

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21615

**PRESSURE BIOSCIENCES, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Massachusetts**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**04-2652826**  
(I.R.S. Employer  
Identification No.)

**14 Norfolk Avenue**  
**South Easton, Massachusetts**  
(Address of Principal Executive Offices)

**02375**  
(Zip Code)

**(508) 230-1828**  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

The number of shares outstanding of the Issuer's common stock as of November 11, 2011 was 6,570,147.

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

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 296,970	\$ 552,849
Restricted cash	-	20,014
Accounts receivable	115,028	233,846
Inventories	1,129,662	1,104,056
Deposits	6,472	6,472
Prepaid income taxes	4,739	1,442
Prepaid expenses and other current assets	128,250	296,756
Total current assets	<u>1,681,121</u>	<u>2,215,435</u>
PROPERTY AND EQUIPMENT, NET	<u>98,181</u>	<u>192,777</u>
OTHER ASSETS		
Intangible assets, net	145,920	182,394
TOTAL ASSETS	<u>\$ 1,925,222</u>	<u>\$ 2,590,606</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 658,977	\$ 234,568
Accrued employee compensation	205,745	172,251
Accrued professional fees and other	304,183	337,698
Deferred revenue	20,826	27,153
Short-term debt, net of debt discount of \$123,677	296,336	-
Warrant derivative liability	284,437	-
Total current liabilities	<u>1,770,504</u>	<u>771,670</u>
LONG TERM LIABILITIES		
Deferred revenue	9,330	9,427
TOTAL LIABILITIES	<u>1,779,834</u>	<u>781,097</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 4)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Series A convertible preferred stock, \$.01 par value; 313,960 shares authorized; 15,571 shares issued and outstanding on September 30, 2011 and 261,135 shares issued and outstanding on December 31, 2010 (Liquidation value of \$179,070)	155	2,621
Series B convertible preferred stock, \$.01 par value; 279,256 shares authorized; 1,348 shares issued and outstanding on September 30, 2011 and 88,711 shares on December 31, 2010 (Liquidation value of \$25,342)	13	887
Series C convertible preferred stock, \$.01 par value; 303,125 shares authorized; 88,098 shares issued and outstanding on September 30, 2011 and 0 shares on December 31, 2010 (Liquidation value of \$1,101,225)	881	-
Common stock, \$.01 par value; 20,000,000 shares authorized; 6,353,016 shares issued and outstanding on September 30, 2011 and 2,711,750 shares issued and outstanding on December 31, 2010	63,530	27,118
Warrants to acquire preferred stock and common stock	1,823,852	1,248,909
Additional paid-in capital	12,802,217	12,095,237
Accumulated deficit	(14,545,260)	(11,565,263)
Total stockholders' equity	<u>145,388</u>	<u>1,809,509</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,925,222</u>	<u>\$ 2,590,606</u>

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

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

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>REVENUE:</b>				
PCT products, services, other	\$ 217,734	\$ 194,730	\$ 589,063	\$ 667,262
Grant revenue	62,688	177,373	62,688	397,758
Total revenue	<u>280,422</u>	<u>372,103</u>	<u>651,751</u>	<u>1,065,020</u>
<b>COSTS AND EXPENSES:</b>				
Cost of PCT products and services	93,610	86,285	250,835	300,360
Research and development	248,188	382,054	730,962	980,338
Selling and marketing	193,975	313,412	740,358	890,265
General and administrative	490,460	432,939	1,351,303	1,445,742
Total operating costs and expenses	<u>1,026,233</u>	<u>1,214,690</u>	<u>3,073,458</u>	<u>3,616,705</u>
Operating loss	(745,811)	(842,587)	(2,421,707)	(2,551,685)
Interest (expense) income	(39,358)	438	(39,029)	1,560
Change in fair value of warrant derivative liability	223,446	-	307,467	-
Loss before income taxes	(561,723)	(842,149)	(2,153,269)	(2,550,125)
Income tax benefit	-	244,479	-	244,479
Net loss	(561,723)	(597,670)	(2,153,269)	(2,305,646)
Accrued interest on convertible debt	5,208	-	5,208	-
Accrued and deemed dividends on convertible preferred stock	(397,331)	(95,205)	(944,782)	(408,767)
Net loss applicable to common shareholders	<u>\$ (953,846)</u>	<u>\$ (692,875)</u>	<u>\$ (3,092,843)</u>	<u>\$ (2,714,413)</u>
Net loss per share attributable to common stockholders - basic and diluted	\$ (0.15)	\$ (0.26)	\$ (0.50)	\$ (1.01)
Weighted average common stock shares outstanding used in the basic and diluted net loss per share calculation	6,253,349	2,687,853	6,228,585	2,683,706

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

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,153,269)	\$ (2,305,646)
Adjustments to reconcile net loss to operating cash flows:		
Depreciation and amortization	109,520	149,265
Stock-based compensation expense	113,689	227,476
Change in fair value of warrant derivative liability	(307,467)	-
Bad debt expense	-	18,420
Changes in operating assets and liabilities:		
Short-term investments	-	(248,000)
Accounts receivable	118,818	(9,579)
Inventories	(4,056)	(494,470)
Deposits	-	175,538
Income tax receivable	-	(244,479)
Accounts payable	537,150	175,129
Accrued employee compensation	33,494	90,055
Deferred revenue and other accrued expenses	(49,125)	(27,543)
Prepaid expenses and other current assets	71,296	32,413
Net cash used in operating activities	(1,529,950)	(2,461,421)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	-	(86,949)
Net cash used in investing activities	-	(86,949)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from stock option exercises	43,980	-
Decrease in restricted cash	20,014	-
Proceeds from stock warrant exercises	-	1,421,275
Borrowings on short-term loans with detachable warrants	412,000	-
Net proceeds from the issuance of preferred stock	798,077	465,867
Net cash provided by financing activities	1,274,071	1,887,142
Change in cash and cash equivalents	(255,879)	(661,228)
Cash and cash equivalents, beginning of period	552,849	1,609,778
Cash and cash equivalents, end of period	\$ 296,970	\$ 948,550
<b>SUPPLEMENTAL INFORMATION:</b>		
Income taxes paid	\$ 1,900	\$ 1,900
Issuance of common stock dividend on preferred stock	150,497	222,931
Issuance of common stock warrants to placement agent	94,313	18,122
Issuance of common stock for services	109,996	18,720
Series B dividend paid in cash	42,037	7,212
Deemed dividend on warrant modifications	325,595	-
Beneficial conversion feature on convertible preferred stock	304,823	154,389

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

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

**1) Business Overview, Liquidity, and Management Plans**

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We have developed instruments which utilize our unique and proprietary pressure cycling technology (“PCT”), which we sell along with associated consumables and services to life sciences companies, academic institutions and government agencies. There are currently 131 customers who have purchased or currently lease our enabling platform. PCT represents the core of our products and has enabled our customers to perform biological sample preparation and enzymatic digestion in unique ways that were previously unavailable. The enabling capability of our PCT products allows us to continue to increase the number of applications for our platform beyond current uses, which include genomic and proteomic sample preparation, pathogen inactivation, the control of chemical and enzymatic reactions, immunodiagnostics, and protein purification. Additionally, we are pursuing business opportunities to leverage our products and PCT into new markets beyond our current focus of PCT-enhanced enzymatic digestion products designed specifically for the mass spectrometry marketplace, as well as sample preparation products for biomarker discovery, soil and plant biology, forensics, histology, and counter-bioterror applications.

PCT uses internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures to rapidly and repeatedly control the interactions of bio-molecules. Our instrument, the Barocycler®, and our internally developed consumables product line, which includes PULSE® (Pressure Used to Lyse Samples for Extraction) Tubes as well as application specific kits (which include consumable products and reagents) together make up the PCT Sample Preparation System.

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of September 30, 2011, we had working capital resources of approximately \$195,000, which excludes the warrant liability of \$284,437. Based on our current projections, including equity financing described in Note 6 below and completed subsequent to September 30, 2011, we believe our current cash resources will enable us to extend our cash resources until February 2012. Refer to Subsequent Event Note 6.

We will need substantial additional capital to fund our operations in periods beyond February 2012. 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.

**2) Interim Financial Reporting and Basis of Presentation**

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The accompanying unaudited consolidated financial statements of Pressure BioSciences, Inc. and its subsidiary have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 as filed with the Securities and Exchange Commission on March 31, 2011, as amended by the Form 10K/A filed with the Securities and Exchange Commission on May 2, 2011 (as so amended, the “Form 10-K”).

**3) Summary of Significant Accounting Policies**

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*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.

*Use of Estimates*

To prepare our consolidated financial statements in conformity with generally accepted accounting principles, 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 are made in projecting future cash flows to quantify impairment of assets, deferred tax assets and the costs associated with fulfilling our warranty obligations for the instruments that we sell, in our calculation of fair value of stock options

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

awarded, and our allocation of the proceeds from our equity financings between the preferred stock and warrants sold. 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 materially differ from the estimates and assumptions used.

*Revenue Recognition*

Revenue is recognized when realized or earned when all the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed to the customer; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured.

Our current instruments, the Barocyler NEP3229 and NEP2320, require a basic level of instrumentation expertise to set up for initial operation. To support a favorable first experience for our customers, we send a highly trained technical representative to the customer site to install every Barocyler that we sell, lease, or rent through our domestic sales force. The installation process includes uncrating and setting up the instrument, followed by introductory user training. Product revenue related to current Barocyler instrumentation is recognized upon the completion of the installation and introductory training process of the instrumentation at the customer location, for domestic installations. Product revenue related to sales of PCT instrumentation to our foreign distributors is recognized upon shipment through a common carrier. We provide for the expected costs of warranty upon the recognition of revenue for the sales of our instrumentation. Our sales arrangements do not provide our customers with a right to return products they have purchased from us. Product revenue related to our consumable products such as PULSE Tubes, MicroTubes, and application specific kits is recorded upon shipment through a common carrier. Shipping costs are included in sales and marketing expense. Any shipping costs billed to customers are recognized as revenue.

We account for our lease agreements under the operating method. We record revenue over the life of the lease term and we record depreciation expense on a straight-line basis over the thirty-six month estimated useful life of the Barocyler instrument. The depreciation expense associated with assets under lease agreements is included in the "Cost of PCT products and services" line item in our consolidated statements of operations. Many of our lease 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.

Our transactions sometimes involve multiple elements (i.e., products and services). If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, we defer the fair value of the undelivered elements with the residual revenue allocated to the delivered elements. Fair value is determined based upon the price charged when the element is sold separately. If there is not sufficient evidence of the fair value of the undelivered elements, no revenue is allocated to the delivered elements and the total consideration received is deferred until delivery of those elements for which objective and reliable evidence of the fair value is not available. We provide certain customers with extended service contracts and, to the extent vendor specific objective evidence, or VSOE, is established, these service revenues are recognized ratably over the life of the contract, which is generally one to four years.

*Cash and Cash Equivalents*

Our policy is to invest available cash in short-term, investment-grade, interest-bearing obligations, including money market funds, and bank and corporate debt instruments. Securities purchased with initial maturities of three months or less are valued at cost plus accrued interest, which approximates fair market value, and are classified as cash equivalents. Prior to September 30, 2011, we cancelled our corporate credit card and liquidated our entire certificate of deposit that was held as collateral for our corporate credit card.

*Research and Development*

Research and development costs, which are comprised of costs incurred in performing research and development activities including wages and associated employee benefits, facilities, consumable products and overhead costs, are expensed as incurred. Our research and development activities are performed at our facilities in Massachusetts in conjunction with our collaboration partner sites. In support of our research and development activities, we utilize our Barocyler instruments that are capitalized as fixed assets and depreciated over their expected useful lives.

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

*Inventories*

Inventories are valued at the lower of cost (average cost) or market (sales price). The cost of Barocyclers consists of the cost charged by the contract manufacturer. The cost of manufactured goods includes material, freight-in, direct labor and applicable overhead. The composition of inventory as of September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011	December 31, 2010
Raw materials	\$ 235,420	\$ 198,534
Finished goods	894,242	905,522
<b>Total</b>	<b><u>\$ 1,129,662</u></b>	<b><u>\$ 1,104,056</u></b>

Our finished goods inventory as of September 30, 2011 included 70 Barocycler instruments. Our finished goods inventory as of December 31, 2010 included 79 Barocycler instruments. Net sales and purchases of leased Barocycler units with the cost of \$21,551 are reflected in the inventory change on the consolidated statement of cash flows.

*Property and Equipment*

Property and equipment are stated at cost, less accumulated depreciation. For financial reporting purposes, depreciation is recognized using the straight-line method, allocating the cost of the assets over their estimated useful lives of three years for certain laboratory equipment, from three to five years for management information systems and office equipment, and three years for all PCT finished units classified as fixed assets. Property and equipment includes net book value of \$85,831 relating to Barocycler instruments held under lease or collaboration.

*Intangible Assets*

We have classified as intangible assets, costs associated with the fair value of acquired intellectual property. Intangible assets including patents are amortized on a straight-line basis over 16 years. The Company's intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When impairment is indicated, any excess of carrying value over fair value is recorded as a loss. As of the date of this report's filing, no event has come to our attention that would cause us to record an impairment of intangible assets.

*Long-Lived Assets and Deferred Costs*

The Company's long-lived assets and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Through the date of this report's filing, the Company had not experienced impairment losses on its long-lived assets.

