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

FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1998, 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 000-21615 .

BOSTON BIOMEDICA, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS	04-2652826
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

375 WEST STREET, WEST BRIDGEWATER, MASSACHUSETTS	02379-1040
(Address of Principal Executive Offices)	(zip code)

Registrant's telephone number, including area code (508) 580-1900

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock, par value $.01 per share

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated be reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant at March 26, 1999 was $10,151,102. The aggregate market value was computed by reference to the closing price as of that date on NASDAQ.

The number of shares outstanding of the Registrant's only class of common stock as of March 26, 1999 was 4,717,822.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 1998 annual meeting, are incorporated by reference into Part III of this Report, and portions of the Registrant's Registration Statement on Form S-1 (Registration No. 333-10759) are incorporated by reference into Part IV of this Report.

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PART I

ITEM 1. BUSINESS

The Company is a worldwide provider of proprietary quality control products for use with in vitro diagnostic test kits ("test kits") for the detection, analysis and monitoring of infectious diseases, including AIDS, Hepatitis and Lyme Disease. These products are used to develop test kits, to permit the monitoring of laboratory equipment and personnel, and to help ensure the accuracy of test results. The Company's products are derived from human plasma and serum using proprietary manufacturing processes. The Company believes its Quality Control Panel products are viewed as the current industry standard for the independent assessment of the performance of HIV and Hepatitis test kits. The Company also manufactures diagnostic test kit components, laboratory instruments, and provides specialty laboratory services, including clinical trials. It also provides contract instrument development and related repairs at its service center in Garden Grove, CA. The Company's customers include test kit manufacturers, regulatory agencies and end-users of test kits such as blood banks, hospital laboratories and clinical reference laboratories. Currently the Company's products are used in connection with the detection of more than 15 infectious diseases, and its specialty laboratory services are used in connection with the detection of over 100 such diseases.

The Company's strategy is to leverage its scientific capabilities in microbiology, immunology, virology, and molecular biology to (i) capitalize on the emerging end-user market, (ii) develop new products and services, (iii) enhance technical leadership, (iv) capitalize on complementary business operations, and (v) pursue strategic acquisitions and alliances.

Industry Overview

Infectious Disease Test Kits and Testing Methods. Test kits contain in one compact package all of the materials necessary to run a test for an infectious disease. These include the disposable diagnostic components, instructions, and reaction mixing vessels (generally 96-well plates or test tubes) which are coated with the relevant infectious disease antigens, antibodies or other materials. To perform the test, either a technician or a specially designed instrument typically mixes the solutions from the test kit with human blood specimens in a specific sequence according to the test kit instructions. The mixture must then "incubate" for up to 18 hours, during which time a series of biochemical reactions trigger signals (including color, light and radioactive count) which indicate the presence or absence and amount of specific markers of the particular disease in the specimen.

Test kits generally employ one of three methods for infectious disease testing: microbiology, immunology or molecular biology. Traditional microbiology tests use a growth medium that enables an organism, if present, to replicate and be detected visually. Immunology tests detect the antigen or antibody, which is an indicator (marker) of the pathogen (e.g., virus, bacterium, fungus or parasite). Molecular diagnostic methods, such as the polymerase chain reaction ("PCR"), test for the presence of nucleic acids (DNA or RNA) which are specific to a particular pathogen.

Most infectious disease tests currently use microbiological or immunological methods. However, molecular diagnostic methods are increasingly being used in research and clinical laboratories worldwide. The Company believes that the advent of molecular diagnostic methods will complement rather than diminish the need to test by microbiological and immunological procedures, because different test methods reveal different information about a disease state. The Company anticipates that as new test methods become more widespread,

they will account for a larger portion of the Company's business.

Quality Control for In Vitro Diagnostic Test Kits. Customers employ quality control products in order to develop and use test kits (both infectious and non-infectious). Quality control products help ensure that test kits detect the correct analyte (specificity), detect it the same way every time (reproducibility or precision), and detect it at the appropriate levels (sensitivity). The major element of this quality control process is the continuous evaluation of test kits by the testing of carefully characterized samples that resemble the donor or patient samples routinely used with the test. Quality

control is used in both the infectious and non-infectious disease markets, although currently it is not as prevalent among end-users of infectious disease test kits.

The market for quality control products consists of three main customer segments: (i) manufacturers of test kits, (ii) regulatory agencies that oversee the manufacture and use of test kits and (iii) end-users of test kits, such as hospitals, clinical reference laboratories and blood banks.

Company Products and Services

Overview

The Company offers two broad product classes used in in vitro diagnostics ("IVD"): "Diagnostic Products" consisting of Quality Control Panels, Accurun(R) Run Controls and Diagnostic Components, all used in connection with infectious disease testing, and "Laboratory Instruments". Diagnostic Products are used throughout the entire test kit life cycle, from initial research and development, through the regulatory approval process and test kit production, to training, troubleshooting and routine use by end-users. The Company's Quality Control Panels, which combine human blood specimens with comprehensive quantitative data useful for comparative analysis, help ensure that test kits detect the correct analyte (specificity), detect it the same way every time (reproducibility), and detect it at the appropriate levels (sensitivity). The Company's Accurun(R) Run Controls enable end-users of test kits to confirm the validity of results by monitoring test performance, thereby minimizing false negative test results and improving error detection. In addition, the Company provides Diagnostic Components, which are custom processed human plasma and serum products, to test kit manufacturers.

Through its wholly owned subsidiary, BBI Source Scientific, Inc., the Company designs, manufactures and markets Laboratory Instruments used in hospitals, clinics, and research, environmental and food testing laboratories. Utilizing a common hardware technology platform, these instruments are used in connection with the performance of an IVD test, including reading the test result.

The Company's specialty clinical laboratory services include both routine and sophisticated infectious disease testing in microbiology, immunology and molecular biology. The Company seeks to focus its specialty laboratory services in advanced areas of infectious disease testing, and provides contract research and clinical trials for the United States government and for domestic and foreign test kit manufacturers.

Diagnostic Products

The Company manufactures its Diagnostic Products from human plasma and serum which are obtained from nonprofit and commercial blood centers, primarily in the United States. The Company has acquired and developed an inventory of approximately 50,000 individual blood units and specimens (with volumes ranging from 1 ml to 800 ml) which provides most of the raw material for its products. Within the Diagnostic Products class are two groups: Quality Control Products (Panels and Accurun(R) Run Controls) and Diagnostic Components.

Quality Control Panels

Quality Control Panels consist of blood products characterized by the presence or absence of specific disease markers and a Data Sheet containing comprehensive quantitative data useful for comparative analysis. These Quality Control Panels are designed for measuring overall test kit performance and laboratory proficiency, as well as for training laboratory professionals. The Company's Data Sheets, containing comprehensive quantitative data useful for comparative analysis, are an integral part of its Quality Control Panels. These Data Sheets are created as the result of extensive testing of proposed panel components in both the Company's laboratories and at major testing laboratories on behalf of the Company in the United States and Europe, including national public health laboratories, research and clinical laboratories and regulatory agencies. These laboratories are selected based on their expertise in performing the appropriate tests on a large scale in an actual clinical setting; this testing process provides the Company's customers with the benefit that the

Quality Control Panels they purchase from the Company have undergone rigorous testing in actual clinical settings. In addition, the Company provides information on its Data Sheets on the reactivity of panel components in all FDA licensed test kits and all leading European test kits for the target pathogen, as well as for all other appropriate markers of this pathogen. For example, the Company's HIV panel Data Sheets include anti-HIV by IFA, ELISA and western blot; HIV antigen by ELISA; and HIV RNA by several molecular diagnostic procedures. The Company's Data Sheets require significant time and scientific expertise to prepare. The following table describes the types of Quality Control Panel products currently offered by the Company.

Quality Control Panels

<TABLE>
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Product Line	Description	Use	Customers
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Seroconversion Panels	Plasma samples collected from a single individual over a specific time period showing conversion from negative to positive for markers of an infectious disease.	Compare the clinical sensitivity of competing manufacturers' test kits, enabling the user to assess the sensitivity of a test in detecting a developing antigen/antibody.	Test kit manufacturers and regulators.
Performance Panels	A set of 10 to 50 serum and plasma samples collected from many different individuals and characterized for the presence or absence of a particular disease marker.	Determine test kit performance against all expected levels of reactivities in the evaluation of new, modified and improved test methods.	Test kit manufacturers and regulators.
Sensitivity Panels	Precise dilutions of human plasma or serum human plasma or serum containing a known amount of an infectious disease marker as calibrated against international standards.	Evaluate the low-end analytical sensitivity of a test kit.	Test kit manufacturers
Qualification Panels	Dilutions of human plasma or serum manifesting a	Demonstrate the consistent	Clinical reference laboratories, blood

	full range of reactivities in test kits for a specific marker.	lot-to-lot performance of test kits, troubleshoot problems, evaluate proficiency, and train laboratory technicians.	banks, and hospital laboratories
OEM Panels	Custom-designed Qualification Panels for regulators and test kit manufacturers for distribution to customers or for internal use.	Train laboratory personnel on new test kits or equipment.	Custom designed with test kit manufacturers and regulators as an end-user product or for internal use.

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The Company first introduced Quality Control Panels in 1987. The Company currently offers a broad range of Quality Control Panels that address a variety of needs of manufacturers and regulators of test kits as well as blood banks, hospitals, clinical laboratories and other end-users. Prices for the Company's quality control seroconversion, performance and sensitivity panels range from $450 to $2,000 each, and its qualification and OEM panels range from $100 to $200 per panel.

Seroconversion and Performance Panels are comprised of unique and rare plasma specimens obtained from individuals during the short period of time when the markers for a particular disease are converting from negative to positive. As a result, the quantity of any such panel is limited, so that the Company must replace these panels as they sell out with another panel comprised of different specimens equally unique and rare. The Company believes that its inventory and relationships with blood centers affords it a competitive advantage in acquiring such plasma for replacement panels and developing new products to meet market demand. There can be no assurance that the Company will be able to continue to obtain such specimens.

Quality Control Panels currently span the immunologic markers for AIDS (i.e., HIV), Hepatitis (A, B and C), Lyme Disease and ToRCH (Toxoplasma, rubella, cytomegalovirus and herpes simplex virus). New introductions this year include Performance Panels for HBsAg, molecular Qualification Panels for HIV, HBV and HCV, and additional Seroconversion Panels for HIV, HBV and HCV.

