value of \$28,722 recorded as a debt discount to be amortized over the six-month term.

On February 12, 2018, we received a six-month, convertible loan of \$100,000 from an accredited investor. The loan earns a one-time interest of 10%. \$50,000 of the proceeds were used to pay off the outstanding balance of a previous loan from this lender. The loan can be converted at any time into common stock at a conversion price of \$7.50. We issued the investor 5,000 shares of restricted common stock with a relative fair value of \$18,274 of which \$10,474 was recorded as a debt discount to be amortized over the six-month term while \$7,800 was recorded to interest expense immediately because it related to the previous loan paid off.

On February 12, 2018, we issued 3,500 shares of restricted common stock to an accredited investor to extend the maturity date of our eight-month, non-convertible loan of \$170,000 originated on March 21, 2017 to February 15, 2018. The accredited investor agreed to a further extension to March 31, 2018 in exchange for 3,500 shares of restricted common stock issued on March 27, 2018. The total fair value of \$28,490 relating to these stock issuances were recorded as interest expense as compensation for the loan extensions.

On January 19, 2018, we received a six-month, convertible loan of \$150,000 from an accredited investor. The loan earns a one-time interest of 10% and includes a 10% original issue discount. We also issued the investor 4,000 shares of restricted common stock with a relative fair value of \$12,267 recorded as a debt discount to be amortized over the six-month term. The loan can be converted at any time into common stock at a conversion price of \$7.50.

8) Subsequent Events

On May 14, 2018, we entered into letter agreements with 22 investors (each a “Debenture Holder” and together the “Debenture Holders”) holding convertible debentures (collectively the “Debentures”) and warrants to purchase common stock (the “Debenture Warrants”) whereby the Debenture Holders agreed to convert a total of \$6,390,634 in principal and original issue discount due them under the Debentures into 2,557 shares of Series AA Convertible Preferred Stock with a conversion price of \$2.50 per share. The Debenture Holders were also: (a) issued amended Debenture Warrants such that the exercise price will be \$3.50 per share; and (b) issued a new warrant with an exercise price of \$3.50 per share to purchase such number of shares of common stock as equal 100% of the number of shares of common stock issuable upon conversion of the Series AA Convertible Preferred Stock shares received as a result of the Debenture conversions. The Debenture Holders also agreed to waive any and all defaults or events of default by the Company with respect to any failure by the Company to comply with any covenants contained in the Debentures.

On May 14, 2018, we received a one-year, non-convertible loan of \$50,000 from a private investor.

On May 2, 2018, the Company entered into a Securities Purchase Agreement with an existing shareholder pursuant to which the Company sold an aggregate of 100 units for an aggregate Purchase Price of \$250,000. The units purchased consists of shares of Series AA Convertible Preferred Stock. We issued to the shareholder a new warrant to purchase 100,000 shares of common stock with an exercise price of \$3.50 per share.

On April 2, 2018 and May 14, 2018, we paid approximately \$112,500 toward the outstanding balance on our September 12, 2017 9-month, non-convertible loan of \$225,000.

On May 11, 2018 we signed a Merchant Agreement with a lender. Under the agreement we received \$180,000, of which approximately \$82,000 was used to pay off the outstanding balance on a previous loan dated December 7, 2017 from this lender, in exchange for rights to all customer receipts until the lender is paid \$243,000, which is collected at the rate of \$1,518.75 per business day. The \$63,000 imputed interest will be recorded as interest expense when paid

each day. Fees of \$2,600 were deducted from the initial advance. The payments were secured by second position rights to all customer receipts until the loan has been paid in full. We accounted for the Merchant Agreement as a loan under ASC 860 because while we provided rights to current and future receipts, we still had control over the receipts.

On May 11, 2018, we received a 5% one-year, convertible loan of \$161,250 from an accredited investor. The note is convertible on issuance date at \$7.50 per share and after 180 days to be 60% of the lowest trading price for the common stock during the 15 trading day period prior to conversion. The loan includes an original discount of \$11,250 and \$10,000 in fees.

On May 9, 2018, we received a 10% six-month, convertible loan of \$250,000 from an accredited investor. The loan includes total costs of \$37,500 representing guaranteed interest, an original issue discount and legal fees. The loan can be converted at any time into common stock at a conversion price of \$7.50. We agreed to issue the investor 8,000 shares of restricted common stock with a fair value of \$26,466 recorded as a debt discount to be amortized over the six-month term.