*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 of customers as a percentage of total revenues during the three months and nine months ended September 30, 2011 and 2010:



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

	For the Three Months Ended September 30,	
	2011	2010
	Top Five Customers	58%
Federal Agencies	29%	54%

  

	For the Nine Months Ended September 30,	
	2011	2010
	Top Five Customers	29%
Federal Agencies	15%	44%

The following table illustrates the level of concentration of customers as a percentage of net accounts receivable balance as of September 30, 2011 and December 31, 2010:

	September 30,	December 31,
	2011	2010
	Top Five Customers	78%
Federal Agencies	25%	29%

*Product Supply*

Source Scientific, LLC has been our sole contract manufacturer for all of our PCT instrumentation. We have a network of manufacturers and sub-contractors to supply components for our other products. Until we develop a network of manufacturers and subcontractors, obtaining alternative sources of supply or manufacturing services could involve significant delays and other costs and challenges, and may not be available to us on reasonable terms, if at all. The failure of a supplier or contract manufacturer to provide sufficient quantities, acceptable quality and timely products at an acceptable price, or an interruption of supplies from such a supplier could harm our business and prospects.

*Computation of Loss per Share*

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For purposes of this calculation, convertible preferred stock, common stock dividends, warrants to acquire preferred stock convertible into common stock, 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.

The following table illustrates our computation of loss per share for the three months and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net loss	\$ (561,723)	\$ (597,670)	\$ (2,153,269)	\$ (2,305,646)
Accrued interest on convertible debt, after tax	5,208	-	5,208	-
Accrued dividend for Preferred Stock	(71,736)	(59,074)	(196,310)	(59,074)
Deemed dividend on warrant modifications	(325,595)	-	(325,595)	-
Beneficial conversion feature for Preferred Stock	-	-	(304,823)	(154,389)
Series A Preferred dividends paid in Common Stock	-	-	(76,017)	(152,130)
Series B Preferred dividends paid in Common Stock	-	(28,919)	-	(35,962)
Series B Preferred dividends paid in cash	-	(7,212)	(42,037)	(7,212)
Net loss applicable to common shareholders	\$ (953,846)	\$ (692,875)	\$ (3,092,843)	\$ (2,714,413)
<b>Denominator for basic and diluted loss per share:</b>				
Weighted average common stock shares outstanding	6,253,349	2,687,853	6,228,585	2,683,706
Loss per common share - basic and diluted	\$ (0.15)	\$ (0.26)	\$ (0.50)	\$ (1.01)

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. The Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock are presented below as if they were converted into common shares according to the conversion terms in Note 5. Subsequent to September 30, 2011 all of the remaining outstanding shares of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock were voluntarily converted by the holders into 169,190 shares of Common Stock.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock options	1,503,500	1,097,543	1,503,500	1,019,500
Convertible debt	412,000	-	412,000	-
Common stock warrants	4,210,074	1,619,800	4,210,074	1,619,800
Preferred stock warrants	-	940,550	-	940,550
Convertible preferred stock:				
Series A Convertible Preferred	155,710	2,621,350	155,710	2,621,350
Series B Convertible Preferred	13,480	887,110	13,480	887,110
Series C Convertible Preferred	880,980	-	880,980	-
	<u>7,175,744</u>	<u>7,166,353</u>	<u>7,175,744</u>	<u>7,088,310</u>

#### *Accounting for Income Taxes*

We account for income taxes under the asset and liability method, which requires recognition of deferred tax assets, subject to valuation allowances, and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established if it is more likely than not that all or a portion of the net deferred tax assets will not be realized. If substantial changes in the Company's ownership should occur, as defined in Section 382 of the Internal Revenue Code, there could be sufficient limitations on the amount of net loss carry forwards that could be used to offset future taxable income.

#### *Warrant Derivative Liability*

The Series C warrants are measured at fair value and liability-classified because the Series C warrants contain "down-round protection" and therefore, do not meet the scope exception for treatment as a derivative under ASC 815, Derivatives and Hedging, ("ASC 815"). Since "down-round protection" is not an input into the calculation of the fair value of the warrants, the warrants cannot be considered indexed to the Company's own stock which is a requirement for the scope exception as outlined under ASC 815. The estimated fair value of the warrants was determined using the Black-Scholes formula, resulting in an allocation of the gross proceeds of

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

\$591,904 to the total warrants issued. The fair value will be affected by changes in inputs to that model including our stock price, expected stock price volatility, the contractual term, and the risk-free interest rate. We will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability, whichever comes first. This down-round protection expires either 12 or 24 months subsequent to the issuance of the Series C Units, depending on the amount of additional capital raised by the Company.

The assumptions for the Black-Scholes pricing model are represented in the table below for the warrants issued in both tranches reflected on a per share common stock equivalent basis.

Assumptions	Warrants revalued at September 30, 2011			
	April 8, 2011	June 20, 2011	April 8, 2011	June 20, 2011
Expected life (in months)	36.0	36.0	30.0	33.0
Expected volatility	118.5%	118.5%	96.2%	96.1%
Risk-free interest rate	0.625%	0.625%	0.5%	0.5%
Exercise price	\$ 2.13	\$ 2.13	\$ 2.13	\$ 2.13
Fair value per warrant	\$ 0.70	\$ 0.62	\$ 0.31	\$ 0.34

The assumptions for the warrants issued to the investment banker show the range of values for both tranches. The investment banker received two sets of warrants in each tranche with half of the warrants assigned a different exercise price.

Assumptions	Investment Banker Warrants			
	April 8, 2011		June 20, 2011	
	\$ 1.50	\$ 2.38	\$ 1.50	\$ 2.38
Expected life (in months)	60.0	60.0	60.0	60.0
Expected volatility	99.1%	99.1%	99.9%	99.9%
Risk-free interest rate	1.500%	1.500%	1.500%	1.500%
Exercise price	\$ 1.50	\$ 2.38	\$ 1.50	\$ 2.38
Fair value per warrant	\$ 0.83	\$ 0.75	\$ 0.74	\$ 0.67

*Accounting for Stock-Based Compensation*

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 equity 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. Specifically, the Company estimates the forfeiture rate and adjusts the expense that it recognizes to reflect the estimated number of stock options that will go unexercised. The Company estimated a forfeiture rate of 5% for awards granted based on historical experience and future expectations of options vesting.

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We recognized stock-based compensation expense of \$32,520 and \$82,373 for the three months ended September 30, 2011 and 2010, 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:

	<b>For the Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Research and development	\$ 11,609	\$ 15,293
Selling and marketing	6,452	21,613
General and administrative	14,459	45,467
Total stock-based compensation expense	<u>\$ 32,520</u>	<u>\$ 82,373</u>

We recognized stock-based compensation expense of \$113,689 and \$227,476 for the nine months ended September 30, 2011 and 2010, 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:

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Research and development	\$ 36,951	\$ 56,200
Selling and marketing	40,192	56,155
General and administrative	36,546	115,121
Total stock-based compensation expense	<u>\$ 113,689</u>	<u>\$ 227,476</u>

*Fair Value of Financial Instruments*

Due to their short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate their fair value. Long-term liabilities are primarily related to liabilities transferred under contractual arrangements with carrying values that approximate fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

As of September 30, 2011, the Company's warrant derivative liability is considered a level 3 item, see "Warrant Derivative Liability" within this section.

*Advertising*

Advertising costs are expensed as incurred. During the nine months ended September 30, 2011, we did not incur significant advertising expenses but in the same period last year, we incurred \$23,545 in advertising expenses.

*Rent Expense*

Rental costs are expensed as incurred. During the nine months ended September 30, 2011 and 2010, we incurred \$103,248 and \$106,373, respectively, in rent expense for the use of our corporate office and research and development facilities.

**4) Commitments and Contingencies**

*Operating Leases*

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Our corporate offices are currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. In November 2007, we signed a lease agreement commencing in February 2008 pursuant to which we lease approximately 5,500 square feet of office space. We renewed the lease until August 31, 2011 with no increase in the monthly payment and are negotiating an extension of the lease. We are currently paying approximately \$6,500 per month on a month-to-month basis for the use of these facilities.

Effective January 1, 2010, we entered into a three-year lease agreement with the University of Massachusetts, pursuant to which we are leasing laboratory and office space on campus at the university. We pay \$5,000 per month for the use of these facilities.

*Royalty Commitments*

In 1996, we acquired our initial equity interest in BioSeq, Inc., which at the time was developing our original pressure cycling technology. BioSeq, Inc. acquired its pressure cycling technology from BioMolecular Assays, Inc. ("BMA") under a technology transfer and patent assignment agreement. In 1998, we purchased all of the remaining outstanding capital stock of BioSeq, Inc., and at such time, the technology transfer and patent assignment agreement was amended to require us to pay BMA a 5% royalty on our sales of products or services that incorporate or utilize the original pressure cycling technology that BioSeq, Inc. acquired from BMA. We are also required to pay BMA 5% of the proceeds from any sale, transfer or license of all or any portion of the original pressure cycling technology. These payment obligations terminate in 2016. During the three months ended September 30, 2011 and 2010, we incurred \$7,350 and \$7,752, respectively, in royalty expense associated with our obligation to BMA. During the nine months ended September 30, 2011 and 2010, we incurred \$18,962 and \$25,173, respectively, in royalty expense associated with our obligation to BMA.

In connection with our acquisition of BioSeq, Inc., we licensed certain limited rights to the original pressure cycling technology back to BMA. This license is non-exclusive and limits the use of the original pressure cycling technology by BMA solely for molecular applications in scientific research and development and in scientific plant research and development. BMA is required to pay us a royalty equal to 20% of any license or other fees and royalties, but not including research support and similar payments, it receives in connection with any sale, assignment, license or other transfer of any rights granted to BMA under the license. BMA must pay us these royalties until the expiration of the patents held by BioSeq, Inc. in 1998, which we anticipate will be in 2016. We have not received any royalty payments from BMA under this license.

*Battelle Memorial Institute*

In December 2008, we entered into an exclusive patent license agreement with the Battelle Memorial Institute ("Battelle"). The licensed technology is described in the patent application filed by Battelle on July 31, 2008 (US serial number 12/183,219). This application includes subject matter related to a method and a system for improving the analysis of protein samples, including through an automated system utilizing pressure and a pre-selected agent to obtain a digested sample in a significantly shorter period of time than current methods, while maintaining the integrity of the sample throughout the preparatory process. Pursuant to the terms of the agreement we paid Battelle a non-refundable initial fee. In addition to royalty payments on net sales on "licensed products", we are obligated to make minimum royalty payments of \$5,000 for each year that we retain the rights outlined in the patent license agreement and we are required to have our first commercial sale of the licensed products within one year following the issuance of the patent covered by the licensed technology.

*Severance and Change of Control Agreements*

Each of our executive officers is entitled to receive a severance payment if terminated by the Company without cause. The severance benefits would include a payment in an amount equal to one year of each executive officer's annualized base salary compensation plus accrued paid time off. Additionally, each executive officer will be entitled to receive medical and dental insurance coverage for one year following the date of termination. The total commitment related to these agreements in the aggregate is approximately \$0.9 million, of which \$83,500 is accrued as personal time off within accrued compensation.

Each of our executive officers, other than Mr. Richard T. Schumacher, our President and Chief Executive Officer, is entitled to receive a change of control payment in an amount equal to one year of such executive officer's annualized base salary compensation, accrued paid time off, and medical and dental coverage, in the event of a change of control of the Company. In the case of Mr. Schumacher, this payment would be equal to two years of annualized base salary compensation, accrued paid time off, and two years of medical and dental coverage. The total commitment related to these agreements in the aggregate is approximately \$1.2 million, of which \$83,500 is accrued as personal time off within accrued compensation.

*Placement Agent Agreement*

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On November 4, 2011, the Company entered into an agreement with a former placement agent, pursuant to which the Company and the placement agent released each other of their respective obligations under a prior investment banking agreement. In connection with this agreement, the Company issued the placement agent a promissory note with an original principal amount of \$150,000 with a maturity date of May 4, 2011. The promissory note is interest free, provided that, if the Company does not repay the principal amount on or before the maturity date, it will accrue interest at a rate of 18% per annum.

**5) Stockholders' Equity**

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*Preferred Stock*

In 1996, our Board of Directors authorized the issuance of 1,000,000 shares of preferred stock with a par value of \$0.01. As of September 30, 2011, 20,000 shares of preferred stock have been designated as Series A Junior Participating Preferred Stock, none of which were issued and outstanding, 313,960 shares of preferred stock have been designated as Series A Convertible Preferred Stock, par value \$0.01 per share ("Series A Convertible Preferred Stock"), of which 15,571 shares were issued and outstanding, 279,256 shares of preferred stock have been designated as Series B Convertible Preferred Stock, par value \$0.01 per share ("Series B Convertible Preferred Stock"), of which 1,348 shares were issued and outstanding and 303,125 shares of preferred stock have been designated as Series C Convertible Preferred Stock, par value \$0.01 per share ("Series C Convertible Preferred Stock"), of which 88,098 shares were issued and outstanding.