Accurun(R) Run Controls

End-users of test kits utilize Run Controls to confirm the validity of results by monitoring test performance, thereby minimizing false negative test results and improving error detection. Run controls consist of one or more specimens of known reactivity that are tested together with donor or patient samples in an assay to determine whether the assay is performing within the manufacturer's specifications. Clinical laboratories generally process their patient specimens in a batch processing mode, and typically include 25 to 100 specimens to be tested in each batch (a "run"). Large laboratories may perform several runs per day, while smaller laboratories may perform only a single run each day, or sometimes only several runs per week. A clinical laboratory using a Run Control will place the Run Control product in a testing well or test-tube, normally used for a specimen, and will test it in the same manner that it tests the donor or patient specimens. It will then compare the results generated to an acceptable range, determined by the user, to measure whether the other specimens are being accurately tested. The Run Control result must be within the acceptable range to be considered valid. This is often tracked visually using a Levey-Jennings chart. Depending upon a particular laboratory's quality control practices, it may use several Run Controls on each run or it may simply use a Run Control in a single run at the beginning and end of the day.

The Company's AccuChart(TM) tracking and charting software, used as part of a laboratory's quality assurance program, runs on a PC and is designed to provide the data tracking capability needed to document laboratory performance.

The Company's Accurun(R) family of products is targeted at the emerging market of end-users of infectious disease test kits. The Company believes that it offers the most comprehensive line of Run Controls in the industry, and that its Accurun(R) products, in combination with its Quality Control Panel products, provide an extensive line of products for quality assurance in infectious disease testing. The Company intends to continue to expand its line of Accurun(R) products, thereby providing its customers with the convenience and cost effectiveness of a single supplier for independent run controls.

The Company introduced its first four Accurun(R) Run Control products in the fourth quarter of 1993 and has since developed and released for sale an additional 40 Accurun(R) products, for a total of 44 Run Controls. The majority of these products are available for diagnostic purposes; the others currently are limited to research use. Current Accurun(R) Run Control products range in price from $5 to $60 per milliliter and are described in the following table.

ACCURUN(R) RUN CONTROLS

Product Line	Description of Products	Current Number	Primary Customers
Accurun(R) 1-99	Multi-marker Run Control for immunological tests	6	Blood Banks
Accurun(R) 100-199	Single-marker Run Control for immunological tests	23	Hospitals and clinical reference laboratories
Accurun(R) 200-299	Multi-marker Run Control for molecular tests	2	Research and specialty laboratories
Accurun(R) 300-399	Single-marker Run Control for immunological tests	8	Research and specialty laboratories
Accurun(R) 800-899	Negative Run Control for immunological and molecular tests	4	All laboratories

All of the Company's Accurun(R) Run Controls require either FDA premarket clearance (a 510(k)) or validation studies (if the products are exempt from FDA submission requirements under the FDA Modernization Act of 1997), prior to being marketed for diagnostic use. As of March 1, 1999, a total of 10 products in the Accurun 1(R) line and 16 single analyte Accurun(R) controls have either received 510(k) clearance or have been validated. Two additional Accurun(R) single analyte products have been submitted but have not yet received FDA approval.

Diagnostic Components

Diagnostic Components are the individual materials supplied to infectious disease test kit manufacturers and combined (often after further processing by the manufacturer) with other materials to become the various fluid components of the manufacturer's test kit. The Company supplies Diagnostic Components in four product lines: Normal Human Plasma, Normal Human Serum, Basematrix, and Characterized Disease State Serum and Plasma. Normal Human Plasma and Serum are both the clear liquid portion of blood which contains proteins, antibodies, hormones and other substances, except that the Serum product has had the

clotting factors removed. Basematrix, the Company's proprietary processed serum product that has been chemically converted from plasma, is designed to be a highly-stable, lower cost substitute for most Normal Human Serum and Plasma applications. Characterized Disease State Serum and Plasma are collected from specific blood donors pre-selected because of the presence or absence of a particular disease marker. The Company often customizes its Diagnostic Components by further processing the raw material to meet the specifications of the test kit manufacturer. The Company's Diagnostic Components range in price from $0.25 to $60 per milliliter, with the majority selling between $0.50 and $5 per milliliter.

Laboratory Instruments

In 1997, the Company acquired the business and net assets of Source Scientific, Inc., a laboratory instrument manufacturer in Garden Grove, California. As a result of this acquisition, the Company through its wholly owned subsidiary, BBI Source Scientific, Inc. ("BBI Source"), now has expertise in IVD instruments, adding to its existing capability in IVD quality control products. The Company hopes to capitalize on this common customer base by expanding the products offered by both sales forces. See also Note 2 to the Company's Notes to Consolidated Financial Statements in Item 8 hereunder regarding the Company's purchase of the business and net assets of Source Scientific, Inc.

BBI Source designs, manufactures and markets Laboratory Instruments used in hospitals, clinics, and research, environmental and food testing laboratories. They are generally sold on a private-label or OEM basis for other companies utilizing a common hardware technology platform. The instruments manufactured by the Company use advanced optical detection methods (luminescence, fluorescence, reflectance, photometry), robotics, fluidics, and unique software, which is desired by customer companies reselling the state-of-the-art instrumentation systems to clinical distributors and laboratories worldwide.

The Products currently being offered by BBI Source have been commercialized since 1985, and were primarily developed in conjunction with IVD test kit manufacturers. BBI Source hopes to attract development partners for its newest prototype products. Management believes that products address important market segments in biomedical and clinical diagnostic testing and environmental monitoring and food testing research. The BBI Source product line includes the following:

MicroChem(R) Photometer. A compact, low-cost, photometer designed for immunoassay and general chemistry applications.

ChemStat(R) Automated Photometer. A high-speed, automated photometer with a sample capacity of 95 tubes and a read rate of one sample per second. This product is suited for high-volume processing.

ChemStat(R) Plus Automated Photometer. The ChemStat Plus is a second generation photometer compatible with the EXEC-WASH Washing System that features menu-driven software and optional on-board dispensers.

E/LUMINA(R) Luminescence Analyzer. A flexible luminometer for both "flash" and "glow" luminescence methods, this automated system reads up to 114 samples and reports final results.

E/LUMINA(R) 2E Automated Luminescence Analyzer. This detection system is designed with the same features as the E/LUMINA Luminescence Analyzer that can be used to detect faster "flash" luminescence techniques and adapts to various formats, as well as to liquid phase assays.

EXEC-WASH(R) Washing System. An automated immunoassay washing system that can be quickly configured by the user to wash different solid-phase assay formats by a propriety manifold design. The EXEC-WASH is fully compatible with a variety of other Company products, such as the ChemStat, the ChemStat Plus and the E/LUMINA Luminescence Analyzer.

PlateMate(R) Reader. The Company shipped in 1998 the first PlateMate

Reader units to a potential distributor. PlateMate is a microfluidics well-reading system combining robotics and fluidics. The current design of the PlateMate Reader performs photometric assays in the 400 to 700 nm range for 96 samples at a time and prints out results directly on a built-in printer.

Protocol Design Software System. A development tool for researchers and assay manufacturers, the program operates under Microsoft(R) Windows and serves as the master programing center for EXEC-WASH systems to create fluid handling protocols.

FOCUS(R) Florescence Polarization System. Fluorescence polarization ("FP") is a technology that has dominated the clinical market for therapeutic and abuse drug level testing for many years.

FluoroStat(R) Reader. The FluoroStat is a compact fluorometer that is highly sensitive and provides a broad dynamic range for tube-based fluorometric assays. The instrument was introduced in September 1995 and is currently available for OEM manufacture.

Services

The Company seeks to focus its specialty laboratory services in both the clinical reference laboratory testing and advanced research areas. The Company concentrates its services in those areas of infectious disease testing which are complementary to its quality control and diagnostic products businesses.

Specialty Clinical Laboratory Testing. Through its wholly owned subsidiary, BBI Clinical Laboratories, Inc. the Company operates an independent specialty clinical reference laboratory which performs both routine and sophisticated infectious disease testing in microbiology, immunology and molecular biology, with special emphasis in AIDS, Viral Hepatitis and Lyme Disease. The Company's specialty clinical laboratory combines traditional microbiology, advanced immunology, and current molecular diagnostic techniques, such as PCR, to detect and identify microorganisms, their antigens and related antibodies, and their nucleic acids (i.e., DNA and RNA). Customers include blood banks, physicians, clinics, hospitals and other clinical/research laboratories.

Contract Research. The Company, through its wholly owned subsidiary, BBI Biotech Research Laboratories, Inc. ("BBI Biotech"), offers a variety of contract research services in molecular biology, cell biology and immunology to governmental agencies, diagnostic test kit manufacturers and biomedical researchers. Molecular biology services include DNA sequencing, recombinant DNA support, probe labeling and custom PCR assays. Cell biology and immunology services include sterility testing, virus infectivity assays, cultivations of virus or bacteria from clinical specimens, preparation of viral or bacterial antigens or nucleic acids, and production of antibodies. The Company is currently providing contract research services under several contracts and grants. These services primarily related to infectious diseases, and include the following: assessment of the efficiency of candidate HIV vaccines in a monkey model system; development of a multiplex RT PCR based test for HIV-1, HTLV I/II, HCV, and HBV; DNA sequencing of human genes involved in neurological disorders; plate assays for HIV-1 genotyping; eliciting neutralizing antibodies targeting HIV, and support for a novel approach to an HIV vaccine developed by one of the Company's scientists. In addition, since 1983, BBI Biotech, has provided blood processing and repository services for the National Cancer Institute ("NCI"), also a part of the National Institutes of Health ("NIH"). The repository stores over 2,000,000 specimens and processes or ships up to several thousand specimens per week in support of various NIH cancer and virus research programs. A one year NCI repository contract was signed in February 1997 which includes four one year renewal options exercisable by NCI. The total value of the contract including all options, is $4.8 million. To date all renewal options have been approved by the NCI although there can be no assurance that any subsequent options will be exercised. In 1998, the Company was awarded a six year $2.9 million repository contract (including five one year extension options) with the National Heart, Lung and Blood Institute of the NIH. There can be no assurance that option years will be exercised.

Clinical Trials. The Company conducts clinical trials for domestic and foreign test kit manufacturers. Test kit manufacturers must conduct such trials

to collect data for submission to the United States FDA and other regulatory agencies. By providing this service, the Company is able to maintain close contact with test kit manufacturers and regulators, and is able to evaluate new technologies in various stages of development. The Company believes that the reputation of its laboratory and scientific staff, its large number of Quality Control Panels, and its inventory of characterized serum and plasma specimens assist the Company in marketing its clinical trial services to its customers.

The Company has performed clinical trials for a number of United States and foreign test kit manufacturers seeking to obtain FDA approval for their infectious disease test kits.

Laboratory Instrumentation Services. BBI Source offers design, development and manufacturing services to companies seeking to market biomedical products manufactured under government-approved manufacturing practices. These services range in complexity from consulting to full system development and distribution.