On May 7, 2018, we paid off the entire outstanding balance on our October 27, 2017 5% one-year, convertible loan of \$170,000.

On April 30, 2018, we paid off the entire outstanding balance on our October 20, 2017 5% one-year, convertible loan of \$150,000.

On April 25, 2018, we received a 6% one-year, convertible loan of \$130,000 from an accredited investor. The note is convertible on issuance date at \$7.50 per share and after 180 days to be 60% of the lowest trading price for the common stock during the 15 trading day period prior to conversion. The loan includes \$6,500 in fees.

On April 25, 2018, we received a 4% one-year, convertible loan of \$105,000 from an accredited investor. The note is convertible on issuance date at \$7.50 per share and after 180 days to be 60% of the lowest trading price for the common stock during the 20-trading day period prior to conversion. The loan includes \$5,000 in fees. We agreed to issue the investor 1,200 shares of restricted common stock.

On April 25, 2018, we received another 4% one-year, convertible loan of \$105,000 from an accredited investor. The note is convertible on issuance date at \$7.50 per share and after 180 days to be 60% of the lowest trading price for the common stock during the 20-trading day period prior to conversion. The loan includes \$5,000 in fees. We agreed to issue the investor 1,200 shares of restricted common stock.

Edgar Filing: PRESSURE BIOSCIENCES INC - Form 10-Q

On April 23, 2018, we received a 12% nine-month, convertible loan of \$103,000 from an accredited investor. The proceeds were used to pay off the outstanding balance of \$103,000 on a previous loan dated October 25, 2017 from this lender. The loan can be converted into common stock after 180 calendar days at a discount of 42% of the average of the lowest two trading prices for the common stock during the 15-trading day period prior to conversion. The loan includes \$3,000 in fees.

On April 23, 2018, we received a 12% one-year, convertible loan of \$77,000 from an accredited investor. The loan can be converted into common stock after 180 days at a conversion price of \$7.50. The loan includes \$2,000 in fees.

On April 23, 2018, we received a 5% one-year, convertible loan of \$65,000 from an accredited investor. The loan can be converted into common stock after 180 calendar days at 60% of the lowest trading price for the common stock during the 20-trading day period prior to conversion. The loan includes an original discount of \$6,500 and \$2,000 in fees.

On April 12, 2018, we paid off the December 6, 2017 convertible loan of \$100,000. The accredited investor also received \$5,000 for the one-month extension to April 5, 2018.

On April 12, 2018, we received a 15% six-month, convertible loan of \$100,000 from an accredited investor. The loan includes total costs of \$24,000 representing guaranteed interest, an original issue discount and legal fees. The loan can be converted at any time into common stock at a conversion price of \$7.50. We agreed to issue the investor 2,000 shares of restricted common stock with a fair value of \$7,218 recorded as a debt discount to be amortized over the six-month term.

On April 11, 2018 we signed a Merchant Agreement with a lender. Under the agreement we received \$140,000 in exchange for rights to all customer receipts until the lender is paid \$187,600, which is collected at the rate of \$1,275 per business day. The \$47,600 imputed interest will be recorded as interest expense when paid each day. The payments were secured by second position rights to all customer receipts until the loan has been paid in full. We accounted for the Merchant Agreement as a loan under ASC 860 because while we provided rights to current and future receipts, we still had control over the receipts.

On April 10, 2018, we received a one-year, non-convertible loan of \$10,000 from a private investor.

On April 2, 2018, we issued 1,150 shares of restricted common stock with a fair value of \$5,183 to the lender in connection with the March 12, 2018 5% one-year, convertible loan of \$85,000. The fair value of the stock was recorded as a debt discount to be amortized over the one-year term.

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, 2017. 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, which we refer to as Pressure Cycling Technology, or PCT, uses alternating cycles of hydrostatic pressure between ambient and 45,000 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 March 31, 2018, 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 March 31, 2018, 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 have 14 United States granted patents and one foreign granted patent (Japan: 5587770, EXTRACTION AND PARTITIONING OF MOLECULES) covering multiple applications of PCT in the life sciences field. We also own eight patents as a result of our purchase of the assets of BaroFold in December 2017. PBI also has 19 pending patents

in the USA, Canada, Europe, Australia, China, and Taiwan. PCT employs a unique approach that we believe has the potential for broad use in a number of established and emerging life sciences areas, which include, but are not limited to:

biological sample preparation – including but not limited to sample extraction, homogenization, and digestion - in such study areas as genomic, proteomic, lipidomic, metabolomic and small molecules;

pathogen inactivation;

protein purification;

control of chemical reactions, particularly enzymatic; and

immunodiagnostics.