Series A Convertible Preferred Stock

On February 12, 2009, we completed a private placement, pursuant to which we sold an aggregate of 156,980 units (the "Series A Units") for a purchase price of \$11.50 per unit (the "Series A Purchase Price"), resulting in gross proceeds to us of \$1,805,270 (the "Series A Private Placement"). Each Series A Unit consisted of (i) one share of Series A Convertible Preferred Stock convertible into 10 shares of our common stock, (ii) a warrant to purchase one share of Series A Convertible Preferred Stock at an exercise price equal to \$12.50 per share, with a term expiring 15 months after the date of closing ("15-Month Series A Preferred Stock Warrant"); and (iii) a warrant to purchase 10 shares of common stock at an exercise price equal to \$2.00 per share, with a term expiring 30 months after the date of closing (the "30-Month Common Stock Warrants"). We did not pay any placement fees associated with this transaction but the expenses related to the offering totaled approximately \$233,000.

As a result of the issuance of Common Stock in connection with dividends paid on the Series A Preferred Stock and the Series B Preferred Stock, the exercise price of the 30-Month Common Stock Warrants has been adjusted from \$2.00 to \$1.74 in accordance with the terms of the 30-Month Common Stock Purchase Warrants.

On or about August 10, 2011, holders of 30-Month Common Stock Warrants to purchase 1,569,800 shares of Common Stock entered into an amendment to the 30-Month Common Stock Warrants which extended the expiration date of the warrants to August 11, 2012. On or about September 30, 2011, 30-Month Common Stock Warrants to purchase 1,556,750 shares of Common Stock were further amended to reduce the exercise price from \$1.74 to \$0.90 and to extend the term until August 12, 2016 and, with respect to affiliates, August 12, 2015. A 30-Month Common Stock Warrant to purchase 13,050 shares of Common Stock was not amended and continues to have an exercise price of \$1.74 per share, with a term expiring on August 11, 2012.

The proceeds from the sale of each Series A Unit was allocated between the Series A Convertible Preferred Stock, the 15-Month Series A Preferred Stock Warrant and the 30-Month Common Stock Warrant based on the relative estimated fair value of each security. The estimated fair value of the warrants was determined using the Black-Scholes formula, resulting in an allocation of the gross proceeds of \$882,253 to the total warrants issued. The allocation of the gross proceeds to the Series A Convertible Preferred Stock was \$923,017. In accordance with the provisions of ASC 470-20, *Debt with Conversion and Other Options* ("ASC 470-20"), an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$489,803 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued. The \$489,803 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series A Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock on February 12, 2009 issuable upon conversion of the Series A Convertible Preferred Stock from the fair market value of the Series A Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series A Convertible Preferred Stock and warrants.

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On or about September 30, 2011, all but 15,571 shares of the outstanding shares of Series A Convertible Preferred Stock were voluntarily converted. Subsequent to September 30, 2011, the remaining 15,571 shares of Series A Convertible Preferred Stock were voluntarily converted. The Company has no obligation or intention to issue any more shares of Series A Convertible Preferred Stock.

Each share of Series A Convertible Preferred Stock received a cumulative dividend at the rate of 5% per annum of the Series A Purchase Price, payable semi-annually on June 30 and December 31, commencing on June 30, 2009 (with the first payment being pro-rated based on the number of days occurring between the date of issuance and June 30, 2009). The Company was permitted to pay dividends in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series A Convertible Preferred Stock were also entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our Company, the holders of Series A Convertible Preferred Stock would have been paid out of the assets of the Company available for distribution to our stockholders before any payment was paid to the holders of common stock, an amount per share equal to the Series A Purchase Price, plus accrued and unpaid dividends. The Series A Convertible Preferred Stock would have been treated on an equivalent basis with the holders of the Series B Convertible Preferred Stock and Series C Convertible Preferred Stock with respect to payments made in connection with a liquidation. The Board approved the method of payment in the form of common stock for each of the dividend payment dates through September 30, 2011.

Each share of Series A Convertible Preferred Stock was convertible into 10 shares of common stock at any time at the option of the holder, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Series A Conversion Ratio"). Unless waived under certain circumstances by the holder of Series A Convertible Preferred Stock, such holder's shares of Series A Convertible Preferred Stock could not have been converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds. Each share of Series A Convertible Preferred Stock would have been automatically converted into shares of common stock at the Series A Conversion Ratio then in effect: (i) if, after 12 months from the closing of the Series A Private Placement, the common stock traded on the NASDAQ Capital Market (or other primary trading market or exchange on which the common stock was then traded) at a price equal to \$4.00 for 20 out of 30 consecutive trading days with average daily trading volume of at least 10,000 shares or (ii) upon a registered public offering by the Company at a per share price equal to \$2.30 with aggregate gross proceeds to the Company of not less than \$10 million.

The holders of Series A Convertible Preferred Stock were not entitled to vote on any matters presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), except that the holders of Series A Convertible Preferred Stock would have been entitled to vote separately as a class on any matters that would amend, alter or repeal any provision of our Restated Articles of Organization, as amended, in a manner that adversely affects the powers, preferences or rights of the Series A Convertible Preferred Stock and such holders would have been entitled to vote on any matters required by law.

At any time after February 11, 2014, upon 30 days written notice, we would have had the right to redeem the outstanding shares of Series A Convertible Preferred Stock at a price equal to the Series A Purchase Price, plus all accrued and unpaid dividends thereon. The redemption price could have also been paid in two annual installments.

On or about September 30, 2011, 46 of the 47 holders of both the outstanding Series A Convertible Preferred Stock and Series A 30-Month Common Stock Purchase Warrants, issued in the Series A Convertible Preferred Stock financing completed by the Company in February 2009, voluntarily converted an aggregate of 247,187 shares of Series A Preferred Stock into 2,471,870 shares of the Company's Common Stock.

15-Month Series A Preferred Stock Warrants and 30-Month Common Stock Warrants

Subject to the terms and conditions of the applicable warrants, the Company had the right to call for cancellation of the 15-Month Series A Preferred Stock Warrants if the volume weighted average price of our common stock on the NASDAQ Capital Market (or other primary trading market or exchange on which our common stock is then traded) equaled or exceeded \$1.75 for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days. Pursuant to these provisions, on March 30, 2010, the Company called all of the 15-Month Series A Preferred Stock Warrants resulting in the issuance of 104,155 shares of Series A Convertible Preferred Stock.

The 15-Month Series A Preferred Stock Warrants had an exercise price equal to \$12.50 per share, with a term expiring on May 12, 2010. Each of the 15-Month Series A Preferred Stock Warrants were exercised in connection with the warrant call and, therefore, there are no longer any 15-Month Series A Preferred Stock Warrants outstanding. The amended 30-Month Common Stock Warrants have an exercise price equal to \$0.90 per share, with a term expiring on August 12, 2016 (August 12, 2015 for Affiliates). Unless waived under certain circumstances by the holder of the 30-Month Common Stock Warrant, such holder's 30-Month Common Stock Warrants may not be exercised if upon such exercise the holder's beneficial ownership would exceed certain thresholds. Each of the 15-Month Series

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A Preferred Stock Warrants permitted, and each of the 30-Month Common Stock Warrants permit the holder to conduct a “cashless exercise” at any time the holder of the warrant is an “affiliate” as defined in the applicable Securities Purchase Agreement of the Company.

The warrant exercise price and/or number of shares issuable upon exercise of the applicable warrant were subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the warrants. The 30-Month Common Stock Warrants that were amended as described above, no longer provide for adjustment to the exercise price and/or number of shares issuable upon exercise of the applicable warrant for stock dividends..

Subject to the terms and conditions of the 30-Month Common Stock Warrant, the Company has the right to call for cancellation the 30-Month Common Stock Warrant if the volume weighted average price for our common stock on the NASDAQ Capital Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds \$2.80 for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

The warrants granted in connection with the Series A Units were valued based on a Black-Scholes pricing model at the date of the grant. The 15-Month Series A Preferred Stock Warrants and 30-Month Common Stock Warrants were granted with an exercise price of \$1.25 per share of Series A Convertible Preferred Stock and \$2.00 per share of common stock, respectively. The 15-Month Series A Preferred Stock Warrants and 30-Month Common Stock Warrants vested immediately. The relative fair value of the warrants was calculated to be \$882,253 and was recorded to stockholders’ equity in the first quarter of 2009. The assumptions for the Black-Scholes pricing model are represented in the table below with the 15-month Series A Preferred Stock Warrants being reflected on a per share common stock equivalent basis.

Assumptions	Preferred	Common
Expected life (in months)	15.0	30.0
Expected volatility	142.0%	109.0%
Risk-free interest rate	0.875%	1.375%
Exercise price	\$ 1.25	\$ 2.00
Stock price	\$ 0.90	\$ 0.90
Fair value per warrant	\$ 0.45	\$ 0.41

Series B Convertible Preferred Stock

On November 18, 2009, we sold an aggregate of 62,039 units (the “Series B Units”) for a purchase price of \$18.80 per unit (the “Series B Purchase Price”), resulting in gross proceeds to us of \$1,166,333. This was the first tranche of a \$2.5 million private placement. The second tranche closed on March 18, 2010 for the sale of 26,672 Series B Units with gross proceeds of \$501,434 (collectively the two tranches are referred to as the “Series B Private Placement”). Each Series B Unit consisted of (i) one share of Series B Convertible Preferred Stock convertible into 10 shares of our common stock and (ii) a warrant to purchase one share of Series B Convertible Preferred Stock at an exercise price equal to \$23.80 per share for warrants issued in November 2009 and at an exercise price of \$28.80 for warrants issued in March 2010, in each case with a term expiring on August 11, 2011 (the “Series B Warrant”).

In connection with the Series B Private Placements, we paid a finder’s fee of \$100,478, plus warrants to purchase 5,344 shares of Series B Convertible Preferred Stock at \$28.80 per share, expiring August 11, 2012.

On or about August 10, 2011, holders of the Series B Warrants to purchase 887,110 shares of Common Stock entered into an amendment to the Series B Warrants which extended the expiration date of the Series B Warrants to August 11, 2012 and provided that they would be issuable for the equivalent number of shares of Common Stock at a proportionate exercise price. On or about September 30, 2011, Series B Warrants to purchase 887,110 shares of Common Stock were further amended to reduce the exercise price from \$2.38 to \$1.43, for Series B Warrants issued in November 2009, and from \$2.88 to \$1.75, for Series B Warrants issued in March 2010 and to extend the term of the Series B Warrants until August 12, 2016 and, with respect to affiliates, until August 12, 2015. All of the Series B Warrants are no longer exercisable for shares of Preferred Stock.

The proceeds from the sale of each Series B Unit were allocated between the Series B Convertible Preferred Stock and the Series B Warrant based on the relative estimated fair value of each security. The estimated fair value of the Series B Warrants was determined using the Black-Scholes formula, resulting in an allocation of the gross proceeds of \$592,685 to the total warrants issued for both



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tranches. The allocation of the gross proceeds to the Series B Convertible Preferred Stock was \$1,075,083 for both tranches. In accordance with the provisions of ASC 470-20, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$294,838 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the Series B Convertible Preferred Stock and Series B Warrants issued in both tranches. The \$294,838 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series B Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock issuable upon conversion of the Series B Convertible Preferred Stock on the date of the respective closing from the fair market value of the Series B Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series B Convertible Preferred Stock and Series B Warrants.

On or about September 30, 2011, all of the outstanding shares of Series B Convertible Preferred Stock were voluntarily converted into shares of Common Stock.

Each share of Series B Convertible Preferred Stock received a cumulative dividend at the rate of 5% per annum of the Series B Purchase Price, payable semi-annually on June 30 and December 31, commencing on December 31, 2009 (with the first payment being pro-rated based on the number of days occurring between the date of issuance and December 31, 2009). The Company was permitted to pay dividends in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series B Convertible Preferred Stock were also entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our Company, the holders of Series B Convertible Preferred Stock would have been paid out of the assets of the Company available for distribution to our stockholders before any payment was paid to the holders of common stock, an amount per share equal to the Series B Purchase Price, plus accrued and unpaid dividends. The Series B Convertible Preferred Stock would have been treated on an equivalent basis with the holders of the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock with respect to payments made in connection with a liquidation. The Board approved the method of payment in the form of common stock for the dividends payable with respect to December 31, 2009 and the June 30, 2010 (to the holders of Series B Convertible Preferred Stock issued in November 2009). The Board approved the method of payment in the form of cash for the dividends payable with respect to June 30, 2010 (to the holders of Series B Convertible Preferred Stock issued in March 2010), December 31, 2010 and for all dividends accrued through September 30, 2011.

Each share of Series B Convertible Preferred Stock was convertible into 10 shares of common stock at any time at the option of the holder, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Series B Conversion Ratio"). Each share of Series B Convertible Preferred Stock would have been automatically converted into shares of common stock at the Series B Conversion Ratio then in effect: (i) if, after 12 months from the closing of the applicable tranche of the Series B Private Placement, the common stock traded on the NASDAQ Capital Market (or other primary trading market or exchange on which the common stock was then traded) at a price equal \$5.64 for 20 out of 30 consecutive trading days with average daily trading volume of at least 10,000 shares or (ii) upon a registered public offering by the Company at a per share price equal to \$5.64, with aggregate gross proceeds to the Company of not less than \$10 million. Unless waived under certain circumstances by the holder of the Series B Convertible Preferred Stock, such holder's Series B Convertible Preferred Stock could not have been converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

The holders of Series B Convertible Preferred Stock were not entitled to vote on any matters presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), except that the holders of Series B Convertible Preferred Stock would have been entitled to vote separately as a class on any matters that would amend, alter or repeal any provision of our Restated Articles of Organization, as amended, in a manner that adversely affects the powers, preferences or rights of the Series B Convertible Preferred Stock and such holders would have also been entitled to vote on any matters required by law.