BBI Source also provides after-sales-service. Management believes that after-sales service is a major marketing advantage in many of the Company's markets, since many of the Company's customers do not maintain their own full service departments. Servi-Trak(R), a proprietary software program, is a key element of this after-sales service. The Company's service department is located at BBI Source's facility in Garden Grove, California. A fully functional service center located in Giessen, Germany, is contracted by the Company to provide European service and support.

Drug Screening Program. As a subcontractor for an NIH AIDS grant held by the University of North Carolina at Chapel Hill, the Company has established an anti-HIV drug screening program to test a large number of natural products (largely plant derivatives) to determine whether they inhibit HIV replication in an in vitro assay system. These in vitro assays are also offered as a service to researchers and pharmaceutical companies who wish to test various candidate anti-viral agents for anti-HIV activity.

Research and Development

On September 30, 1998 the Company acquired the remaining common stock outstanding of BioSeq, Inc. that it did not previously own. BioSeq is a development stage company with patent pending technology based on pressure cycling technology ("PCT"). PCT research is focused in two areas: nucleic acid extraction and purification of target pathogens in connection with sample preparation for PCR or other molecular testing; and pathogen inactivation of blood plasma for transfusion. See Note 2 to the Company's Notes to Consolidated Financial Statements in Part 8 hereunder for further transaction details.

In August 1998, the Company hired a Vice President, Biotheraputics to direct its drug discovery and development efforts. In collaboration with Dr. K.H. Lee of the School of Pharmacy, University of North Carolina at Chapel Hill, this segment conducts research relating to compounds, pharmaceutical compositions, therapeutic methods, and vaccine preparation. The Company owns, jointly with UNC, five United States patents related to this drug discovery program. Two additional United States applications and foreign applications for all five of the joint patents are pending.

The Company's research and development effort is focused on the (i) development of new and improved Quality Control Products (Panels and Accurun(R)) for the emerging end-user market, (ii) expansion of its infectious disease testing services using PCR and other amplification assays, (iii) development of PCT for nucleic acid purification and pathogen inactivation, (iv) determining the mechanism of action and performing initial toxicity studies on its lead compounds in the Company's drug discovery program; and (v) new laboratory instruments and mechanical and optical detection techniques. The Company has approximately 32 full or part-time employees involved in its research and development effort. For 1998 the Company increased spending on research and development as a percentage of revenue compared to 1997 and expects to increase such expenditures as a percentage of revenue next year as well. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations." The Company's research scientists work closely with sales, marketing, manufacturing, regulatory and finance personnel

to identify and prioritize the development of new products and services.

In the area of Quality Control Products, the Company's product development activities center on the identification and characterization of materials for the manufacture of new products and the replacement of sold-out products. During 1998, the Company introduced 18 new Seroconversion, Performance, and Qualification Panel products, as well as 11 new Accurun(R) Run Controls, and 43 OEM Panels. The Company is developing new Quality Control Products for use with both immunological and molecular diagnostic tests for subtypes and variants of HIV, HCV and HBV, and a variety of controls targeted for leading instrument platforms. The Company has increased the number of off-the-shelf Quality Control Products it offers from approximately 20 products in 1990 to approximately 186 in 1998.

The Company's product development activities related to Laboratory Instruments are centered on additional configurations for its PlateMate(R) microtiter plate reader and the development of a "reflectance" reader to produce qualitative results from rapid IVD tests using dry chemistry (strip) technology. In addition, the Company continues to work on applications for existing products to broaden their utilization.

The Company is also developing new and improved infectious disease tests which offer potential for above average profit for use in its specialty laboratory business. This includes emphasis on additional applications of PCR and other amplification technologies to infectious disease diagnostics, beyond its current assays for the pathogens of AIDS, Viral Hepatitis, Lyme Disease and Herpes, and for the direct detection of other infectious agents in blood, tissues and other body fluids.

From time to time in the past, the Company has funded a portion of its research and development activities from grants provided by various agencies and departments of the United States government. See also "--Services-Contract Research."

Strategic Alliance

University of North Carolina at Chapel Hill ("UNC"). The Company is directly supporting a drug discovery program at UNC, in which a full-time research scientist is working to develop synthetic derivatives of anti-HIV compounds that have been discovered pursuant to the Company's joint collaboration with UNC. This research scientist is also working to introduce modifications to these derivatives that would make them more soluble, less toxic, or otherwise enhance their anti-viral properties. UNC has licensed to the Company exclusive worldwide rights to three series of patent applications filed by the Company and UNC with respect to three classes of anti-HIV compounds. Two such compounds have exhibited therapeutic indices in in vitro test model systems in excess of those recorded for AZT under comparable test conditions. Under this license, the Company will also have the rights to any new anti-HIV compounds or derivatives developed in the course of this sponsored research, provided the Company obtains certain regulatory approvals from the FDA. See also "--Services-Drug Screening program."

Sales and Marketing

The Company's sales and marketing efforts are directed by a Senior Vice President, who is responsible for a group consisting of 29 sales people and 9 other full-time marketing and customer services employees.

The Company's marketing strategy is focused upon addressing the needs of its customers in the infectious disease testing market throughout the entire test kit life-cycle, from initial research and development, through the regulatory approval process and test kit production, to training, troubleshooting and routine use by end-users such as clinical laboratories, hospitals and blood banks.

The Company continues to focus its sales and marketing efforts on the

emerging end-user market for quality control products for infectious disease test kits. To promote this objective, the Company implemented a major marketing platform, known as "Total Quality System" ("TQS"). TQS is a package of Quality Control Products, including the Company's Accurun(R) Run Controls and AccuChart Quality Control Software, which is designed to provide test kit end-users with the products needed in an overall quality assurance program. These products enable laboratories to evaluate each of the key elements involved in the testing process: the test kit, laboratory instrument and laboratory personnel. The Company believes that TQS effectively addresses the need for end-users to ensure the accuracy of their test results. The Company intends to continue to expand its sales and marketing activities with respect to its Accurun(R) line of run control products.

The Company's products are currently sold through a combination of telephone, mail, third party distributors and direct sales efforts. Domestically, Diagnostic Products are sold through a direct sales force consisting of a sales group manager, two regional managers and twelve sales representatives. Internationally, the Company distributes its Diagnostic Products both directly and through 21 independent distributors located in Japan, Australia, South America, Southeast Asia, Israel and Europe. The Company's international sales manager oversees the Company's foreign distributors. The Company's Laboratory Instruments are sold through a direct domestic and international sales force consisting of one director and one sales representative. Export sales, including sales to distributors, for the years ended December 31, 1998, 1997, and 1996 were $4.1 million, $4.6 million, and $4.3 respectively. See also Note 8 to the Company's Notes to Consolidated Financial Statements in Part 8 hereunder.

The Company's Specialty Clinical Laboratory Testing services are marketed primarily through a direct domestic sales force consisting of eight sales representatives managed by one regional manager and a sales director. The sales representatives are located throughout the eastern, mid-western and western United States. They are supported internally by a client services representative.

The Company emphasizes high quality products and services, technical knowledge, and responsiveness to customer needs in its marketing activities for both products and services. The Company educates its distributors, customers and prospective customers about its products through a series of detailed marketing brochures, technical bulletins and pamphlets, press releases and direct mail pieces. These materials are supplemented by advertising campaigns in major industry publications, technical presentations, and exhibitions at local, national and international trade shows and expositions.

Customers

The Company's customers for Diagnostic Products comprise three major groups: (i) international diagnostics and pharmaceutical manufacturing companies, such as Abbott Diagnostics, Behring, Boehringer Mannheim, Chiron, Fujirebio, Hoffman LaRoche, Ortho Diagnostics (Johnson and Johnson), Sanofi Diagnostics and Sorin Biomedica; (ii) regulatory agencies such as the United States FDA, the British Public Health Laboratory Service, the French Institut National de la Transfusion Sanguine, and the German Paul Ehrlich Institute; and (iii) end-users of diagnostic test kits, such as hospital and independent clinical laboratories, including LabCorp, Quest and SmithKline Beecham, public health laboratories and blood banks, including the American Red Cross, Swiss Red Cross, United Blood Services and Kaiser Permanente. The Company's customers for Laboratory Instruments consist of international diagnostic and pharmaceutical manufacturing companies and are generally sold on an OEM basis, for use by hospitals, and clinical and research laboratories. In addition, Laboratory Instruments are sold directly to environmental and food testing laboratories, and wineries. Customers include Mast Immuno Systems, Hybritech Inc., Vicam, and Toray Fuji Bionics Inc. The Company's Specialty Clinical Laboratory Testing services are sold to hospital and clinical laboratories, physicians, blood banks, researchers and other health care providers. The Company's Contract Research services are typically offered under contracts to governmental agencies, diagnostic test kit manufacturers and biomedical researchers.

The Company does not have long-term contracts with its customers for

Quality Control Products and Diagnostic Components, which are generally sold pursuant to purchase orders for discrete purchases. Laboratory Instrumentation are generally sold on an OEM basis under short term contracts with monthly delivery dates. Although the Company believes that its relationships with customers are satisfactory, termination of the Company's relationship with any one of its customers could have a material adverse effect on the Company.

During the fiscal years 1998, 1997 and 1996, sales to the Company's three largest customers accounted for an aggregate of approximately 20% of the Company's net sales, although the customers were not identical in each period. During the fiscal years 1998, 1997 and 1996, the combined revenues to all branches of the National Institutes of Health, a United States Government agency, accounted for approximately 13% of total consolidated revenues of the Company. While the Company believes that the loss of any one customer would have an adverse effect on its results, this risk is partially mitigated by the diversity of its customer base within the IVD industry and the different diseases and instrument platforms on which they focus.

Manufacturing and Operations

The Company manufactures and assembles Diagnostic Products at its facility in West Bridgewater, Massachusetts. Raw materials (primarily plasma and serum) are acquired from a variety of vendors and through a program of donor recruitment, screening, management, and plasma/serum collection and characterization. All important materials have multiple sources of supply. Laboratory Instruments are manufactured and assembled at the Company's facility in Garden Grove, California. Raw materials and subassemblies are acquired from a variety of vendors with multiple sources of supply.

The Company also operates a specialty clinical laboratory in New Britain, Connecticut, and a research and development laboratory in Gaithersburg, Maryland. See "Item 2 -- PROPERTIES."