We reported an accomplishment in the first three months of 2018:

On February 14, 2018, the Company announced it had signed a two-year, global co-marketing and distribution agreement with ISS, Inc., a designer and manufacturer of advanced scientific instrumentation.

Results of Operations

Comparison for the three months ended March 31, 2018 (“Q1 2018”) and 2017 (“Q1 2017”)

Total Revenue

We recognized total revenue of \$610,774 for Q1 2018 compared to \$551,357 for Q1 2017, an increase of \$59,417 or 11%. This increase was primarily attributable to increases in both instrument and consumable sales.

Products, Services, Other. Revenue from the sale of products and services increased 11% to \$585,244 for Q1 2018 compared to \$525,998 for the same period in 2017. Sales of consumables increased to \$74,698 for Q1 2018 compared to \$63,264 during the same period in 2017, an increase of 18%. Products, Services, and Other Revenue included \$19,950 from non-cash instrument transactions in the current quarter. Revenue from non-cash instrument transactions was recognized on the fair value of the assets involved per ASC 845.

Grant Revenue. During the three months ended March 31, 2018, we recorded grant revenue of \$25,530 compared to grant revenue of \$25,359 in the comparable period in 2017.

Cost of Products and Services

The cost of products and services was \$324,789 for the three months ended March 31, 2018 compared to \$235,997 for the comparable period in 2017. Gross profit margin on products and services decreased to 47% for Q1 2018 compared to 57% for the prior year period. The current period margin was affected by discounted sales to our foreign distributors and discounted sales to key customer partners.

Research and Development

Research and development expenditures were \$324,976 during the three months ended March 31, 2018 as compared to \$263,456 in the same period in 2017, an increase of \$61,520 or 23%. The current period expenses included costs relating to data research performed by collaboration partners.

Research and development expense recognized in the three months ended March 31, 2018 and 2017 included \$15,499 and \$15,970 of non-cash, stock-based compensation expense, respectively.

Selling and Marketing

Selling and marketing expenses increased to \$274,468 for the three months ended March 31, 2018 from \$213,009 for the comparable period in 2017, an increase of \$61,459 or 29%. This increase was primarily attributable to expansion of the company's sales force from one to four field sales directors during 2017, plus recruitment fees and business development efforts.

During the three months ended March 31, 2018 and 2017, selling and marketing expense included \$7,197 and \$10,886 of non-cash, stock-based compensation expense, respectively.

General and Administrative

General and administrative costs totaled \$794,605 for Q1 2018 compared to \$837,998 for the comparable period in 2017. This decrease included reduced use of investor and public relations offset by costs related to the hire of a chief financial officer and quarterly amortization of our BaroFold patent values.

During the three months ended March 31, 2018 and 2017, general and administrative expense included \$63,324 and \$47,673 of non-cash, stock-based compensation expense, respectively.

Operating Loss

Our operating loss was \$1,108,064 for the three months ended March 31, 2018 compared to \$999,103 for the comparable period in 2017. This increase was due primarily to the headcount increases in sales and marketing during 2017 and research collaboration costs incurred.

Other Income (Expense), Net

Interest (Expense) Income

Interest expense was \$1,123,145 for the three months ended March 31, 2018 compared to interest expense of \$1,240,373 for the three months ended March 31, 2017. Interest expense reflected amortization of debt discounts related primarily to the sale of senior secured convertible debentures and our Revolving Note (as defined in Note 6 of the accompanying consolidated financial statements). The decrease is primarily from the deferred finance charges fully amortized in 2017 on our Revolving Note.

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 March 31, 2018, 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 6 of the accompanying consolidated financial statements, we received \$1.5 million in net proceeds from loans in the first three months of 2018. 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. If 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 three months ended March 31, 2018 was \$1,277,512 as compared to \$1,165,410 for the three months ended March 31, 2017. We had a slightly higher operating loss in the current period because of the reasons previously detailed, plus additional interest expense.

Net cash used in investing activities for the three months ended March 31, 2018 was none compared to \$15,608 in the prior period. Cash capital expenditures in the prior year included laboratory equipment and IT equipment.