At any time after February 12, 2014, upon 30 days written notice, we would have had the right to redeem the outstanding shares of Series B Convertible Preferred Stock at a price equal to the Series B Purchase Price, plus all accrued and unpaid dividends thereon. The redemption price would have been payable in two annual installments. The Series B Convertible Preferred Stock, the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock would have been treated on an equivalent basis with respect to payments made in connection with redemption.

#### Series B Warrants

The Series B Warrants issued in November 2009 originally had an exercise price equal to \$23.80 and the Series B Warrants issued in March 2010 originally had an exercise price equal to \$28.80, in each case with a term expiring on August 11, 2011. The Series B Warrants currently have an exercise price of \$1.43 for Series B Warrants issued in November 2009, and \$1.75 for Series B Warrants issued in March 2010, in each case with a term expiring on August 12, 2016 and, with respect to affiliates, August 12, 2015. The

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Series B Warrants are currently exercisable for shares of Common Stock. The Series B Warrants permit the holder to conduct a “cashless exercise” at any time the holder of the Series B Warrant is an “affiliate” (as defined in the Securities Purchase Agreement) of the Company.

The Series B Warrant exercise price and/or number of shares issuable upon exercise of the Series B Warrant will be subject to adjustment for stock splits or similar capital reorganizations, as set forth in the Series B Warrants, as amended.

Subject to the terms and conditions of the Series B Warrants, the Company has the right to call for cancellation of the Series B Warrants if the volume weighted average price of our common stock on the NASDAQ Capital Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds \$4.70 for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

In connection with the Series B Private Placement on March 18, 2010, we issued warrants to our placement agent to purchase 1,679 shares of Series B Convertible Preferred Stock at \$28.80 per share, expiring August 11, 2012. The Series B Warrants and placement agent warrants were valued based on a Black-Scholes pricing model at the date of the grants. The Series B Warrants and placement agent warrants vested immediately. The relative fair value of the Series B Warrants was calculated to be \$173,060 and was recorded to stockholders’ equity. The assumptions for the Black-Scholes pricing model are represented in the table below for the warrants issued in both tranches reflected on a per share common stock equivalent basis. The assumptions for the placement agent show the range of values for both tranches.

Assumptions	Preferred	Placement Agent
Expected life (in months)	17.0	33.0
Expected volatility	146.4%	125.0%
Risk-free interest rate	1.000%	1.000%
Exercise price	\$ 2.88	\$ 2.88
Fair value per warrant	\$ 0.95	\$ 1.08

15-Month Series A Preferred Stock Warrant Call

On March 30, 2010, the Company called for cancellation any 15-Month Series A Preferred Stock Warrants that remained unexercised as of April 28, 2010. In connection with this warrant call, 15-Month Series A Preferred Stock Warrants to purchase 98,372 shares of Series A Convertible Preferred Stock were exercised at \$12.50 per share, for gross proceeds to the Company of \$1,229,650, before deducting expenses associated with the warrant call notice. 15-Month Series A Preferred Stock Warrants to purchase an additional 10,150 shares of Preferred Stock were exercised on a cashless basis, resulting in the net issuance of 2,883 shares of Series A Convertible Preferred Stock. Pursuant to the terms of the 15-Month Series A Preferred Stock Warrants, upon exercise of such warrants, the holders became entitled to receive an aggregate of 57,390 shares of common stock in payment of dividends on the Series A Convertible Preferred Stock paid on June 30, 2009 and December 31, 2009.

Series C Convertible Preferred Stock

On April 8, 2011 and April 12, 2011, we completed the first tranche of a private placement, pursuant to which we sold an aggregate of 55,048 units for a purchase price of \$15.00 per unit, resulting in gross proceeds to us of \$825,720 (the “Series C Private Placement”). This was the first tranche of the \$6 million Series C Private Placement. In connection with the second tranche, the purchase price was reduced to \$12.50 per unit and we issued an additional 11,011 units to the purchasers who participated in the first tranche, without any additional gross proceeds to us. The second tranche closed on June 20, 2011 for the sale of 22,039 Series C Units for a purchase price of \$12.50 per unit with gross proceeds of \$275,485. Each unit (“Series C Unit”) consists of (i) one share of Series C Convertible Preferred Stock, \$0.01 par value per share (the “Series C Convertible Preferred Stock”) convertible into 10 shares of our Common Stock, (subject to adjustment for stock splits, stock dividends, recapitalization, etc.) and (ii) a three-year warrant to purchase 10 shares of our Common Stock at a per share exercise price equal to the sum of (i) the Common Stock equivalent of the Series C Purchase Price (ii) plus \$0.88 (the “Series C Warrant”). The Series C Warrants will be exercisable until the close of business on the third anniversary of the applicable closing date.

We engaged an investment banker (the “Investment Banker”) to assist with the Series C Private Placement. The Company paid the Investment Banker a cash retainer fee of \$50,000 and issued a warrant to the Investment Banker to purchase 100,000 shares of Common Stock at an exercise price of \$3.00 per share. In connection with the Series C Private Placement, we paid the Investment Banker a fee of (i) approximately \$66,000 cash, (ii) an expense allowance of approximately \$16,500, (iii) a warrant to purchase 61,638

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shares of Common Stock exercisable at a purchase price of \$1.50, and (iv) a warrant to purchase 61,638 shares of Common Stock exercisable at a purchase price of \$2.38.

The proceeds from the sale of each Series C Unit was allocated between the Series C Convertible Preferred Stock and the Series C Warrants based on the relative estimated fair value of each security. The estimated fair value of the Series C Warrants was determined using the Black-Scholes formula, resulting in an allocation of the gross proceeds of \$591,904 to the total warrants issued. The allocation of the gross proceeds to the Series C Convertible Preferred Stock was \$509,303. In accordance with the provisions of ASC 470-20, an additional adjustment between Additional Paid in Capital and Accumulated Deficit of \$181,907 was recorded to reflect an implicit non-cash dividend related to the allocation of proceeds between the stock and warrants issued. The \$181,907 represents the value of the adjustment to additional paid in capital related to the beneficial conversion feature of the Series C Convertible Preferred Stock. The value adjustment was calculated by subtracting the fair market value of the underlying common stock on April 7 and June 20 issuable upon conversion of the Series C Convertible Preferred Stock from the fair market value of the Series C Convertible Preferred Stock as determined when the Company performed a fair market value allocation of the proceeds to the Series C Convertible Preferred Stock and warrants. The warrants are recorded as a liability. See Note 3 "Warrant Derivative Liability".

Each share of Series C Convertible Preferred Stock will receive a cumulative dividend at the rate of 5% per annum of the respective tranche purchase price, payable semi-annually on June 30 and December 31, commencing on June 30, 2011 (with the first payment being pro-rated based on the number of days occurring between the date of issuance and June 30, 2011). Dividends may be paid in cash or in shares of common stock at our option, subject to certain conditions. The shares of Series C Convertible Preferred Stock also are entitled to a liquidation preference, such that in the event of any voluntary or involuntary liquidation, dissolution or winding up of our Company, the holders of Series C Convertible Preferred Stock will be paid out of the assets of the Company available for distribution to our stockholders before any payment shall be paid to the holders of common stock, an amount per share equal to the Series C Purchase Price, plus accrued and unpaid dividends. Prior to the conversion of all of the outstanding shares of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, the Series C Convertible Preferred Stock will be treated on an equivalent basis with the Series A Convertible Preferred Stock and Series C Preferred Stock with respect to payments made in connection with a liquidation. The dividend payable with respect to June 30, 2011 is payable in cash.

Each share of Series C Convertible Preferred Stock is convertible into 10 shares of common stock at any time at the option of the holder, subject to adjustment for stock splits, stock dividends, recapitalizations and similar transactions (the "Series C Conversion Ratio"). Each share of Series C Convertible Preferred Stock will automatically be converted into shares of common stock at the Series C Conversion Ratio then in effect: (i) if, after 12 months from the closing of the applicable tranche of the Series C Private Placement, the common stock trades on the NASDAQ Capital Market (or other primary trading market or exchange on which the common stock is then traded) at a price equal to three-tenths of the Series C Unit purchase price for 20 out of 30 consecutive trading days with average daily trading volume of at least 10,000 shares or (ii) upon a registered public offering by the Company at a per share price equal to at least three-tenths of the Series C Unit purchase price, with aggregate gross proceeds to the Company of not less than \$10 million. Unless waived under certain circumstances by the holder of the Series C Convertible Preferred Stock, such holder's Series C Convertible Preferred Stock may not be converted if upon such conversion the holder's beneficial ownership would exceed certain thresholds.

The holders of Series C Convertible Preferred Stock are not entitled to vote on any matters presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), except that the holders of Series C Convertible Preferred Stock may vote separately as a class on any matters that would amend, alter or repeal any provision of our Restated Articles of Organization, as amended, in a manner that adversely affects the powers, preferences or rights of the Series C Convertible Preferred Stock and such holders may also vote on any matters required by law.

If we consummate an equity financing (other than the exercise of employee stock options under the Company's stock option plans, the Series C Private Placement or the exercise of any Series C Warrants, or the exercise or conversion of any currently outstanding Common Stock equivalents) within twelve months after the initial Closing and the gross proceeds to the Company from the sale of the Units are less than \$4 million, then each holder of Series C Units may exchange all, but not less than all, of his, her or its Series C Units for the equity securities issued in such next financing and shall become subject to the terms and conditions of such next financing; provided that the exchange of the purchaser's Series C Units for next financing securities is permitted under the rules and regulations of the NASDAQ Trading Market then in effect. The number of next financing securities into which a purchaser's Series C Units may be exchanged shall be determined by dividing (a) the aggregate per unit purchase price at which the Series C Units being exchanged were issued, by (b) the price per next financing security at which such securities were issued in the next financing. The requisite holders of the Series C Units waived such right with respect to the Company's recently completed equity financing.

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At any time after February 12, 2014, upon 30 days written notice, we have the right to redeem the outstanding shares of Series C Convertible Preferred Stock at a price equal to the Series C Unit purchase price, plus all accrued and unpaid dividends thereon. The redemption price may be paid in two annual installments. All holders of Series A, B, and C Convertible Preferred Stock will be treated on an equivalent basis with respect to payments made in connection with redemption.

Series C Warrants

The Series C Warrants have an exercise price equal to \$2.13 with a term expiring on the third anniversary of the deal closing. The Series C Warrants permit the holder to conduct a “cashless exercise” at any time the holder of the Series C Warrant is an “affiliate” (as defined in the Securities Purchase Agreement) of the Company.

The Series C Warrant exercise price and/or number of shares issuable upon exercise of the Series C Warrant will be subject to adjustment for stock dividends, stock splits or similar capital reorganizations, as set forth in the Series C Warrants.

Subject to the terms and conditions of the Series C Warrants, the Company has the right to call for cancellation the Series C Warrants if the volume weighted average price of our common stock on the NASDAQ Capital Market (or other primary trading market or exchange on which our common stock is then traded) equals or exceeds two times the per common share exercise price for either (i) 10 consecutive trading days or (ii) 15 out of 25 consecutive trading days.

Shareholders Rights Plan

On March 3, 2003, our Board of Directors adopted a shareholder rights plan (the “Rights Plan”) and declared a distribution of one Right for each outstanding share of our common stock to shareholders of record at the close of business on March 21, 2003 (the “Rights”). Initially, the Rights will trade automatically with the common stock and separate Right Certificates will not be issued. The Rights Plan is designed to deter coercive or unfair takeover tactics and to ensure that all of our shareholders receive fair and equal treatment in the event of an unsolicited attempt to acquire the Company. The Rights will expire on February 27, 2013 unless earlier redeemed or exchanged. Each Right entitles the registered holder, subject to the terms of a Rights Agreement, as amended, to purchase from the Company one one-thousandth of a share of the Company’s Series A Junior Participating Preferred Stock at a purchase price of \$45.00 per one one-thousandth of a share, subject to adjustment. In general, the Rights will not be exercisable until a subsequent distribution date which will only occur if a person or group acquires beneficial ownership of 15% or more of our common stock or announces a tender or exchange offer that would result in such person or group owning 15% or more of the common stock. With respect to any person or group who currently beneficially owns 15% or more of our common stock, the Rights will not become exercisable unless and until such person or group acquires beneficial ownership of additional shares of common stock.

Subject to certain limited exceptions, if a person or group acquires beneficial ownership of 15% or more of our outstanding common stock or if a current 15% beneficial owner acquires additional shares of common stock, each holder of a Right (other than the 15% holder whose Rights become void once such holder reaches the 15% threshold) will thereafter have a right to purchase, upon payment of the purchase price of the Right, that number of shares of our common stock which at the time of such transaction will have a market value equal to two times the purchase price of the Right. In the event that, at any time after a person or group acquires 15% or more of our common stock, we are acquired in a merger or other business combination transaction or 50% or more of our consolidated assets or earning power are sold, each holder of a Right will thereafter have the right to purchase, upon payment of the purchase price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the purchase price of the Right.