Competition

The market for the Company's products and services is highly competitive. Many of the Company's competitors are larger than the Company and have greater financial, research, manufacturing, and marketing resources. Important competitive factors for the Company's products include product quality, price, ease of use, customer service and reputation. In a broader sense, industry competition is based upon scientific and technical capability, proprietary know-how, access to adequate capital, the ability to develop and market products and processes, the ability to attract and retain qualified personnel, and the availability of patent protection. To the extent that the Company's products and services do

not reflect technological advances, the Company's ability to compete in those products and services could be adversely affected.

In the area of Quality Control Products, the Company competes in the United States with NABI (formerly North American Biologicals, Inc.) in run controls and quality control panel products, with Dade International, Bio-Rad Laboratories, Inc., and Blackhawk Biosystems Inc. in run controls, and with a number of smaller, privately held companies in quality control panels. In Europe, in addition to the above, the Netherlands Red Cross offers several run control and panel products. The Company believes that all of these competitors currently offer a more limited line of panel and run control products than the Company, although there can be no assurance these companies will not expand their product lines.

In the Diagnostic Components area, the Company competes against integrated plasma collection and processing companies such as Serologicals, Inc. and NABI, as well as smaller, independent plasma collection centers and brokers of plasma products. In the Diagnostic Components area, the Company competes on the basis of quality, breadth of product line, technical expertise and reputation.

The laboratory instrument manufacturing industry is diverse and highly competitive. The Company believes its technology base, reputation for reliability, systems integration and service capabilities provide it with a competitive advantage over its competitors which include: Dynatech Corp,

Kollsman Manufacturing Company, Inc., Bio-Tek Instruments Inc., Rela Inc. (part of Colorado Medtech, Inc.), as well as numerous, smaller companies, such as Awareness Technology Inc.

In the Specialty Clinical Laboratory Testing services portion of the Company's business, it competes with large national reference laboratories, such as LabCorp of America, Quest Laboratories and SmithKline Beecham Clinical Laboratories, as well as several independent regional laboratories, hospital laboratories, government contract laboratories and large research institutions. The Company believes that by focusing on the specialty clinical laboratory market, it is able to offer its customers a higher value-added service on the more complex diagnostic tests than the larger national reference laboratories.

Intellectual Property

The Company holds as trade secrets current technology used to prepare Basematrix and other blood-based products. None of the Company's Quality Control Products or Diagnostic Components has been patented. The Company relies primarily on a combination of trade secrets and non-disclosure and confidentiality agreements to establish and protect its proprietary rights in its technology and products. There can be no assurance that others will not independently develop or otherwise acquire the same, similar or more advanced trade secrets and know-how.

BBI Source has also relied on trade secrets and proprietary know-how for its Laboratory Instruments which it protects in part by entering into confidentiality agreements with persons or parties deemed appropriate by management. In addition, the Company currently has six issued United States patents, covering significant aspects of the Company's core instrument technology and techniques, as well as several electronic and mechanical designs employed in the Company's existing products.

The Company owns two United States patents related to its contracts and services work, and, jointly with UNC, has five additional United States patents relating to compounds, pharmaceutical compositions, therapeutic methods, and vaccine preparation in connection with the Company's drug discovery program. Two additional United States applications and foreign applications for all five of the joint patents are pending.

The Company has fifteen pending patent applications for the Pressure Cycling Technology acquired from BioSeq in 1998. Several of these have been followed up with foreign applications, and the Company expects to file additional foreign applications in 1999.

The Company has no reason to believe that its products and proprietary methods infringe the proprietary rights of any other party. There can be no assurance, however, that other parties will not assert infringement claims in the future.

Government Regulation

The manufacture and distribution of medical devices, including products manufactured by the Company that are intended for in vitro diagnostic use, are subject to extensive government regulation in the United States and in other countries.

In the United States, the Food, Drug, and Cosmetic Act ("FDCA") prohibits the marketing of most in vitro diagnostic products until they have been cleared or approved by the FDA, a process that is time-consuming, expensive, and uncertain. In vitro diagnostic products must be the subject of either a premarket notification clearance (a "510(k)") or an approved premarket approval application ("PMA"). With respect to devices reviewed through the 510(k) process, a company may not market a device for diagnostic use until an order is issued by the FDA finding the product to be substantially equivalent to a legally marketed device. A 510(k) submission may involve the presentation of a substantial volume of data, including clinical data, and may require a substantial period of review. With respect to devices reviewed through the PMA process, a company may not market a device until FDA has approved a PMA application, which must be supported by extensive data, including preclinical and clinical trial data, literature, and manufacturing information to prove the

safety and effectiveness of the device.

The Company's Accurun(R) Run Controls, when marketed for diagnostic use, have been classified by the FDA as medical devices that until 1998 required clearance under the 510(k) process. In 1998, new rules took effect which exempt unassayed controls from 510(k) clearance. BBI may label these products "For in vitro diagnostic use" if they are validated according to the Company's protocols and manufactured according to cGMP (current Good Manufacturing Practices, which is FDA guidance for manufacturing processes for medical devices). The FDA still requires 510(k) clearance for assayed controls, and could, in addition, require that some products be reviewed through the PMA process, which generally involves a longer review period and the submission of more information to FDA. There can be no assurance that the Company will obtain regulatory approvals on a timely basis, if at all. Failure to obtain regulatory approvals in a timely fashion or at all could have a material adverse effect on the Company.

As of March 1, 1999, a total of 10 products in the Accurun 1(R) line and 16 single analyte Accurun(R) controls have either received 510(k) clearance or have been validated. Two additional Accurun(R) single analyte products have been submitted but have not yet received FDA approval. Certain of the Company's Accurun(R) run controls are currently marketed "for research use only." Such products do not currently require FDA premarket clearance or approval. The labeling of these products limits their use to research. It is possible, however, that some purchasers of these products may use them for diagnostic purposes despite the Company's intended use. In these circumstances, the FDA could allege that these products should have been cleared or approved by the FDA prior to marketing, and initiate enforcement action against the Company, which could have a material adverse effect on the Company. The FDA has recently issued a Draft Policy Compliance Guideline, which, if it takes effect as written, will strictly limit the sale of products labeled "for research use only." The Company is monitoring this situation, and will adapt its policies as required.

BBI Source generally obtains 510(k) approval for all laboratory instrumentation designed and manufactured in its Garden Grove facility.

The Company's Diagnostic Products and Laboratory Instruments product groups are both registered as medical device manufacturers with the FDA, and file listings of their products semi-annually. The Company's facilities in West Bridgewater, Massachusetts for Diagnostic Products and Garden Grove, California for Laboratory Instruments are FDA Good Manufacturing Practices (FDA/GMP) facilities, and, as such, maintain high standards of quality in manufacturing, testing and documentation, and implement strict GMP guidelines governing reagent and instrument manufacturing.

Once cleared or approved, medical devices are subject to pervasive and continuing regulation by the FDA, including, but not limited to, GMP regulations governing testing, control, and documentation; and reporting of adverse experiences with the use of the device. Ongoing compliance with GMP and other applicable regulatory requirements is monitored through periodic inspections. FDA regulations require agency clearance or approval for certain changes if they do or could affect the safety and effectiveness of the device, including, for example, new indications for use, labeling

changes or changes in design or manufacturing methods. In addition, both before and after clearance or approval, medical devices are subject to certain export and import requirements under the FDCA. Product labeling and promotional activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. Products may be promoted by the Company only for their approved use. Failure to comply with these and other regulatory requirements can result, among other consequences, in failure to obtain premarket approvals, withdrawal of approvals, total or partial suspension of product distribution, injunctions, civil penalties, recall or seizures of products and criminal prosecution.

The Company believes that its Quality Control Panels are not regulated by the FDA because they are not intended for diagnostic purposes. The Company believes that its Diagnostic Components, which are components of in vitro diagnostic products, may be subject to certain regulatory requirements under the FDCA and other laws administered by the FDA, but do not require that the Company obtain a premarket approval or clearance. There can be no assurance, however, that the FDA would agree or that the FDA will not adopt a different

interpretation of the FDCA or other laws it administers, which could have a material adverse effect on the Company.

The Company's Diagnostic Products and Laboratory Instruments groups are both ISO9001 certified, with registration by TUV Rheinland in the Diagnostic Products group and British Standard Institute for the Laboratory Instruments group. The Laboratory Instrument group is also certified to EN46001, a set of supplementary requirements applicable to their products.

Laws and regulations affecting some of the Company's products are in effect in many of the countries in which the Company markets or intends to market its products. These requirements vary from country to country. Member states of the European Economic Area (which is composed of the European Union members and the European Free Trade Association members) are in the process of adopting various product and service "Directives" to address essential health, safety, and environmental requirements associated with the subject products and services. The "Directives" cover both quality system requirements (ISO Series 9000 Standards and the EN46001 Requirements) and product and marketing related requirements. In addition, some jurisdictions have requirements related to marketing of the Company's products. There can be no assurance that the Company will be able to obtain any regulatory approvals required to market its products on a timely basis, or at all. Delays in receipt of, or failure to receive such approvals, or the failure to comply with regulatory requirements in these countries or states could lead to compliance action, which could have a material adverse effect on the Company's business, financial condition, or results of operations.

The Company's service-related business (clinical trials, infectious disease testing, and contract research) is subject to other national and local requirements. The Company's facilities are subject to review, inspection, licensure or accreditation by some states, national professional organizations (College of American Pathologists), and other national regulatory agencies (Health Care Financing Administration). Studies to evaluate the safety or effectiveness of FDA regulated products (primarily human and animal drugs or biologics) must also be conducted in conformance with relevant FDA requirements, including Good Laboratory Practice ("GLP") regulations, investigational new drug or device regulations, Institutional Review Board ("IRB") regulations and informed consent regulations.

The Clinical Laboratory Improvement Amendments of 1988 ("CLIA") prohibits laboratories from performing in vitro tests for the purpose of providing information for the diagnosis, prevention or treatment of any disease or impairment of, or the assessment of, the health of human beings unless there is in effect for such laboratories a certificate issued by the US Department of Health and Human Services ("HHS") applicable to the category of examination or procedure performed.

The Company currently holds permits issued by HHS (CLIA license), Centers for Disease Control and Prevention (Importation of Etiological Agents or Vectors of Human Diseases), the US Department of Agriculture (Importation and Transportation of Controlled Materials and Organisms and Vectors) and the US Nuclear Regulatory Commission (in vitro testing with byproduct material under general license, covering the use of certain radioimmunoassay test methods).

The Company is also subject to government regulation under the Clean Water Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, the Atomic Energy Act, and other national, state and local restrictions relating to the use and disposal of biohazardous, radioactive and other hazardous substances and wastes. The Company is an exempt small quantity generator of hazardous waste and has a US Environmental Protection Agency identification number. The Company is also registered with the US Nuclear Regulatory Commission for use of certain radioactive materials. The Company is also subject to various state regulatory requirements governing the handling of and disposal of biohazardous, radioactive and hazardous wastes. The Company has never been a party to any environmental proceeding.