Net cash provided by financing activities for the three months ended March 31, 2018 was \$1,277,641 as compared to \$1,164,093 for the same period in the prior year. The cash from financing activities in the period ended March 31, 2018 included \$460,000 from our Revolving Note and \$819,350 from convertible debt, net of fees and less payment on convertible debt of \$102,500. We also received \$348,600 from non-convertible debt, net of fees, less payment on non-convertible debt of \$247,809. The prior period included \$920,000 from our Revolving Note. We also received \$773,000 from non-convertible debt, net of fees, less payment on non-convertible debt of \$228,907.

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 March 31, 2018, 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 March 31, 2018 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, 2017. These material weaknesses are the following:

We identified 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.

Management has identified 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 resulted in audit adjustments to the annual consolidated financial statements and revisions to related

disclosures, valuation of warrants and other equity transactions.

Limited policies and procedures that cover recording and reporting of financial transactions.

Lack of multiple levels of review over the financial reporting process

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

Improve the effectiveness of the accounting group by augmenting our existing resources with additional consultants or employees to assist in the analysis and recording of complex accounting transactions, and to simultaneously achieve desired organizational structuring for improved segregation of duties. We plan to mitigate this identified deficiency by hiring an independent consultant once we generate significantly more revenue or raise significant additional working capital.

Improve expert review and achieve desired 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 consolidated financial statements as of and for the three-month period ended March 31, 2018, 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 March 31, 2018 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, 2017. 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 the Company. 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, 2017.

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

Except where noted, all the securities discussed in this Part II, Item 2 were issued in reliance on the exemption under Section 4(a)(2) of the Securities Act.

For the three months ended March 31, 2018, we received \$500,000 pursuant to the Revolving Note as amended and we issued to the Investor warrants to purchase 41,667 shares of our Common Stock at an exercise price per share equal to \$12.00 per share.

During the three months ended March 31, 2018, we issued to Debenture holders 22,606 shares of common stock for quarterly interest of \$85,040 issued in stock in lieu of cash. Of the 22,606 shares issued, 1,092 shares were issued to members of the Company's Board of Directors, who are also Debenture holders.

On March 12, 2018, we received a six-month, convertible loan of \$253,000 from an accredited investor. The loan has an original issue discount of \$53,000. The loan can be converted at any time into common stock at a conversion price of \$7.50. We agreed to issue the investor 6,750 shares of restricted common stock.

On February 12, 2018, we received a six-month, convertible loan of \$100,000 from an accredited investor. The loan earns a one-time interest of 10%. \$50,000 of the proceeds were used to pay off the outstanding balance of a previous loan from this lender. The loan can be converted at any time into common stock at a conversion price of \$7.50. We issued the investor 5,000 shares of restricted common stock.

On February 12, 2018, we issued 3,500 shares of restricted common stock to an accredited investor to extend the maturity date of our eight-month, non-convertible loan of \$170,000 originated on March 21, 2017 to February 15, 2018. The accredited investor agreed to a further extension to March 31, 2018 in exchange for 3,500 shares of restricted common stock yet to be issued.

On January 19, 2018, we received a six-month, convertible loan of \$150,000 from an accredited investor. The loan earns a one-time interest of 10% and includes a 10% original issue discount. We also issued the investor 4,000 shares of restricted common stock. The loan can be converted at any time into common stock at a conversion price of \$7.50.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

The Revolving Note, previously amended, was further amended on January 30, 2018 to increase the aggregate principal amount to \$4,000,000 with all other terms unchanged.

Item 6. Exhibits

Exhibits

- 3.1* Certificate of Designation of Series AA Convertible Preferred Stock, filed May 1, 2018
- 10.1* Amendment Number 3 to October 26, 2016 Promissory Note, dated January 30, 2018
- 31.1* Principal Executive Officer Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Principal Financial Officer Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Principal Executive Officer Certification Pursuant to Item 601(b)(32) of Regulation S-K, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Principal Financial Officer Certification Pursuant to Item 601(b)(32) of Regulation S-K, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** 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: May 15, 2018 By: */s/ Richard T. Schumacher*
Richard T. Schumacher
President & Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2018 By: */s/ Joseph L. Damasio, Jr.*
Joseph L. Damasio, Jr.
Vice President of Finance & Chief Financial
Officer
(Principal Financial Officer)