Our Board of Directors may exchange the Rights (other than Rights owned by such person or group which have become void), in whole or in part, at an exchange ratio of one share of common stock per Right (subject to adjustment). At any time prior to the time any person or group acquires 15% or more of our common stock, the Board of Directors may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right.

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.

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As of September 30, 2011, options to acquire 1,340,500 shares were outstanding under the Plan with 399,500 shares available for future grant under the Plan. As of September 30, 2011, options to acquire 163,000 shares are outstanding under the 1999 Non-qualified Stock Option Plan. No additional options may be granted under the 1999 Non-qualified Stock Option Plan.

As of September 30, 2011, 1,569,800 of the 30-Month Common Stock Warrants were outstanding. Series B Warrants to purchase 88,711 shares of Common Stock and 5,344 shares of Series B Convertible Preferred Stock, which includes warrants given to our placement agent, were outstanding. On March 31, 2010, we issued warrants to an investor relations firm to purchase 50,000 shares of our common stock at an exercise price equal to \$3.00 per share, with a term expiring on August 11, 2012, in exchange for consulting services provided to us by such firm.

The following tables summarize information concerning common stock issuable upon the exercise of outstanding stock options and warrants to acquire either common stock or preferred stock convertible into common stock, all on a common stock equivalent basis:

	Stock Options		Warrants		Total Shares	Exercisable
	Shares	Weighted Average price per share	Shares	Weighted Average price per share		
Balance outstanding, 12/31/2009	<u>1,564,500</u>	\$ 2.52	<u>3,806,640</u>	\$ 1.77	<u>5,371,140</u>	4,905,152
Granted	60,000	1.43	404,510	\$ 2.88	464,510	
Exercised	(18,897)	1.07	(1,529,800)	1.25	(1,548,697)	
Expired	-	-	-	-	-	
Forfeited	-	-	-	-	-	
Balance outstanding, 12/31/2010	<u>1,605,603</u>	\$ 2.49	<u>2,681,350</u>	\$ 2.24	<u>4,286,953</u>	4,114,792
Granted	175,000	1.01	1,528,724	1.66	1,751,742	
Exercised	(41,103)	1.07	-	-	(41,103)	
Expired	(146,000)	2.72	-	-	(146,000)	
Forfeited	(90,000)	2.52	-	-	(90,000)	
Balance outstanding, 9/30/2011	<u>1,503,500</u>	\$ 2.34	<u>4,210,074</u>	\$ 1.42	<u>5,713,574</u>	5,546,908

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life	Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Exercise Price
\$ 0.77 - \$ 2.70	738,000	7.5	\$ 1.12	571,334	6.8	\$ 1.14
2.71 - 3.08	299,500	3.4	2.93	299,500	3.4	2.94
3.09 - 3.95	302,000	4.7	3.67	302,000	4.7	3.67
3.96 - 5.93	164,000	5.3	4.27	164,000	5.3	4.27
\$ 0.77 - \$ 5.93	<u>1,503,500</u>	5.9	\$ 2.34	<u>1,336,834</u>	5.4	\$ 2.50

We granted 175,000 employee stock options during the nine months ended September 30, 2011 but we did not grant any during the same period in 2010.

As of September 30, 2011, the total estimated fair value of unvested stock options to be amortized over their remaining vesting period was \$105,863. The non-cash, stock-based compensation expense associated with the vesting of these options is expected to be \$8,273 for the fourth quarter of 2011, \$31,277 in 2012, \$27,385 in 2013 and \$24,050 in 2014. The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2011 is approximately \$20,000.

Convertible Debt

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During the three months ended September 30, 2011, we received loans in the aggregate amount of \$412,000 from five individuals. The loans were made pursuant to Promissory Notes (the "Notes") with a term of six months, which may be extended with mutual consent of the parties. The interest rate under the Notes is 20% per annum. The Notes may be repaid, at the election of the respective lender (i) in cash, (ii) by conversion into that number of securities issued in the next financing completed by the Company having an aggregate purchase price equal to the then outstanding principal amount of the Note, together with any accrued and unpaid interest due at the time of conversion or (iii) conversion into shares of unregistered Common Stock of the Company at a conversion price of \$1.00 per share.

Each of the lenders received warrants to purchase Common Stock as follows:

In connection with a loan received on August 3, 2011, we issued warrants to the lender to purchase 26,315 shares of the Company's Common Stock, at an exercise price of \$0.76 per share, and warrants to purchase 211,765 shares of the Company's Common Stock, at an exercise price of \$0.85 per share, both sets of warrants expire on August 3, 2014.

In connection with a loan received on September 7, 2011 from Richard T. Schumacher, the Company's Chief Executive Officer, we issued warrants to Mr. Schumacher to purchase 12,048 shares of the Company's Common Stock, at an exercise price of \$0.83 per share, and warrants to purchase 105,882 shares of the Company's Common Stock, at an exercise price of \$0.85 per share, both sets of Warrants expire on September 7, 2014.

In connection with loans received on September 29, 2011, we also issued warrants to the lenders to purchase an aggregate 131,766 shares of the Common Stock, at an exercise price of \$0.85 per share, expiring on September 29, 2014.

ASC 470-20 states that the proceeds from the issuance of debt with detachable stock warrants should be allocated between the debt and warrants on the basis of their relative fair market values. The relative fair value of the warrants was calculated to be \$155,035 and was recorded to debt discount against the total debt balance of \$412,000. The debt discount will be amortized to interest expense over the six-month term of these loans. The assumptions for the Black-Scholes pricing model are represented in the table below for the warrants issued with these loans reflected on a per share common stock equivalent basis.

Assumptions	August 3, 2011	August 3, 2011	September 7, 2011	September 7, 2011	September 29, 2011
Expected life (in months)	36.0	36.0	36.0	36.0	36.0
Expected volatility	97.5%	97.5%	97.5%	97.5%	97.5%
Risk-free interest rate	2.000%	2.000%	2.000%	2.000%	2.000%
Exercise price	\$ 0.76	\$ 0.85	\$ 0.83	\$ 0.85	\$ 0.85
Fair value per warrant	\$ 0.47	\$ 0.52	\$ 0.51	\$ 0.52	\$ 0.52

Amendment No. 1 to 30-Month Common Stock Warrants and Series B Warrants

The Company has calculated the fair value of the 30-Month Common Stock Warrants and Series B Preferred Stock Purchase Warrant amended on or about August 10, 2011, as described above using the Black-Scholes model with the below assumptions.

Assumptions	Series A	Series B Nov 09 tranche	Series B Mar 10 tranche
Expected life (in months)	12	12	12
Expected volatility	85.59%	85.59%	85.59%
Risk-free interest rate	0.12%	0.12%	0.12%
Exercise price	\$ 2.00	\$ 2.38	\$ 2.88
Fair value per warrant	\$ 0.08	\$ 0.06	\$ 0.04

The Company has determined that, in each case, the fair value of the amended warrants actually decreased as compared to the fair value of the original warrants as a result of the applicable modifications, as further described below:

A total of 1,569,800 original 30-Month Common Stock Warrants with a maturity date of August 11, 2011 were amended to provide for a maturity date of August 12, 2012; and a total of 887,110 original Series B Warrants with a maturity date of August 11, 2011 were amended to provide for a maturity date of August 12, 2012.

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As a result:

the aggregate fair value of the 1,569,800 original 30-Month Common Stock Warrants with a maturity date of August 11, 2011, amended to provide for a maturity date of August 12, 2012, decreased from \$641,452 to \$125,050; and the aggregate fair value of the 887,110 original Series B Warrants with a maturity date of August 11, 2011, amended to provide for a maturity date of August 12, 2012, decreased from \$752,978 to \$46,103.

We did not record any incremental value for these modifications because of the decrease in the fair value.

Amendment No. 2 to 30-Month Common Stock Warrants and Series B Warrants

The Company has calculated the fair value of the 30-Month Common Stock Warrants and Series B Preferred Stock Purchase Warrant amended on or about September 30, 2011, as described above, using the Black-Scholes model with the below assumptions.

Assumptions	Series A	Series A (Affiliates)	Series B Nov 09 tranche	Series B Mar 10 tranche
Expected life (in months)	48	36	48	48
Expected volatility	111.19%	120.47%	111.19%	111.19%
Risk-free interest rate	1.00%	1.00%	1.00%	1.00%
Exercise price	\$ 0.90	\$ 0.90	\$ 1.43	\$ 1.75
Fair value per warrant	\$ 0.65	\$ 0.62	\$ 0.59	\$ 0.56

The Company has determined that, in the case of the Series B Warrant Amendment, the fair value of the amended warrants actually decreased as compared to the fair value of the original warrants as a result of the applicable modifications, as further described below:

A total of 1,513,180 original 30-Month Common Stock Warrants with a maturity date of August 12, 2012 were amended to provide for a maturity date of August 12, 2016 (August 12, 2015 for Affiliates) and a reduced price of \$0.90; and a total of 887,110 original Series B Warrants with a maturity date of August 12, 2012 were amended to provide for a maturity date of August 12, 2016 (August 12, 2015 for Affiliates) and a reduced exercise price of \$1.43 for Series B Warrants issued in November 2009, and \$1.75 for Series B Warrants issued in March 2010.

As a result:

the aggregate fair value of the 1,513,180 original 30-Month Common Stock Warrants with a maturity date of August 12, 2012, amended to provide for a maturity date of August 12, 2016 (August 12, 2015 for Affiliates) and a reduced price of \$0.90, increased from \$641,452 to \$967,047; and the aggregate fair value of the 887,110 original Series B Warrants with a maturity date of August 12, 2012, amended to provide for a maturity date of August 12, 2016 (August 12, 2015 for Affiliates) and a reduced exercise price of \$1.43 for Series B Warrants issued in November 2009, and \$1.75 for Series B Warrants issued in March 2010, decreased from \$752,978 to \$516,767.

We recorded an increased incremental value of \$325,595 for the 30-Month Common Stock Warrant modifications but not for the Series B Warrant modifications because of the decrease in the fair value.

**6) Subsequent Events**

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

Series D Registered Direct Offering

On November 10, 2011, we completed a registered direct offering, pursuant to which we sold an aggregate of 843 units for a purchase price of \$1,000 per unit, resulting in gross proceeds to us of \$843,000. Each unit consists of (i) one share of Series D Convertible Preferred Stock, \$0.01 par value per share convertible into 1,538.46 shares of our Common Stock (with the Company having the discretion either to round up to the next whole number of shares of common stock or to pay cash instead of any fraction of a

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share of common stock; no fractional shares of common stock will be issued) (subject to adjustment for stock splits, stock dividends, recapitalization, etc.) and (ii) a five-year warrant to purchase approximately 614 shares of our Common Stock (which number of shares is equal to 39.9% of the purchase price of the units divided by \$0.65) at a per share exercise price of \$0.81 and will be exercisable beginning on or after May 10, 2012 through and including the close of business on May 10, 2017. The financial statements as of September 30, 2011 do not include any adjustments related to this offering except for financing costs incurred during the three-months ended September 30, 2011.

*Unregistered Stock Issuances*

On October 28, 2011, we issued 32,941 shares of Common Stock to holders of Series A Convertible Preferred Stock in payment of dividends accrued through September 30, 2011.

On November 1, 2011, we issued 15,000 shares of Common Stock to an investor relations firm for payment of services rendered.

We issued 47,955 warrants to purchase shares of our Common Stock in exchange for conversion of Series A Convertible Preferred Stock held by individuals who did not also hold warrants. These warrants have an exercise price of \$0.90 and a maturity date of August 12, 2016.

*Investment Banking Agreement*

On November 4, 2011, the Company entered into an agreement with a former placement agent, pursuant to which the Company and the placement agent released each other of their respective obligations under a prior investment banking agreement. In connection with this agreement, the Company issued the placement agent a promissory note with an original principal amount of \$150,000 with a maturity date of May 4, 2012. The promissory note is interest free, provided that, if the Company does not repay the principal amount on or before the maturity date, it will accrue interest at a rate of 18% per annum.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS*

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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 ability to raise additional equity or debt financing on acceptable terms, if at all;
- our belief that we have sufficient liquidity to finance normal operations until February 2012;
- our need to take additional cost reduction measures, cease operations or sell our operating assets, if we are unable to obtain sufficient additional financing in the future;
- the amount of cash necessary to operate our business;
- the amount of grant revenue and anticipated uses of grant revenue in future periods;
- our plans and expectations with respect to our pressure cycling technology (PCT) operations;
- the potential applications for PCT in, and the demonstration of proof-of-concept of PCT for, sample preparation, pathogen inactivation, protein purification, control of chemical reactions and immunodiagnostics, among others;
- the expected expenses, benefits and results from our research and development efforts;
- the expected benefits and results from our collaboration efforts;
- the expected increase in number of PCT units installed and the increase in revenues from sale of consumable products and extended service contracts;
- the potential size of the market for biological sample preparation;
- general economic conditions; and
- the anticipated future financial performance and business operations of our Company.

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 Report. 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 Report 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 or to conform to actual results. We qualify all of our forward-looking statements by these cautionary statements. You should read this section in combination with the section entitled Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2010 included in our Annual Report on Form 10-K for the year ended December 31, 2010, as amended.