Internationally, some of the Company's products are subject to additional regulatory requirements, which vary significantly from country to country. Each country in which the Company's products and services are offered must be evaluated independently to determine the country's particular requirements. In

foreign countries, the Company's distributors are generally responsible for obtaining any required government consents.

Employees

As of December 31, 1998 the Company employed 264 persons, all of whom were located in the United States. Of these, 101 persons were employed in Massachusetts, 72 by the New Britain, Connecticut company, 54 by the Gaithersburg, Maryland company, and 37 by the Garden Grove, California company. None of the Company's employees is covered by a collective bargaining agreement. The Company believes that it has a satisfactory relationship with its employees.

Executive Officers of the Registrant

The following table sets forth the names, ages and positions of the current executive officers of the Registrant as of December 31, 1998:

Name	Age	Position
Richard T. Schumacher	48	President; Chief Executive Officer and Chairman of the Board
Kevin W. Quinlan	48	Senior Vice President, Finance; Chief Financial Officer; Treasurer and Director
Patricia E. Garrett, Ph.D.	55	Senior Vice President, Regulatory Affairs & Strategic Programs
Mark M. Manak, Ph.D.	47	Senior Vice President, Research and Development
David Petersen	52	Vice President, Laboratory Instrumentation
Richard C. Tilton, Ph.D.	62	Senior Vice President, Specialty Laboratory Services
Barry M. Warren	51	Senior Vice President, Sales & Marketing
Ronald V. DiPaolo, Ph.D.	54	Vice President, Manufacturing
Richard H. Newhouse, Ph.D.	55	Vice President, Materials Management

Mr. Schumacher, the founder of the Company, has been the President and a Director since 1986, and Chief Executive Officer and Chairman since 1992. Mr. Schumacher served as the Director of Infectious Disease Services for Clinical Science Laboratory, a New England-based medical reference laboratory, from 1986 to 1988. From 1972 to 1985, Mr. Schumacher was employed by the Center for Blood Research, a nonprofit medical research institute associated with Harvard Medical School. Mr. Schumacher received a B.S. in zoology from the University of New Hampshire.

Mr. Quinlan, a Director of the Company since 1986, has been Senior Vice President, Finance, Chief Financial Officer and Treasurer since January 1993. From 1990 to December 1992, he was the Chief Financial Officer of ParcTec, Inc. a New York-based leasing company. Mr. Quinlan served as Vice President and Assistant Treasurer of American Finance Group, Inc. from 1981 to 1989 and was employed by Coopers & Lybrand from 1975 to 1980. Mr. Quinlan is a certified public accountant and received a M.S. in accounting from Northeastern University and a B.S. in economics from the University of New Hampshire.

Dr. Garrett has been Senior Vice President, Regulatory Affairs & Strategic Programs since 1988. From 1980 to 1987, Dr. Garrett served as the Technical Director of the Chemistry Laboratory, Department of Laboratory Medicine at the Lahey Clinic Medical Center. Dr. Garrett earned her Ph.D. from the University of Colorado and was a postdoctoral research associate at Harvard University, Oregon State University, Massachusetts Institute of Technology and the University of British Columbia.

Dr. Manak has served as Senior Vice President, Research and Development since 1992. From 1980 to 1992, he served as Senior Research Scientist, Molecular Biology, of Biotech Research Laboratories. Dr. Manak received his Ph.D. in biochemistry from the University of Connecticut and completed postdoctoral research work in biochemistry/virology at Johns Hopkins University.

Mr. Petersen has over 22 years in operations management and materials planning. Before joining the Company in November of 1988, he was the Manager of Manufacturing for Matrix Instruments from 1985 to 1988; and previously was Manager of Production and Inventory Control for Farr Company, Inc. from 1977 to

1985. He is certified in production and inventory management (CPIM) by the American Production and Inventory Control Society (APICS). As Assistant Professor at California State University Dominguez Hills, he instructs upper division courses in manufacturing techniques and material resource planning. He holds a B.S. in business management from the University of LaVerne in LaVerne, California.

Dr. Tilton has served as Senior Vice President, Specialty Laboratory Services since the Company's acquisition of BBI Clinical Laboratories, Inc. ("BBICL") in 1993 and was one of the founders of BBICL, where he served as President from 1989 to 1993. Dr. Tilton has 25 years of experience in university hospital clinical microbiology laboratories and is

board certified in medical and public health microbiology. Dr. Tilton received his Ph.D. in microbiology from the University of Massachusetts.

Mr. Warren has served as Senior Vice President, Sales & Marketing since 1993. From 1985 to 1993, Mr. Warren served as Group Director of Marketing of Organon Teknika, a manufacturer of infectious disease reagents. Mr. Warren received an M.A. in political science from Loyola University of Chicago and a B.A. from Loyola University.

Dr. DiPaolo has served as Vice President, Manufacturing since 1997. Prior to that he served as Vice President of Operations from 1993 to 1997. Prior to joining the Company, Dr. DiPaolo served as Vice President and General Manager of the Biomedical Products Division of Collaborative Research, a medical research products company from 1986 to 1989. From 1975 to 1986 he was employed by DuPont New England Nuclear, an in vitro test kit manufacturer. Dr. DiPaolo received his Ph.D. in biochemistry from Massachusetts Institute of Technology and later completed postdoctoral research at the Eunice Shriver Center in Waltham, Massachusetts.

Dr. Newhouse has been Vice President of Materials Management since 1997. Prior to joining the Company, Dr. Newhouse served as Vice President of Laboratory Services for Serologicals Corporation, an Atlanta, Georgia based biopharmaceutical company from 1989 to 1997. Prior to that he was employed for 20 years in several medical diagnostics companies holding titles such as Vice President Operations, Laboratory Director, and Director of Manufacturing. Dr. Newhouse received his Ph.D. in clinical pathology from the University of Maryland.

Officers are elected by, and serve at the pleasure of, the Board of Directors.

ITEM 2. PROPERTIES.

The Company owns its corporate offices and Diagnostic Products manufacturing facility located in a two story, 32,000 square foot building in West Bridgewater, Massachusetts. The Company has been renovating and expanding this facility during the past year, and believes that upon completion of renovations in mid 1999, its facility in West Bridgewater will be sufficient to meet its foreseeable needs.

The Company leases 41,000 square feet of space in Garden Grove, California where it manufactures Laboratory Instruments. The lease continues until February 1, 2002 and the Company has an option to renew at market rates.

The Company leases its laboratory facilities in Gaithersburg, Maryland and New Britain, Connecticut. The Gaithersburg facility contains 36,500 square feet of custom built laboratory space, and is occupied under a ten-year lease that is due to expire on October 31, 2007. The New Britain facility has 15,000 square feet, most of which is dedicated to laboratory space. The lease is for five years and is due to expire on July 30, 2000; the Company has an option to renew for an additional five years.

The Company leases approximately 2,500 square feet of laboratory space in Woburn, MA through August 1999, assumed through the BioSeq Acquisition.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending against the Company or its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted during the fourth quarter of fiscal 1998 to a vote of security holders of the Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

The Company completed an initial public offering of its Common Stock, $.01 par value, (the "Common Stock") on October 31, 1996. The Common Stock is listed on the NASDAQ National Market under the symbol "BBII".

The following table sets forth the high and low closing price, by quarter, since the Company's initial public offering.

	Q1		Q2		Q3		Q4	
	High	Low	High	Low	High	Low	High	Low
1998	8.063	5.125	7.313	4.500	5.125	2.500	4.375	2.000
1997	10.250	6.063	11.375	7.750	8.875	6.000	8.000	4.875
1996	---	---	---	---	---	---	8.500	6.750

As of December 31, 1998, there were 20,000,000 shares of Common Stock authorized of which 4,667,816 shares were outstanding, held of record by approximately 1,500 stockholders.

The Company has not declared or paid any dividends on its Common Stock. In accordance with the terms of the Company's loan agreement with its bank, payment of dividends on Common Stock requires bank approval. The Company does not expect to recommend the payment of a dividend as it plans to continue to reinvest profits to expand its business.

ITEM 6. SELECTED FINANCIAL DATA

The statement of income data for each of the fiscal years in the five year period ended December 31, 1998, and the balance sheet data as of December 31, 1998, 1997, 1996, 1995 and 1994, have been derived from the consolidated financial statements of the Company which have been audited by PricewaterhouseCoopers LLP, independent accountants. This data should be read in conjunction with Item 8--Consolidated Financial Statements and Supplementary Data, and Item 7--Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere herein.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1998 (1)	1997 (2)	1996	1995	1994
Consolidated Statement of Income Data:	(In thousands, except per share data)				
REVENUE:					
<S>	<C>	<C>	<C>	<C>	<C>
Products	$ 13,075	$ 11,711	$ 8,470	$ 6,622	$ 5,982
Services	13,006	10,588	7,039	5,649	4,741

Total revenue	26,081	22,299	15,509	12,271	10,723
COSTS AND EXPENSES:					
Cost of products	7,180	5,773	4,252	3,564	3,194
Cost of services	8,897	7,239	4,856	4,168	3,416
Research and development	2,461	1,311	797	375	469
Acquired research and development (3)	4,231	--	--	--	--
Selling and marketing	3,939	3,241	2,188	1,340	1,192
General and administrative	4,275	3,343	2,401	2,316	2,047
Total operating costs and expenses	30,983	20,907	14,494	11,763	10,318
(Loss) income from operations	(4,902)	1,392	1,015	508	405
Interest (expense) income, net	(51)	283	(213)	(336)	(244)
(Loss) income before income taxes and extraordinary item	(4,953)	1,675	802	172	161
Benefit from (provision for) income taxes	564	(670)	(321)	(69)	(64)
Net (loss) income	$ (4,389)	$ 1,005	$ 481	$ 103	$ 97
Net (loss) income per share, basic	$ (0.94)	$ 0.23	$ 0.17	$ 0.04	$ 0.04
Net (loss) income per share, diluted	$ (0.94)	$ 0.21	$ 0.14	$ 0.03	$ 0.03
Number of shares used to calculate net income per share					
Basic	4,655	4,438	2,916	2,570	2,552
Diluted	4,655	4,780	3,340	3,040	3,019

<TABLE>
<CAPTION>

	December 31,				
	1998	1997	1996	1995	1994
Consolidated Balance Sheet Data:	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Working capital	$ 9,095	$ 9,633	$12,836	$ 4,688	$ 4,686
Total assets	24,082	23,650	19,798	9,928	8,076
Long term debt, less current maturities	3,989	26	41	4,216	3,180
Total stockholders' equity	14,069	18,067	16,290	3,187	3,041
Dividends	--	--	--	--	--

</TABLE>

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(1) Effective September 30, 1998, the Company acquired all classes of stock of BioSeq, Inc., a development stage company with no revenue, for a total purchase price of $4,226,000.