## 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, 2010, as well as those set forth below and discussed elsewhere in this Report. The risks described in our Annual Report on Form 10-K and this Report are not the only risks that we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on us. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

***Our common stock may be delisted from The NASDAQ Capital Market, which could negatively impact the price of our common stock, liquidity for our stockholders and our ability to access the capital markets.***

Our common stock is listed on The NASDAQ Capital Market. On October 4, 2011, the Company received written notification from the Listing Qualifications Department of the NASDAQ Stock Market LLC, or NASDAQ, stating that our common stock is subject to delisting from The NASDAQ Capital Market, pending the Company's opportunity to request a hearing before a NASDAQ Listing Qualifications Panel. We had previously received letters from NASDAQ on April 13, 2011, advising us that our stockholders' equity for the year ended December 31, 2010 had fallen below the minimum requirement for continued inclusion on The NASDAQ Capital Market and on August 15, 2011, advising us that, for the previous 30 consecutive business days, the bid price of the Company's common stock had closed below the minimum \$1.00 per share requirement for continued inclusion on The NASDAQ Capital Market. We have requested a hearing before the NASDAQ Listing Qualifications Panel, which is scheduled for November 17, 2011. The request for a hearing stays any action with respect to the determination letter and allows us to continue listing our shares of common stock on The NASDAQ Capital Market until a decision is rendered by The NASDAQ Listing Qualifications Panel subsequent to the hearing.

If NASDAQ does not accept our plan to bring the Company into compliance with the stockholders' equity listing standard, if we fail to come into compliance with the minimum \$1.00 per share requirement for continued inclusion on The NASDAQ Capital Market or if we fail to comply with any other listing standards applicable to issuers listed on The NASDAQ Capital Market, our common stock will be delisted from The NASDAQ Capital Market.

Upon delisting from The NASDAQ Capital Market, our common stock would be traded on the over-the-counter bulletin board, or OTC. OTC transactions involve risks in addition to those associated with transactions in securities traded on The NASDAQ Capital Market. Many OTC stocks trade less frequently and in smaller volumes than NASDAQ listed stocks. Accordingly, delisting from The NASDAQ Capital Market could adversely affect the trading price of our common stock, significantly limit the liquidity of our common stock and impair our ability to raise additional funds.

## **OVERVIEW**

We have developed instruments which utilize our unique and proprietary pressure cycling technology ("PCT"), which we sell, along with associated consumables to life sciences companies, academic institutions and government agencies. There are currently 131 customers who have purchased or currently lease our enabling platform. PCT represents the core of our products and has enabled our customers to perform biological sample preparation and enzymatic digestion in unique ways that were previously unavailable. The enabling capability of our PCT products allows us to continue to increase the number of applications for our platform beyond current uses, which include genomic and proteomic sample preparation, pathogen inactivation, the control of chemical and enzymatic reactions, immunodiagnostics, and protein purification. Additionally, we are pursuing business opportunities to leverage our products and PCT into new markets beyond our current focus of PCT-enhanced enzymatic digestion products designed specifically for the mass spectrometry marketplace, as well as sample preparation products for biomarker discovery, soil and plant biology, forensics, histology, and counter-bioterror applications.

PCT uses internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels at controlled temperatures to rapidly and repeatedly control the interactions of bio-molecules. Our instrument, the Barocycler®, and our internally developed consumables product line, which includes PULSE (Pressure Used to Lyse Samples for Extraction) Tubes as well as application specific kits (which include consumable products and reagents) together make up the PCT Sample Preparation System.

We have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of September 30, 2011, we had working capital resources of approximately \$195,000, which excludes the warrant liability of \$284,437. Based on our current projections, including equity financing subsequent to September 30, 2011, we believe our current cash resources will enable us to extend our cash resources until February 2012.

We will need substantial additional capital to fund our operations in periods beyond February 2012. If we are able to obtain additional capital or otherwise increase our revenues, we may increase spending in specific research and development applications and engineering projects and may hire additional sales personnel or invest in targeted marketing programs. In the event that we are unable to obtain financing on acceptable terms, or at all, we will likely be required to cease our operations, pursue a plan to sell our operating assets, or otherwise modify our business strategy, which could materially harm our future business prospects.

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

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

Since we began operations as Pressure BioSciences in February 2005, we have installed 203 Barocycler instruments, of which 131 have been purchased or are currently being leased by our customers. Our customers include researchers at academic laboratories, government agencies, biotechnology, pharmaceutical and other life sciences companies in the United States, and distribution partners in foreign countries.

	2005	2006	2007	2008	2009	2010	YTD 2011
Installed units	5	8	20	41	54	50	25

## **RESULTS OF OPERATIONS**

### **Three Months Ended September 30, 2011 and 2010**

#### *Total Revenue*

We recognized total revenue of \$280,422 for the three months ended September 30, 2011 as compared to \$372,103 during the three months ended September 30, 2010. This decrease in total revenue was primarily due to a decrease in grant related activities.

*PCT Products, Services, Other.* Revenue from the sale of PCT products and services was \$217,734 for the three months ended September 30, 2011 as compared to \$194,730 during the three months ended September 30, 2010. We recorded eight PCT

installations for the three months ended September 30, 2011 compared to fifteen for the same period in 2010. Revenue from the sale of PCT consumables stayed steady at approximately \$21,000 for both periods ended September 30, 2011 and 2010.

Although we had fewer PCT installations in the current period, the previous period's revenue was lower due to deeply discounted units sold to a distributor and sold as demonstration units offset by more active lease arrangements in the prior period. We generated new revenue in the current period from our SG3 Shredder product launch.

Our domestic and foreign installations of PCT Systems are set forth in the table below:

	<b>For the Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Domestic	8	14
International	-	1
<b>Total PCT System Installations</b>	<b>8</b>	<b>15</b>

*Grant Revenue.* During the three months ended September 30, 2011 and 2010, we recorded \$62,688 and \$177,373 of grant revenue, respectively. We started work this quarter on a Phase I grant received from the National Institutes of Health, or NIH, and a Phase II grant received from the Department of Defense, or DOD. During the prior quarter, we spent significant time with our collaborative partner on the SBIR Phase II grant previously granted to us.

#### *Cost of PCT Products and Services*

The cost of PCT products and services was \$93,610 for the three months ended September 30, 2011 compared to \$86,285 for the comparable period in 2010. Our gross profit margin on PCT products and services increased slightly to 54% for the three months ended September 30, 2011, as compared to 53% for the prior period. The increase in the cost of PCT products and improved profit margin are from the sales of our SG3 Shredder kits launched last quarter that have a higher profit margin.

#### *Research and Development*

Research and development expenditures were \$248,188 during the three months ended September 30, 2011 as compared to \$382,054 in the same period in 2010. This decrease resulted primarily from the full vesting of a significant number of employee stock options and discontinued research by a collaborative partner funded by us through the SBIR Phase II grant, which was completed in 2010.

Research and development expense recognized in the three months ended September 30, 2011 and 2010 included \$11,609 and \$15,293 of non-cash, stock-based compensation expense, respectively. We granted stock options this quarter.

#### *Selling and Marketing*

Selling and marketing expenses decreased to \$193,975 for the three months ended September 30, 2011 from \$313,412 for the comparable period in 2010. This decrease was primarily due to the full vesting of a significant number of employee stock options, reduced marketing activities and employee cost savings from the departure of our Vice President of Sales.

During the three months ended September 30, 2011 and 2010, selling and marketing expense included \$6,452 and \$21,613 of non-cash, stock-based compensation expense, respectively. This was primarily due to a significant number of employee options becoming fully vested in the first half of 2011 with no further expensing offset by stock options granted in the current quarter.

#### *General and Administrative*

General and administrative costs totaled \$490,460 for the three months ended September 30, 2011 as compared to \$432,939 for the comparable period in 2010. This increase was primarily from additional audit and legal work associated with corporate transactions.

During the three months ended September 30, 2011 and 2010, general and administrative expense included \$14,459 and \$45,467 of non-cash, stock-based compensation expense, respectively. This decrease was primarily due to a significant number of employee

options becoming fully vested in the first half of 2011 with no further expensing offset by stock options awarded in the current quarter. However, a new board member received 25,000 stock options this quarter as part of his compensation as a board member.

#### *Operating Loss*

Our operating loss was \$745,811 for the three months ended September 30, 2011 as compared to \$842,587 for the comparable period in 2010. The decreased operating loss resulted primarily for the reasons noted above.

#### *Interest (expense) income*

We recorded \$8,013 of interest expense for the three months ended September 30, 2011 related to our short-term loans. We also amortized approximately \$31,000 of imputed interest against the debt discount on these short-term loans.

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

During the three months ended September 30, 2011, we recorded non-cash income of \$223,446 for warrant revaluation expense in our statements of operations due to a decrease in the fair value of the warrant liability related to the Series C Private Placement. This decrease in fair value was primarily due to a decrease in the price per share of our common stock on September 30, 2011 as compared to June 20, 2011 or April 8, 2011, depending on the tranche.

#### *Income Taxes*

In the three months ended September 30, 2010, we recorded a tax benefit of \$244,479 related to a tax credit, payable in cash, enacted in 2010 for qualifying research expenditures deducted in 2009. This tax credit was paid in November 2010, and reduced our tax loss carry forward for federal income tax purposes by \$488,958. There was no tax consequence in the current quarter of 2011.

#### *Net Loss*

During the three months ended September 30, 2011, we recorded a net loss applicable to common shareholders of \$953,846 or \$(0.15) per share, as compared to \$692,875 or \$(0.26) per share in the three months ended September 30, 2010. We recorded a deemed dividend of \$325,595 in connection with warrant modifications done in the current quarter.

### **Nine Months Ended September 30, 2011 and 2010**

#### *Total Revenue*

We recognized total revenue of \$651,751 for the nine months ended September 30, 2011 as compared to \$1,065,020 during the nine months ended September 30, 2010. This decrease in total revenue was due to a lower number of PCT instrument installations during the nine month period ended September 30, 2011 versus the same period in 2010. The primary reasons for the decrease in Barocyler installations and the reduction in grant revenue are described below.

*PCT Products, Services, Other.* Revenue from the sale of PCT products and services was \$589,063 for the nine months ended September 30, 2011 as compared to \$667,262 during the nine months ended September 30, 2010. We recorded twenty-five PCT installations for the nine months ended September 30, 2011 compared to thirty-seven for the same period in 2010. Revenue from the sale of PCT consumables was approximately \$60,000 for the nine months ended September 30, 2011 compared to approximately \$81,000 for the same period in 2010.

The decrease in PCT instrument installations and consumables was due to several factors. Our Vice President of Sales resigned in early May 2011. His responsibilities included direct sales in the New England territory and supervision of the three Sales Directors. Sales and marketing activities were further limited during the past two quarters of 2011 compared to the same period in 2010 as a result of our limited financial resources. The decrease in PCT consumable sales was due for the reasons just stated, and also in part to significant purchases of PULSE Tubes (both ND and Shredder) by certain clients during 2010 whose studies ended prior to the second quarter of 2011.

Our domestic and foreign installations of PCT Systems are set forth in the table below:

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Domestic	22	36
International	3	1
Total PCT System Installations	<u>25</u>	<u>37</u>

*Grant Revenue.* During the nine months ended September 30, 2011 and 2010, we recorded \$62,688 and \$397,758 of grant revenue, respectively. We started work this quarter on a Phase I grant received from the NIH and a Phase II grant received from the DOD. During the prior period, we spent significant time with our collaborative partner on the SBIR Phase II grant previously granted to us.

*Cost of PCT Products and Services*

The cost of PCT products and services was \$250,835 for the nine months ended September 30, 2011 compared to \$300,360 for the comparable period in 2010. The decrease corresponds to the decrease in PCT installations and sales of accessories and consumables. Our gross profit margin on PCT products and services stayed steady at 53% for the nine months ended September 30, 2011, as compared to the prior period.

*Research and Development*

Research and development expenditures were \$730,962 during the nine months ended September 30, 2011 as compared to \$980,338 in the same period in 2010. This decrease resulted primarily from the completion of employee stock option vesting and discontinued research by a collaborative partner funded by us through the SBIR Phase II grant, which was completed in 2010.

Research and development expense recognized in the nine months ended September 30, 2011 and 2010 included \$36,951 and \$56,200 of non-cash, stock-based compensation expense, respectively. A significant number of employee options became fully vested in the first quarter of 2011 with no further expensing offset by employee stock options granted in the current third quarter.

*Selling and Marketing*

Selling and marketing expenses decreased to \$740,358 for the nine months ended September 30, 2011 from \$890,265 for the comparable period in 2010. This decrease was primarily due to full vesting of a significant number of employee stock options, reduced marketing activities and employee cost savings relating to the departure of our Vice President of Sales.

During the nine months ended September 30, 2011 and 2010, selling and marketing expense included \$40,192 and \$56,155 of non-cash, stock-based compensation expense, respectively. A significant number of employee options became fully vested in the first quarter of 2011 with no further expensing offset by employee stock options granted in the current third quarter.

*General and Administrative*

General and administrative costs totaled \$1,351,303 for the nine months ended September 30, 2011 as compared to \$1,445,742 for the comparable period in 2010. This decrease was primarily due to significant investor relations and patent related activities incurred in the previous period not continuing in the current period in an effort to reduce operating costs.

During the nine months ended September 30, 2011 and 2010, general and administrative expense included \$36,546 and \$115,121 of non-cash, stock-based compensation expense, respectively. A significant number of employee options became fully vested in the first quarter of 2011 with no further expensing offset by employee stock options granted in the current third quarter.

*Operating Loss*

Our operating loss was \$2,421,707 for the nine months ended September 30, 2011 as compared to \$2,551,685 for the comparable period in 2010. The decreased operating loss resulted primarily for the reasons noted above.

*Interest (expense) income*

We recorded \$8,013 of interest expense for the nine months ended September 30, 2011 related to our short-term loans. We also amortized approximately \$31,000 of imputed interest against the debt discount on these short-term loans.

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

During the nine months ended September 30, 2011, we recorded non-cash income of \$307,467 for warrant revaluation expense in our statements of operations due to a decrease in the fair value of the warrant liability related to the Series C Private Placement. This decrease in fair value was primarily due to a decrease in the price per share of our common stock on September 30, 2011 as compared to June 20, 2011 or April 8, 2011, depending on the tranche.

#### *Income Taxes*

In the nine months ended September 30, 2010, we recorded a tax benefit of \$244,479 related to a tax credit, payable in cash, enacted in 2010 for qualifying research expenditures deducted in 2009. This tax credit was paid in November 2010, and reduced our tax loss carry forward for federal income tax purposes by \$488,958. There was no tax consequence in the nine months ended September 30, 2011.

#### *Net Loss*

During the nine months ended September 30, 2011, we recorded a net loss to common shareholders of \$3,092,843 or \$(0.50) per share, as compared to \$2,714,413 or \$(1.01) per share in the nine months ended September 30, 2010. We recorded \$304,823 and \$154,389 in the nine months ended September 30, 2011 and 2010, respectively, relating to the beneficial conversion calculation associated with the intrinsic value of the Series C Convertible Preferred Stock and Series B Convertible Preferred Stock. We paid approximately \$42,000 in dividends to holders of the Series B Convertible Preferred Stock in the nine months ended September 30, 2011. We also recorded a deemed dividend of \$325,595 in connection with warrant modifications done in the current quarter.

### **LIQUIDITY AND FINANCIAL CONDITION**

As of September 30, 2011, our working capital position, excluding the warrant derivative liability of \$284,437, was \$195,054. As of December 31, 2010, our working capital position was \$1,443,765.

On March 18, 2010, we sold an aggregate of 26,672 units (the "Series B Units") for a purchase price of \$18.80 per unit, resulting in net proceeds to us of \$465,867. An initial tranche of Series B Units was sold in November 2009 with net proceeds of \$1,078,885. Each Series B Unit issued in the March 2010 tranche consisted of (i) one share of Series B Convertible Preferred Stock convertible into 10 shares of our common stock and (ii) a warrant to purchase one share of Series B Convertible Preferred Stock at an exercise price equal to \$28.80 per share with a term expiring on August 11, 2011 ("Series B Warrant"). See Note 5 of the notes to consolidated financial statements for a further description of the Series B Convertible Preferred Stock and Series B Warrants issued in the Series B Private Placement.

In connection with the warrant call notice issued on March 30, 2010, 15 Month Series A Preferred Stock Warrants to purchase 98,372 shares of Series A Convertible Preferred Stock were exercised at \$12.50 per share, for net proceeds to the Company of \$1,421,275 in March and April 2010, before deducting expenses associated with the warrant call notice. Warrants to purchase an additional 10,150 shares of Series A Preferred Stock were exercised on a cashless basis, resulting in the net issuance of 2,883 shares of Preferred Stock.

On April 8, 2011 and April 12, 2011, we completed the first tranche of a private placement, pursuant to which we sold an aggregate of 55,048 units for a purchase price of \$15.00 per unit, resulting in gross proceeds to us of \$825,720. This was the first tranche of the \$6 million Series C Private Placement. In connection with the second tranche, the purchase price was reduced to \$12.50 per unit and we issued an additional 11,011 units to the purchasers who participated in the first tranche, without any additional gross proceeds to us. The second tranche closed on June 20, 2011 for the sale of 22,039 Series C Units for a purchase price of \$12.50 per unit with gross proceeds of \$275,485. Each unit consists of (i) one share of Series C Convertible Preferred Stock, \$0.01 par value per share (the "Series C Convertible Preferred Stock") convertible into 10 shares of our Common Stock, (subject to adjustment for stock splits, stock dividends, recapitalization, etc.) and (ii) a three-year warrant to purchase 10 shares of our Common Stock at a per share exercise price equal to the sum of (i) the Common Stock equivalent of the Series C Purchase Price (ii) plus \$0.88. The Series C Warrants will be exercisable until the close of business on the third anniversary of the applicable closing date.

During the three months ended September 30, 2011, we received loans in the aggregate amount of \$412,000 from five individuals. The loans have a term of six months, which may be extended with mutual consent of the parties. The interest rate under the promissory notes is 20% per annum.

Our accounts payable were \$658,977 as of September 30, 2011, as compared to \$234,568 as of December 31, 2011. This increase is due to our efforts to conserve cash for use in operating the business.

Based on our current projections, including equity financing completed subsequent to September 30, 2011, we believe our current cash resources will enable us to extend our cash resources until February 2012.

We will need substantial additional capital to fund our operations in periods beyond February 2012. 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.

Net cash used in operations for the nine months ended September 30, 2011 was \$1,529,950 as compared to \$2,461,421 for the nine months ended September 30, 2010. The prior period included accrued legal fees incurred in connection with the Series B financing and the release of our inventory deposits when Barocyclers were built offset by Barocycler sales.

Net cash used in investing activities for the nine months ended September 30, 2011 was \$0 as compared to \$86,949 for the same period in the prior year. We purchased tooling and Barocycler equipment for lease arrangements in the prior year.

Net cash provided by financing activities for the nine months ended September 30, 2011 was \$1,274,071 as compared to \$1,887,142 for the same period in the prior year. We raised approximately \$1.1 million in gross proceeds this year from Series C Private Placement offset by approximately \$378,000 in offering costs excluding the issuance of additional warrants to the placement agent. We also received six-month loans of \$412,000 in the current year. During the same period in the prior year, we closed the second tranche of the Series B Private Placement on March 18, 2010 with the sale of 26,672 Series B Units with net proceeds of \$465,867. Warrants were exercised for a total of \$1,421,275 in gross proceeds to the Company in the nine months ended September 30, 2010.

## **COMMITMENTS AND CONTINGENCIES**

### *Operating Leases*

Our corporate offices are currently located at 14 Norfolk Avenue, South Easton, Massachusetts 02375. In November 2007, we signed a lease agreement commencing in February 2008 pursuant to which we lease approximately 5,500 square feet of office space. We renewed the lease until August 31, 2011 with no increase in the monthly payment and we are negotiating an extension of the lease. We currently pay approximately \$6,500 per month on a month-to-month basis for the use of these facilities.

Effective January 1, 2010, we entered into a three-year lease agreement with the University of Massachusetts, pursuant to which we are leasing laboratory and office space on campus at the university. We are paying \$5,000 per month for the use of these facilities.

### *Royalty Commitments*

In 1996, we acquired our initial equity interest in BioSeq, Inc., which at the time was developing our original pressure cycling technology. BioSeq, Inc. acquired its pressure cycling technology from BioMolecular Assays, Inc. ("BMA") under a technology transfer and patent assignment agreement. In 1998, we purchased all of the remaining outstanding capital stock of BioSeq, Inc., and at such time, the technology transfer and patent assignment agreement was amended to require us to pay BMA a 5% royalty on our sales of products or services that incorporate or utilize the original pressure cycling technology that BioSeq, Inc. acquired from BMA. We are also required to pay BMA 5% of the proceeds from any sale, transfer or license of all or any portion of the original pressure cycling technology. These payment obligations terminate in 2016. During the three months ended September 30, 2011 and 2010, we incurred \$7,350 and \$7,752, respectively, in royalty expense associated with our obligation to BMA. During the nine months ended September 30, 2011 and 2010, we incurred \$18,962 and \$17,281, respectively, in royalty expense associated with our obligation to BMA.

In connection with our acquisition of BioSeq, Inc., we licensed certain limited rights to the original pressure cycling technology back to BMA. This license is non-exclusive and limits the use of the original pressure cycling technology by BMA solely for molecular applications in scientific research and development and in scientific plant research and development. BMA is required to pay us a royalty equal to 20% of any license or other fees and royalties, but not including research support and similar payments, it receives in connection with any sale, assignment, license or other transfer of any rights granted to BMA under the license. BMA must pay us these royalties until the expiration of the patents held by BioSeq, Inc. in 1998, which we anticipate will be in 2016. We have not received any royalty payments from BMA under this license.



### *Battelle Memorial Institute*

In December 2008, we entered into an exclusive patent license agreement with the Battelle Memorial Institute ("Battelle"). The licensed technology is described in the patent application filed by Battelle on July 31, 2008 (US serial number 12/183,219). This application includes subject matter related to a method and a system for improving the analysis of protein samples, including through an automated system utilizing pressure and a pre-selected agent to obtain a digested sample in a significantly shorter period of time than current methods, while maintaining the integrity of the sample throughout the preparatory process. Pursuant to the terms of the agreement we paid Battelle a non-refundable initial fee. In addition to royalty payments on net sales on "licensed products", we are obligated to make minimum royalty payments of \$5,000 for each year that we retain the rights outlined in the patent license agreement and we are required to have our first commercial sale of the licensed products within one year following the issuance of the patent covered by the licensed technology.

### *Target Discovery Inc.*

In March 2010, we signed a strategic product licensing, manufacturing, co-marketing, and collaborative research and development agreement with Target Discovery Inc. ("TDI"). Under the terms of the agreement, we have been licensed by TDI to manufacture and sell a highly innovative line of chemicals used in the preparation of tissues for scientific analysis ("TDI reagents"). The TDI reagents were designed for use in combination with our pressure cycling technology. The companies believe that the combination of PCT and the TDI reagents can fill an existing need in life science research for an automated method for rapid extraction and recovery of intact, functional proteins associated with cell membranes in tissue samples.

### *Severance and Change of Control Agreements*

Each of our executive officers is entitled to receive a severance payment if terminated by the Company without cause. The severance benefits would include a payment in an amount equal to one year of each executive officer's annualized base salary compensation plus accrued paid time off. Additionally, each executive officer will be entitled to receive medical and dental insurance coverage for one year following the date of termination. The total commitment related to these agreements in the aggregate is approximately \$0.9 million, of which \$83,500 is accrued as personal time off within accrued compensation.

Each of our executive officers, other than Mr. Richard T. Schumacher, our President and Chief Executive Officer, is entitled to receive a change of control payment in an amount equal to one year of such executive officer's annualized base salary compensation, accrued paid time off, and medical and dental coverage, in the event of a change of control of the Company. In the case of Mr. Schumacher, this payment would be equal to two years of annualized base salary compensation, accrued paid time off, and two years of medical and dental coverage. The total commitment related to these agreements in the aggregate is approximately \$1.2 million, of which \$83,500 is accrued as personal time off within accrued compensation.

### *Investment Banking Agreement*

On November 4, 2011, the Company entered into an agreement with a former placement agent, pursuant to which the Company and the placement agent released each other of their respective obligations under a prior investment banking agreement. In connection with this agreement, the Company issued the placement agent a promissory note with an original principal amount of \$150,000 with a maturity date of May 4, 2012. The promissory note is interest free, provided that, if the Company does not repay the principal amount on or before the maturity date, it will accrue interest at a rate of 18% per annum.

## **RECENT ACCOUNTING STANDARDS**

The Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update, or "ASU", No. 2009-13, Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements ("ASU 2009-13"). ASU 2009-13 amends existing revenue guidance related to revenue arrangements with multiple deliverables to allow the use of companies' estimated selling prices as the value for deliverable elements under certain circumstances and to eliminate the use of the residual method for allocation of deliverable elements. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. The Company has evaluated the impact this standard will have on its financial statements.

In January 2010, the FASB issued ASU 2010-06 "Fair Value Measurements and Disclosures" ("ASU 2010-06"). ASU 2010-06 updated section ASC 820-10, Fair Value Measurements and Disclosures, to require a greater level of disaggregated information and more robust disclosure about valuation techniques and inputs to fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measures which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company determined that there is no significant impact to its operations from this guidance because the Company invests in assets considered to be in Level 1 status.

#### **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 any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2011, 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 are effective at the reasonable assurance level.

There have been no changes in our internal controls over financial reporting that occurred during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 5. OTHER INFORMATION**

#### Unregistered Stock Issuances

On October 28, 2011, we issued 32,941 shares of Common Stock to holders of Series A Convertible Preferred Stock in payment of dividends accrued through September 30, 2011.

On November 1, 2011, we issued 15,000 shares of Common Stock to an investor relations firm for payment of services rendered.

We issued 47,955 warrants to purchase shares of our Common Stock in exchange for conversion of Series A Convertible Preferred Stock held by individuals who did not also hold warrants. These warrants have an exercise price of \$0.90 and a maturity date of August 12, 2016.

#### Investment Banking Agreement

On November 4, 2011, the Company entered into an agreement with a former placement agent, pursuant to which the Company and the placement agent released each other of their respective obligations under a prior investment banking agreement. In connection with this agreement, the Company issued the placement agent a promissory note with an original principal amount of \$150,000 with a maturity date of May 4, 2012. The promissory note is interest free, provided that, if the Company does not repay the principal amount on or before the maturity date, it will accrue interest at a rate of 18% per annum.