(2) Effective July 1, 1997, the Company acquired the business and net assets of Source Scientific, Inc. for $1,994,000 which increased 1997 revenue by $2,608,000.

(3) Consists of $3,381,000 of in-process research and development related to the BioSeq acquisition, and a charge of $850,000 related to the purchase of license technology in the first quarter of 1998.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

The Company generates revenue from products and services provided primarily to the in vitro diagnostic infectious disease industry. There are two broad product classes: Diagnostic Products and Laboratory Instruments. Diagnostic Products consist of three groups: Quality Control Panels, Accurun(R) Run Controls, and Diagnostic Components. Services consist of Specialty Clinical

Laboratory Testing, Contract Research, Clinical Trials, Laboratory Instrumentation Services, and Drug Screening.

The Company's gross profit margin increased from 33.9% in 1993 to 38.4% in 1998 principally as a result of the increased percentage of higher margin product revenues. Within products, the Company's Quality Control Products (Accurun(R) Run Controls and Quality Control Panels) have higher margins than the Company's Laboratory Instruments and Diagnostic Components. Within services, Contract Research gross margins are lower than other services. However, such contracts enable the Company to retain certain scientific staff and maintain capability that it could not otherwise afford. The Company intends to continue to concentrate on the growth in sales of its Quality Control Products and Specialty Clinical Laboratory testing.

Historically, the Company's results of operations have been subject to quarterly fluctuations due to a variety of factors, primarily customer purchasing patterns, driven by end-of-year expenditures, and seasonal demand during the summer months for certain laboratory testing services. In particular, the Company's sales of its Quality Control Products and Diagnostic Components typically have been highest in the fourth quarter and lowest in the first quarter of each fiscal year, whereas Specialty Clinical Laboratory Testing has generally reached a seasonal peak during the third quarter, coinciding with the peak incidence of Lyme Disease. Research Contracts are generally for large dollar amounts spread over a one to five year periods, and upon completion, frequently do not have renewal phases. As a result they can cause large fluctuations in revenue and net income. In addition to staff dedicated to internal research and development, certain of the Company's technical staff work on both Contract Research for customers and Company sponsored research and development. The allocation of certain technical staff to such projects depends on the volume of Contract Research. As a result, research and development expenditures fluctuate due to increases or decreases in contract research performed.

With the acquisition of Pressure Cycling Technology, and the hiring of a Vice President for Drug Discovery and Development program, the Company expects to increase its rate of research and development spending, while continuing to develop new Quality Control Products and new tests for its clinical laboratory. Additional sales and support will be added as needed with the expectation of continued future revenue growth.

The Company does not have any foreign operations. However, the Company does have significant export sales in Europe, the Pacific Rim countries and Canada to agents under distribution agreements, as well as directly to test kit manufacturers. All sales are denominated in US dollars. Export sales for the years ended December 31, 1998, 1997, and 1996 were $4.1 million, $4.6 million, and $4.3 million, respectively. The Company expects that export sales will continue to be a significant source of revenue and gross profit.

Results of Operations

The following table sets forth for the periods indicated the percentage of total revenue represented by certain items reflected in the Company's consolidated statements of operations:

	Year Ended December 31		
	1998	1997	1996
Revenue:			
Products	50.1%	52.5%	54.6%
Services	49.9	47.5	45.4
Total revenue	100.0	100.0	100.0
Gross profit	38.4	41.6	41.3
Operating expenses:			
Research and development	9.4	5.9	5.1
Acquired Research and development	16.2	-	-
Selling and marketing	15.1	14.5	14.1
General and administrative	16.4	15.0	15.5

Total operating expenses	57.1	35.4	34.7
Income from operations	(18.8)	6.2	6.5
Interest income (expense)	(0.2)	1.3	(1.4)
Income before income taxes	(19.0)	7.5	5.1
Net income	(16.8)	4.5	3.1
Product gross profit	45.1%	50.7%	49.8%
Services gross profit	31.6%	31.6%	31.0%

Years Ended December 31, 1998 and 1997

In July 1997 the Company acquired the business of Source Scientific, Inc. The acquisition was completed by a wholly owned subsidiary of the Company, BBI Source Scientific, Inc., ("BBI Source") and was accounted for as an asset purchase. The income statement for 1997 includes the results of BBI Source for the last six months of the year, effecting comparability of results with 1998. See the Company's financial statement footnotes for further details on this acquisition.

Total revenue increased 17.0%, or $3,782,000, to $26,081,000 in 1998 from $22,299,000 in 1997. The increase in revenue was the result of a 11.6% increase in product revenue of $1,364,000 to $13,075,000 from $11,711,000, and a 22.8% increase in service revenue of $2,418,000 to $13,006,000 from $10,588,000 in 1997. Most of the product increase was attributable to increased sales of Quality Control Products, particularly Accurun(R) which doubled in sales over last year, and the inclusion of BBI Source for the full year in 1998 versus a half year in 1997. Quality Control Panel sales declined from 1997 as sales fell short of expectations due to consolidation in the in vitro diagnostic test kit industry. This shortfall was partially offset by increased sales of custom (OEM) panels. Service revenue increased as a result of a 49.8% increase in contract research due to new contracts, and a 19.5% increase in specialty clinical laboratory testing revenue. The Company experienced continued pricing pressure from competitors in its testing business which resulted in lower gross margins.

Overall gross profit increased 7.7%, or $717,000, to $10,004,000 in 1998 from $9,287,000 in 1997. Product gross profit decreased (0.7)%, or $(43,000), to $5,895,000 in 1998 from $5,938,000 in 1997 and product gross margin decreased to 45.1% in 1998 from 50.7%. The 1997 product gross margin benefited from significant one time sales of two "world-wide panels". These panels sold out in the first quarter of 1998, with minimal impact on 1998. The remaining product gross margin decrease was the result of lower capacity utilization at BBI Source. Services gross profit increased 22.7%, or $759,000, to $4,109,000 in 1998 from $3,350,000 in 1997 and gross margin remained steady at 31.6% in 1998 and 1997, as higher margins on contracts and at BBI Source offset lower margins in its clinical laboratory testing services.

Research and development expenditures increased 87.7%, or $1,150,000, to $2,461,000 in 1998 from $1,311,000 in 1997. The increase resulted primarily from new laboratory instrument development expenditures at BBI Source, increased development expenditures for Accurun(R) molecular and immunological Run Controls, new specialized molecular assays for use at BBI Clinical Laboratories, and fourth quarter research activities related to pressure cycling technology.

There were two accounting charges during the twelve months ended December 31, 1998 which were classified as acquired in-process research and development. In the first quarter there was an accounting charge of $850,000 related to the acquisition of the worldwide exclusive rights to BioSeq Inc's immunodiagnostic research and development technology. In the third quarter, the Company recorded a charge of $3,381,000 related to in-process technology as a result of the Company's $4,226,000 acquisition of BioSeq, Inc.

Selling and marketing expenses increased 21.5%, or $698,000, to $3,939,000 in 1998 from $3,241,000 in 1997. The increase was attributable primarily to inclusion for a full year in 1998 of the expanded TQS sales, marketing, and technical support staff added in the Spring of 1997. The Company also expanded its presence at tradeshows, resulting in higher expenditures in this category.

General and administrative costs increased 27.9%, or $933,000, to $4,276,000 in 1998 from $3,343,000 in 1997. This increase was attributable primarily to additional support staff, and increased information systems consulting and investor relations activities. In addition, the inclusion of BBI Source for a full year added $412,000 of expense to this category.

As a result of all of the above, the Company experienced an operating loss of ($4,902,000) versus income of $1,392,000 in 1997. This decrease was primarily a result of the acquired in-process research and development expense, a higher operating loss at BBI Source, increased research and development expenditures, and lower profitability at its Diagnostic Products and Clinical Laboratory Testing operating segments.

The Company had net interest expense of $(51,000) in 1998 versus interest income of $283,000 in 1997. The Company has productively employed its proceeds from its initial public offering and, at the end of the second quarter of 1998, began to borrow funds from its revolving line of credit to continue its infrastructure investments.

Based on current tax planning, the Company provided taxes at the combined federal and state statutory rate of 38% for 1998 versus 40% in the prior year. There was no tax benefit associated with the acquired in-process technology from BioSeq, Inc. as the acquisition was structured as a stock purchase. Therefore, the effective benefit rate for 1998 was approximately 11%.

The Company had a net loss of ($4,389,000) in 1998 versus net income of $1,005,000 in 1997 as a result of the operating loss described above and a shift to interest expense in 1998 versus interest income in 1997.

Years Ended December 31, 1997 and 1996

The most significant event in 1997 effecting comparability of results with 1996 was the acquisition of the business of Source Scientific, Inc. effective July 1, 1997. The acquisition was completed by a wholly owned subsidiary of the Company, BBI Source Scientific, Inc., ("BBI Source") and was accounted for as an asset purchase. This effected every line of the income statement.

Total revenue increased 43.8%, or $6,790,000, to $22,299,000 in 1997 from $15,509,000 in 1996. The increase in revenue was the result of a 38.3% increase in product revenue of $3,241,000 to $11,711,000 from $8,470,000, and a 50.4% increase in service revenue of $3,549,000 to $10,588,000 from $7,039,000 in 1996. Approximately $1,416,000 of the product increase was attributable to the inclusion of BBI Source for the first time. The balance of the increase was a result of a 34.0% increase in sales of Quality Control Products, particularly Accurun(R) from a higher volume of both new and existing products, offset in part by price decreases. Service revenue included $1,192,000 from inclusion of BBI Source, a 49.1% increase in contract research revenue as a result of new contracts, and a 32.6% increase in specialty clinical laboratory testing revenue as the Company's HIV PCR test introduced in September 1996, was offered for a full year in 1997. Overall for both products and services, prices declined slightly in 1997 versus 1996. In summary, even after excluding BBI Source, the Company's total revenue increased 27.0% in 1997 compared to 1996 with a 21.5% increase in

product revenue, and a 33.5% increase in service revenue on strong volume performance by Quality Control Products, contract research, and specialty clinical laboratory testing.