## ITEM 6. EXHIBITS

### Exhibits

- 4.1\* Form of Warrant Issued to Lenders
- 4.2\* Form of Promissory Note Issued to Lenders
- 4.3 Amendment No. 1 to Series B Convertible Preferred Stock Purchase Warrant (incorporated by reference to the Current Report on Form 8-K filed by the Company on August 11, 2011)
- 4.4 Amendment No. 1 to 30-Month Common Stock Purchase Warrant (incorporated by reference to the Current Report on Form 8-K filed by the Company on August 11, 2011)
- 4.5 Amendment No. 2 to Series B Convertible Preferred Stock Purchase Warrant (incorporated by reference to the Current Report on Form 8-K filed by the Company on October 6, 2011)
- 4.6 Amendment No. 2 to 30-Month Common Stock Purchase Warrant (incorporated by reference to the Current Report on Form 8-K filed by the Company on October 6, 2011).
- 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
- 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
- 101\* The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to Financial Statements, tagged as blocks of text

\* Filed herewith.

**SIGNATURES**

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

**PRESSURE BIOSCIENCES, INC.**

Date: November 14, 2011

By: /s/Richard T. Schumacher

Richard T. Schumacher  
President & Chief Executive Officer  
(Principal Executive Officer, Principal Financial Officer and  
Principal Accounting Officer)

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

## COMMON STOCK PURCHASE WARRANT

PRESSURE BIOSCIENCES, INC.

COMMON WARRANT NO.

Warrant Shares: Issue Date:

THIS COMMON STOCK PURCHASE WARRANT (the “*Warrant*”) certifies that, for value received, (the “*Holder*”) is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after XXXXXX (the “*Initial Exercise Date*”) and on or prior to the close of business on , or sooner in accordance with Section 3(b) or Section 5(b) (the “*Termination Date*”) but not thereafter, to subscribe for and purchase from Pressure BioSciences Inc., a Massachusetts corporation (the “*Company*”), up to shares (the “*Warrant Shares*”) of Common Stock, par value \$0.01 per share (the “*Common Stock*”), of the Company. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

1. Definitions. In addition to the terms defined elsewhere in this Warrant, for all purposes of this Warrant, the following terms have the meanings set forth in this Section 1.

“*Business Day*” means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States, or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“*Person*” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof), or other entity of any kind.

“*Proceeding*” means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“*Securities Act*” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“*Trading Day*” means a day on which the Common Stock is traded on a Trading Market.

“*Trading Market*” means the NASDAQ Capital Market or if the NASDAQ Capital Market is not the primary market on which the Common Stock is then traded, such other primary market or exchange on which the Common Stock is listed or quoted for trading on the date in question.

“*Transfer Agent*” means Computershare Trust Company, with a mailing address of 350 Indiana Street, Suite 800, Golden, CO 80401 and a telephone number of (303) 262-0600, or such other successor transfer agent designated by the Company.

2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed Notice of Exercise (in the form annexed hereto, the “*Notice of Exercise*”) (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company), this Warrant, and payment of the aggregate Exercise Price of the Warrant Shares thereby purchased by wire transfer or cashier’s check drawn on a United States bank.

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be \$0.XX, subject to adjustment hereunder (the “*Exercise Price*”).

c) Cashless Exercise. If the Company has exercised its right to call the Warrant pursuant to Section 5 hereof, this Warrant may also be exercised by means of a “cashless exercise” with respect to all Warrant Shares, in which case the Holder shall be entitled to receive that number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the VWAP on the Trading Day immediately preceding the date of such election (with the date of such election being deemed to be the date on which the Company receives the Holder’s duly executed Notice of Exercise and this Warrant);

(B) = the Exercise Price, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

As used herein, “*VWAP*” means, for any date, the price determined by the first of the following clauses that applies: (a) the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg Financial L.P. (based on a Trading Day from 9:30 a.m. Eastern Time to 4:02 p.m. Eastern Time); (b) the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board; (c) the most recent bid price per share of the Common Stock as reported in the “Pink Sheets” published by Pink Sheets, LLC (or a similar organization or agency succeeding to its functions of reporting prices); or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holder and reasonably acceptable to the Company.

d) Mechanics of Exercise.

i. Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon such exercise, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

ii. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the Transfer Agent to the Holder by crediting the account of the Holder’s prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission (“*DWAC*”) system if the Company is a participant in such system, and otherwise by the Company or by the Transfer Agent by physical delivery to the address specified by the Holder in the Notice of Exercise promptly, or if required by law, within three (3) Trading Days, from the delivery to the Company of the duly executed Notice of Exercise, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above (or an exercise pursuant to Section 2(c) (“*Warrant Share Delivery Date*”). This Warrant shall be deemed to have been exercised, the Warrant Shares shall be deemed to have been issued, and the Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares of Common Stock for all purposes, on the date the Company receives the duly executed Notice of Exercise, Warrant and Exercise Price (unless such exercise is pursuant to Section 2(c) in which case receipt of the Exercise Price is not applicable), and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(v) prior to the issuance of such shares, have been paid.

iii. Delivery of New Warrant Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares if prior to the Termination Date, deliver to Holder a new Warrant evidencing the right of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; *provided, however*, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

3. Certain Events.

a) Adjustments for Stock Splits. If the Company, at any time while this Warrant is outstanding: (A) subdivides outstanding shares of Common Stock into a larger number of shares, (B) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (C) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

b) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company (or a subsidiary of the Company and the Company issues shares of its capital stock pursuant to such

merger or consolidation) with or into another Person in which the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation do not continue to represent, or are not converted into or exchanged for shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of the surviving or resulting entity, or if the surviving or resulting entity is a wholly owned subsidiary of another entity immediately following such merger or consolidation, the parent entity of such surviving or resulting entity, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of the Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock, is effectively converted into or exchanged for other securities, cash or property (each "**Fundamental Transaction**"), then, the Holder may exercise this Warrant subject to and conditioned upon the completion or closing of such Fundamental Transaction, and upon such completion or closing of such Fundamental Transaction, this Warrant shall terminate and shall no longer be exercisable.

c) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

d) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or any Fundamental Transaction; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register (as defined below) of the Company, at least 20 calendar days (or such lesser number of days if 20 calendar days is not reasonably practicable) prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice if the Holder is allowed to determine in its discretion that the Company must deem the Warrant exercised immediately prior to and contingent upon the occurrence of the events described in (A), (B), (C), (D) or (E) above. The Holder is entitled to exercise this Warrant during the 20-day period commencing on the date of such notice of the record or effective date of the event triggering such notice.

4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof, this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other warrants of like tenor upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "**Warrant Register**"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary reasonably satisfactory to the Company.



d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer, that (i) the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, and (ii) the Holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company, and (iii) the transferee be an “accredited investor” as defined in Rule 501(a) promulgated under the Securities Act or a “qualified institutional buyer” as defined in Rule 144A(a) promulgated under the Securities Act.

Certificates evidencing any Warrant Shares will contain the following legend or such other legend as may be reasonably appropriate under the Securities Act for so long as the Company determines that such legend is reasonably appropriate under the Securities Act:

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

5. Right to Call.

a) Call Conditions. Anytime after six months following the Issue Date, the Company may call for cancellation this Warrant if the VWAP equals or exceeds three times (3x) the Exercise Price for either (i) ten (10) consecutive Trading Days or (ii) fifteen (15) out of twenty-five (25) consecutive Trading Days.

b) Call Procedure. To exercise this call right, the Company shall deliver to the Holder a written notice (a “*Call Notice*”) indicating therein that this Warrant must be exercised by a date specified in the Call Notice, which date shall be at least twelve (15) Business Days after the date of the Call Notice (such date, the “*Call Date*”). If the Holder does not exercise this Warrant by the Call Date, then at 5:30 p.m., New York City time on the Call Date, this Warrant shall terminate and shall no longer be exercisable.

6. Miscellaneous.

a) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof as set forth in Section 2(d)(ii).

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant, including as the Warrant is adjusted pursuant to Section 3 above. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such commercially reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its articles of organization or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. Each party agrees that all legal Proceedings concerning the interpretations, enforcement, and defense of the transactions contemplated by this Warrant (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees, or agents) shall be commenced exclusively in the state and federal courts sitting in the Commonwealth of Massachusetts. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of Boston for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of this Warrant), and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such Proceeding is improper or is an inconvenient venue for such Proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. The parties hereby waive all rights to a trial by jury. If either party shall commence a Proceeding to enforce any provisions of the Warrant, then the prevailing party in such Proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

f) Governing Law. This Warrant shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Massachusetts, without regard to the principles of conflicts of law thereof.

g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

i) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile or e-mail at the facsimile number or e-mail address set forth on the signature pages attached hereto prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile or e-mail at the facsimile number or e-mail address set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second Trading Day following the date of mailing, if sent by internationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

j) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

k) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

l) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

m) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

**PRESSURE BIOSCIENCES, INC.**

/s/ Richard T Schumacher

Richard T. Schumacher  
President and Chief Executive Officer

Address for notice to the Company:

Pressure BioSciences, Inc.  
14 Norfolk Avenue  
S. Easton, MA 02375  
Facsimile: (508) 580-1829  
Attention: Richard T. Schumacher

Address for notice to the Holder:

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NOTICE OF EXERCISE

TO: PRESSURE BIOSCIENCES INC.

(1) The undersigned hereby elects to purchase \_\_\_\_\_ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the Exercise Price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

(3)  in lawful money of the United States; or

[if permitted] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in Section 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in Section 2(c).

(4) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

\_\_\_\_\_

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(4) Accredited Investor. The undersigned is an “accredited investor” as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity:

Address of Investing Entity:

Signature of \_\_\_\_\_ Authorized Signatory of \_\_\_\_\_ Investing Entity:

Name of Authorized Signatory:

Title of Authorized Signatory:

Date:

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**ASSIGNMENT FORM**

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to exercise the Warrant.)

FOR VALUE RECEIVED, [\_\_\_\_\_] all of or [\_\_\_\_\_] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

\_\_\_\_\_ whose address is

\_\_\_\_\_.

\_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

Holder's Signature: \_\_\_\_\_

Holder's Address: \_\_\_\_\_

\_\_\_\_\_

Signature Guaranteed: \_\_\_\_\_

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

**CONVERTIBLE DEBENTURE (“NOTE”)**

Principal amount: \$ XXXXXX

Date:

FOR VALUE RECEIVED, Pressure BioSciences, Inc. (Borrower) promises to pay (Lender) the sum of XXXXXXX, plus interest at the yearly rate of 20% on the unpaid balance, as specified below. This NOTE is for six months, and is to be repaid by the Borrower by.

In connection with this loan, the Borrower also issued to the Lender one warrant to purchase shares of the Company’s Common Stock, \$0.01 par value, at an **exercise price of \$0.XX per share**, the exercise price is the greater of the closing price of PBIO or the consolidated NASDAQ Bid on the day this NOTE was consummated (and after 4pm on the date hereof), and expiring at midnight on XXXXXX. The Warrants have a three (3) year life, contain no economic anti-dilution, and can’t be exercised for six months and one day from the date of this NOTE.

This NOTE may be prepaid by the Borrower in whole or in part prior to XXXXXX without premium or penalty, provided that the Borrower gives the Lender seven (7) days prior notice. The Borrower is required to pay at least three months of interest, regardless of earlier repayment of the NOTE. The payment may be deferred by mutual consent. If the Borrower fails to make payment when due or fails to comply with any other term of this NOTE, the loan will be considered in default.

The NOTE may be paid at the option of the Lender by:

- a) Cash,
- b) Conversion into that number of securities issued in the next financing completed by the Borrower having an aggregate purchase price equal to the then outstanding principal amount of the NOTE, plus any accrued and unpaid interest due at the time of conversion. If the Company enters into an equity placement prior to the expiration of this NOTE, or prior to the full repayment of this NOTE, whichever is sooner, the Lender may exchange their NOTE (including accrued interest) for the securities issued in the subsequent equity placement on a dollar for dollar basis, and shall become subject to the terms and conditions of such subsequent equity placement (provided that such exchange is permitted under NASDAQ and SEC rules and regulations then in effect, and permits the Company to remain NASDAQ compliant).
- c) Conversion into 200,000 shares of non-registered Common Stock of the Company, at \$1.00 per share. This price represents the greater of the closing price or consolidated NASDAQ Bid of PBIO on the day this NOTE was consummated (and after 4pm on the date hereof), PLUS \$0.15 for the value of the Warrant.

**Borrower**

Address for Notice:

By: \_\_\_\_\_  
Name: Richard T. Schumacher  
Title: President and Chief Executive Officer

14 Norfolk Avenue  
Easton, MA 02375  
Facsimile: (508) 230-1829  
Attention: Richard T. Schumacher

**Lender**

**Signature:** \_\_\_\_\_

**Address:**

**Name:** \_\_\_\_\_

\_\_\_\_\_

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard T. Schumacher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pressure BioSciences, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2011

*/s/ Richard T. Schumacher*  
Richard T. Schumacher  
President & Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

In connection with the Quarterly Report on Form 10-Q of Pressure BioSciences, Inc., a Massachusetts corporation (the "Company") for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard T. Schumacher, President and Chief Executive Officer of the Company, do hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) that:

- (1) The Report of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2011

By: /s/Richard T. Schumacher

Richard T. Schumacher  
President & Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Pressure BioSciences, Inc. and will be retained by Pressure BioSciences, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.