Gross profit increased 45.1%, or $2,886,000, to $9,287,000 for 1997 from $6,401,000 in 1996. Product gross profit increased 40.8%, or $1,720,000, to $5,938,000 in 1997 from $4,218,000 in 1996 and product gross profit margin increased to 50.7% in 1997 from 49.8%. The products gross margin increase was a result of a favorable shift in product mix towards Accurun sales and overall volume increase, thereby spreading fixed costs over a larger base, and despite a lower gross profit margin in BBI Source's instrument sales. Services gross profit increased 53.5%, or $1,167,000, to $3,350,000 in 1997 from $2,183,000 in 1996 as the testing volume increased at a faster rate than laboratory headcount,

thereby causing the services gross profit margin to increase to 31.6% in 1997 from 31.0% in 1996. BBI Source's service gross profit margin was slightly higher than the Company above average, which is expected to continue.

Research and development expenditures increased 64.6%, or $514,000, to $1,311,000 in 1997 from $797,000 in 1996. The increase resulted primarily from new Laboratory Instrument development activities at BBI Source, as well as increased development expenditures for Accurun(R), molecular and immunological Run Controls, and specialized molecular assays.

Selling and marketing expenses increased 48.1%, or $1,053,000, to $3,241,000 in 1997 from $2,188,000 in 1996. The increase was attributable primarily to an eleven person expansion of the TQS sales, marketing, and technical support staff and related increased trade show and travel expenses. In addition, the inclusion of BBI Source added $167,000 of expense to this category.

General and administrative costs increased 39.2%, or $942,000, to $3,343,000 in 1997 from $2,401,000 in 1996. This increase was attributable primarily to: the addition of a Director of Human Resources and wide area network systems analyst; higher expenditures for accounting and legal professionals and investor relations activities in our first full year as a public company; increased travel associated with the BBI Source acquisition; and non-recurring moving costs of $40,000 associated with moving BBI Biotech Research Laboratories to a new facility in Gaithersburg, Maryland. These increases were partially offset by a lower provision for doubtful accounts as a result of improved accounts receivable collections from patients at the Company's clinical reference testing laboratory. In addition, the inclusion of BBI Source added $442,000 of expense to this category.

Operating income increased 37.1%, or $377,000, to $1,392,000 in 1997 from $1,015,000 in 1996. This increase was primarily a result of continued strong performance in the Company's Quality Control Products business and clinic reference testing laboratory, partially offset by a loss at BBI Source of $189,000.

The Company had net interest income of $283,000 in 1997 versus net interest expense of ($213,000) in 1996 as substantially all of the Company's debt was repaid in November 1996 with a portion of the proceeds from its IPO. The Company had positive cash balances to invest for all of 1997.

Net income increased 108.9%, or $524,000, to $1,005,000 in 1997 from $481,000 in 1996. Of this increase, 43% was attributable to higher operating income, and the balance was due to the shift from net interest expense in 1996 to net interest income in 1997. Diluted earnings per share increased 50% to $0.21 for 1997 versus $0.14 in 1996. This increase was achieved even though weighted average diluted shares outstanding increased 43%. Basic earnings per share increased 35% to $0.23 for 1997 versus $0.17 in 1996.

Liquidity and Capital Resources

At December 31, 1998, the Company had cash and cash equivalents of approximately $147,000 and working capital of $9,095,000. Trade accounts receivable increased $705,000 or 11.7% primarily as a result of temporary delays in collections on government contracts. Inventory increased $787,000 or 13.3%, due to increased work-in-process activity for both panels and Accurun.

The Company has financed its operations to date through cash flow from operations, borrowings from banks and the sale of its common stock. The Company expects its cash flow, working capital, and available borrowings under its revolving line of credit to meet existing operational needs in 1999. The Company has recently received approval for an increased revolving line of credit with more liberal financial covenants, which it expects to meet existing operational needs for the foreseeable future.

Net cash used in operations for 1998 was $(1,215,000) as compared to $727,000 provided by operations in 1997. As discussed above, this decrease in cash flow was primarily attributable to carrying additional accounts receivable and inventory as of year end.

Cash used in investing activities for 1998, 1997 and 1996 amounted to $5,462,000, $5,396,000, and $1,412,000, respectively. In addition to normal capital expenditures, three items accounted for most of the 1998 investing activities. First, effective September 30, 1998, the Company completed the acquisition of the remaining common stock of BioSeq, Inc. and technology acquisition for a cash expenditure of $2,557,000. Second, $1,460,000 was expended for additional improvements at the Company's Massachusetts and Maryland facilities. Finally, $437,000 has been expended so far on software, hardware and implementation costs for a new fully integrated business information system ("ERP") to improve operational efficiency. In 1997, four items accounted for most of the investing activities. First, the Company exercised its option to purchase an additional 165,000 shares of BioSeq, Inc. stock at an aggregate cost of $750,000, thereby increasing its ownership of BioSeq to 19.9%. Second, in May 1997, the Company's BBI Biotech subsidiary signed a ten year lease for new laboratory space in Gaithersburg, Maryland and spent $566,000 on leasehold improvements for new laboratory space for its contract research and product development activities. Third, the expansion and renovation of its Diagnostic Products manufacturing facility in West Bridgewater, Massachusetts commenced construction and approximately $920,000 was expended. Finally, effective on July 1, 1997, the Company completed the acquisition of the business and net assets of Source Scientific, Inc. at a purchase price of $1,994,000 including acquisition costs. The Company has accounted for the acquisition as an asset purchase, and is amortizing goodwill of approximately $2.2 million over 15 years. See Note 3 to the Company's Notes to Consolidated Financial Statements in Item 8 hereunder. The cash used in investing activities in 1996 included the initial investment in BioSeq, Inc. of $732,500.

During 1998, net cash provided by financing activities was $4,052,000 from a combination of net borrowings of $3,963,000 under the revolving line of credit, and proceeds of $89,000 from the exercise of stock options. During 1997, net cash generated from financing activities included $300,000 from the exercise of warrants, and $182,000 from exercising stock options. Also in 1997, $1,124,000 was used to pay down debt acquired in connection with the Source acquisition. In 1996, net cash generated from common stock issued, including the IPO, approximated $12,600,000. This was used to pay down net debt of $4,577,000.

In 1998, 1997 and 1996 capital expenditures amounted to $2,930,000, $2,613,000, and $669,000, respectively and are described above under investing activities.

On March 9, 1998, the Company announced plans to modify the a previously announced 3-year contract with ABX Hematology, Inc. ("ABX") and its parent company, ABX Hematologie, SA (France). Under the contract, the Company provided technical, customer and field services for instruments sold by ABX in the United States. Under the modified agreement, individual customer service contracts were assigned to ABX and ABX assumed responsibility for its United States instruments. The Company has provided certain consulting services through March 1999 to assist ABX in establishing a sales, customer service, technical support, and field service operation in the United States for its hematology instrument and reagent business. In addition, the Company sublet space at its California facility to ABX during the period of the agreement. The Company's personnel associated with this contract, including the nationwide field service organization and hotline technical support, were offered employment by ABX.

The Company anticipates significant capital expenditures in 1999 to continue as it plans to compete renovations to its manufacturing facility in Massachusetts, as well as install the ERP system at all of its locations. The Company believes that existing cash balances, the borrowing capacity available under the revolving line of credit, and cash generated from operations are sufficient to fund operations and anticipated capital expenditures in 1999. Except for purchase orders in connection with the manufacturing expansion and the ERP system, there were no material financial commitments for capital expenditures as of December 31, 1999.

Year 2000 Readiness

The following disclosure is a Year 2000 ("Y2K") readiness disclosure statement pursuant to the Year 2000 Readiness and Disclosure Act.

Boston Biomedica's Year 2000 program is designed to minimize the possibility of serious Year 2000 interruption. Possible Year 2000 worst case scenarios include the interruption of significant parts of the Company's business as a result of internal business system failure or the failure of the business systems of its suppliers, distributors or customers. Any such interruption may have a material adverse impact on the future results of the Company.

In 1997 the Company decided to significantly upgrade its "business systems" (all computer hardware and software used to run its businesses including its operations management, administration and financial systems). Specifications were developed for desired capabilities, including Year 2000 compliance. In 1998 the Company began assessing its Year 2000 exposure and commenced implementation of a plan to achieve Year 2000 readiness. Based on its review to date, the Company believes that its products are Year 2000 compliant.

During the third quarter of 1998, after investigating several alternatives, implementation of an enterprise resource planning system ("ERP system") was started at two of the Company's four sites. The vendor has certified that the system is Year 2000 compliant. As of the filing date of this Form 10-K, business systems at the other two sites have been upgraded to Y2K compliant versions of their existing software at a combined cost of approximately $5,000.

A task force with participants and a site leader at each BBI location has begun reviewing all other infrastructure areas including communications systems, building security systems, and embedded technologies in areas such as laboratory instruments and manufacturing equipment. The Company has also begun to survey major suppliers, distributors, and customers to determine the status and schedule for their Year 2000 compliance. To date, no significant issues have been identified, and the survey is expected to be completed in the third quarter of 1999. Where it believes that a particular supplier's situation poses unacceptable risks, the Company plans to identify an alternative source.

The costs of the readiness program for business systems, other infrastructure areas, and suppliers and distributors are a combination of incremental external spending and use of existing internal resources. In total, the Company expects to spend less than $150,000 to achieve readiness, of which approximately 40% has been expended to date. This amount is based on the costs to upgrade the existing business systems to Y2K compliant versions, and excludes the costs of implementing the ERP system which is being implemented for reasons beyond Y2K compliance.

Milestones and implementation dates and the costs of BBI's Year 2000 readiness program are subject to change based on new circumstances that may arise or new information becoming available that may change the underlying assumptions or requirements.

Recent Accounting Pronouncements

Accounting for Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) was issued in June 1998. It is effective for all fiscal years beginning after June 15, 1999. The new standard requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company does not currently engage in derivative trading or hedging activity. The Company will adopt SFAS 133 in the fiscal year ending December 31, 1999, although no impact on operating results or financial position is expected.

Accounting for the Costs of Computer Software Developed or Obtained for Internal Use

In March of 1998, the American Institute of Certified Public Accountants

issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires computer software costs associated with internal use software to be charged to operations as incurred until certain capitalization criteria are met. SOP 98-1 is effective beginning January 1, 1999. The Company is currently assessing the impact that adoption of this statement will have on consolidated financial position and results of operations.

Forward - Looking Information

The Annual Report on Form 10-K contains forward-looking statements concerning the Company's financial performance and business operations. The Company wishes to caution readers of this Annual Report on Form 10-K that actual results might differ materially from those projected in the forward-looking statements contained herein.

Factors which might cause actual results to differ materially from those projected in the forward-looking statements contained herein include the following: finalization of SEC guidelines for valuation of in process research and development as it relates to purchase accounting; inability of the Company to develop the end user market for quality control products; inability of the Company to integrate the business of Source Scientific, Inc. into the Company's business; inability of the Company to grow the sales of Source Scientific, Inc. to the extent anticipated; the renewal and full funding of contracts with National Institutes of Health (NIH), National Heart, Lung and Blood Institute (NHLBI) and other government agencies; the inability of the Company to develop the technology recently acquired as part of its purchase of BioSeq, Inc. to the level of commercial utilization; inability of the Company to obtain an adequate supply of the unique and rare specimens of plasma and serum necessary for certain of its products; significant reductions in purchases by any of the Company's major customers; the interruption of significant parts of the Company's business as a result of internal business system failure or the failure of the business systems of its suppliers, distributors or customers due to the inability of such systems to properly interpret dates subsequent to December 31, 1999; and the potential insufficiency of Company resources, including human resources, plant and equipment and management systems, to accommodate any future growth. Certain of these and other factors which might cause actual results to differ materially from those projected are more fully set forth under the caption "Risk Factors" in the Company's Registration Statement on Form S-1 (SEC File No. 333-10759).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
ASSETS		
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 146,978	$ 2,772,360
Accounts receivable, less allowances of $623,710 in 1998 and $446,517 in 1997	6,086,693	5,558,710
Inventories	6,689,768	5,902,821
Prepaid expense and other	479,983	288,481
Deferred income taxes	847,268	328,562

Total current assets	14,250,690	14,850,934
Property and equipment, net	6,925,423	4,980,164
OTHER ASSETS:		
Long term investment	--	1,482,500
Goodwill and other intangibles, net	2,809,825	2,212,220
Notes receivable and other	96,447	124,178
	2,906,272	3,818,898
TOTAL ASSETS	$ 24,082,385	$ 23,649,996

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 2,369,495	$ 2,218,685
Accrued compensation	1,284,162	1,103,837
Accrued income taxes	--	132,802
Other accrued expenses	795,642	498,247
Current maturities of long term debt	15,569	14,878
Deferred revenue	690,760	1,249,024
Total current liabilities	5,155,628	5,217,473
LONG-TERM LIABILITIES:		
Long term debt, less current maturities	3,988,602	26,820
Other liabilities	730,138	189,117
Deferred income taxes	139,363	149,333
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; authorized 20,000,000 shares in 1998 and 1997; issued and outstanding 4,667,816 in 1998 and 4,622,566 in 1997	46,678	46,226
Additional paid-in capital	16,418,717	16,029,049
Retained earnings	(2,396,741)	1,991,978
Total stockholders' equity	14,068,654	18,067,253
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 24,082,385	$ 23,649,996

</TABLE>

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
REVENUE:			
<S>	<C>	<C>	<C>
Products	$ 13,075,085	$ 11,711,026	$ 8,469,890
Services	13,005,991	10,588,311	7,039,406
Total revenue	26,081,076	22,299,337	15,509,296
COSTS AND EXPENSES:			
Cost of product sales	7,179,920	5,773,417	4,252,068

Cost of services	8,897,046	7,238,527	4,856,630
Research and development	2,461,316	1,311,190	796,805
Acquired research and development	4,230,812	--	--
Selling and marketing	3,938,753	3,241,422	2,188,152
General and administrative	4,275,627	3,342,829	2,400,681
Total operating costs and expenses	30,983,474	20,907,385	14,494,336
(Loss) income from operations	(4,902,398)	1,391,952	1,014,960
Interest income	27,901	295,998	72,144
Interest expense	(78,621)	(13,227)	(285,113)
(Loss) income before income taxes	(4,953,118)	1,674,723	801,991
Benefit from (provision for) income taxes	564,399	(669,889)	(320,771)
Net (loss) income	$ (4,388,719)	$ 1,004,834	$ 481,220
Net (loss) income per share, basic	$ (0.94)	$ 0.23	$ 0.17
Net (loss) income per share, diluted	$ (0.94)	$ 0.21	$ 0.14
Number of shares used to calculate net (loss) income per share			
Basic	4,654,609	4,437,801	2,915,522
Diluted	4,654,609	4,780,070	3,340,236

</TABLE>

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	Common Stock		Additional	Retained	Treasury	Total
	Shares	$.01 Par Value	Paid-In Capital	Earnings (Deficit)	Stock	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1995	2,640,417	$ 26,404	$ 2,798,620	$ 505,924	$ (144,000)	$ 3,186,948
Issuance of common stock, net of issuance costs	1,637,647	16,377	12,371,469		144,000	12,531,846
Stock options and warrants exercised	85,760	858	67,210			68,068
Conversion of note payable	14,333	143	21,357			21,500
Net income				481,220		481,220
BALANCE, December 31, 1996	4,378,157	43,782	15,258,656	987,144	--	16,289,582
Stock options and warrants exercised	244,409	2,444	480,032			482,476
Tax benefit of stock options exercised			290,361			290,361
Net income				1,004,834		1,004,834
BALANCE, December 31, 1997	4,622,566	46,226	16,029,049	1,991,978	--	18,067,253
Stock options and warrants issued with acquisition			236,327			236,327
Stock options exercised	45,250	452	88,697			89,149
Tax benefit of stock options exercised			64,644			64,644
Net (loss)				(4,388,719)		(4,388,719)
BALANCE, December 31, 1998	4,667,816	$ 46,678	$ 16,418,717	$(2,396,741)	--	$ 14,068,654

</TABLE>

The accompanying notes are an integral part of these consolidated financial

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net (loss) income	$ (4,388,719)	$ 1,004,834	$ 481,220
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	1,280,049	858,434	600,495
Provision for doubtful accounts	154,335	174,925	247,080
Deferred rent	117,911	(71,381)	(87,152)
Deferred income taxes	(528,676)	2,391	(155,495)
Tax benefit of stock options exercised	64,644	290,361	--
Acquired research and development	4,230,812	--	--
Changes in operating assets and liabilities:			
Accounts receivable	(675,171)	(1,907,413)	(587,204)
Other assets	--	(13,930)	14,188
Inventories	(786,947)	(640,301)	(503,483)
Prepaid expenses and other	(144,199)	2,546	14,249
Accounts payable	105,122	797,690	246,623
Accrued compensation and other expenses	(86,054)	(102,199)	883,063
Deferred revenue	(558,264)	330,855	306,076
Net cash (used in) provided by operating activities	(1,215,157)	726,812	1,459,660
CASH FLOWS FOR INVESTING ACTIVITIES:			
Acquired research and development	(850,000)	--	--
Payments for additions to property and equipment	(2,929,568)	(2,612,697)	(669,154)
Purchase of intangible assets	(3,470)	(39,625)	(9,999)
Return of deposits and other	27,731	--	--
Purchase of long term investment	--	(750,000)	(732,500)
Acquisitions, net of cash aquired	(1,706,540)	(1,993,722)	--
Net cash used in investing activities	(5,461,847)	(5,396,044)	(1,411,653)
CASH FLOWS FOR FINANCING ACTIVITIES:			
Proceeds from issuance of debt	3,977,351	--	226,300
Repayments of long-term debt	(14,878)	(1,123,526)	(4,803,042)
Proceeds from issuance of common stock	89,149	482,476	13,581,315
Offering costs associated with issuance of common stock	--	--	(981,401)
Net cash provided by (used in) financing activities	4,051,622	(641,050)	8,023,172
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS:	(2,625,382)	(5,310,282)	8,071,179
Cash and cash equivalents, beginning of year	2,772,360	8,082,642	11,463
Cash and cash equivalents, end of year	$ 146,978	$ 2,772,360	$ 8,082,642
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:			
Conversion of note payable to common stock	--	--	$ 21,500
Noncash exercise of warrants to stockholder	--	--	$ 180,650
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 113,287	$ 662,304	$ 85,460
Interest paid	$ 72,755	$ 5,731	$ 300,587

</TABLE>

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business and Significant Accounting Policies

Boston Biomedica, Inc. ("BBI") and Subsidiaries (together, the "Company") provide infectious disease diagnostic products, laboratory instrumentation, contract research and specialty infectious disease testing services to the in-vitro diagnostic industry, government agencies, blood banks, hospitals and other health care providers worldwide. The Company is subject to risks common to companies in the biotechnology, medical device and diagnostic industries, including but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, and compliance with governmental regulations.

Significant accounting policies followed in the preparation of these consolidated financial statements are as follows:

(i) Principles of Consolidation

The consolidated financial statements include the accounts of BBI and its wholly-owned subsidiaries, BBI Biotech Research Laboratories, Inc. ("BBI Biotech"), BBI Clinical Laboratories, Inc. ("BBICL"), BBI Source Scientific, Inc. ("BBI Source"), and BBI BioSeq, Inc. ("BBI BioSeq"). BBI consists primarily of the Diagnostic Products segment as well as executive corporate officers. All significant intercompany accounts and transactions have been eliminated in the consolidation. Certain amounts included in the prior year's financial statements may have been reclassified to conform to the current presentation.

(ii) Use of Estimates

To prepare the financial statements in conformity with generally accepted accounting principles, management is 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 particular, the Company records reserves for estimates regarding the collectability of accounts receivable, the value and realizability of intangible assets, as well as the net realizable value of its inventory.

The valuation methodology applied to the acquisition of BioSeq, Inc. (see Note 2) was based on estimated discounted future cash flows. The purchase price accounting is based on this valuation. Significant assumptions include gross and operating profit margins, and future tax, discount, and royalty rates.

Actual results could differ from the estimates and assumptions used by management.

(iii) Revenue Recognition

Products revenue are recognized as sales upon shipment of the products or, for specific orders at the request of the customer, on a bill and hold basis after completion of manufacture. All bill and hold transactions meet specified revenue recognition criteria which include normal billing, credit and payment terms, and transfer to the customers of all risks and rewards of ownership.

Services are recognized as revenue upon completion of tests for specialty laboratory services. Revenue from service contracts and research and development contracts for the Company's laboratory instrumentation business is recognized as the service and research and development activities are performed under the terms of the contracts.

Revenue under long-term contracts, generally from one to five years, including funded research and development contracts, is recorded under the percentage of completion method, wherein costs plus profit, are recorded as

service revenue and billed monthly as the work is performed. Certain customers make advance payments that are deferred until revenue recognition is appropriate. When the current contract estimates indicate a loss, provision is made for the total anticipated loss. The Company does not believe there are any material collectability issues associated with these receivables.

Total revenue related to long-term contracts was approximately $4,175,000, $3,125,000, and $2,224,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Total contract costs associated with these agreements were approximately $3,950,000, $2,782,000, and $2,042,000 for the years ended December 1998, 1997 and 1996, respectively.

(1) Business and Significant Accounting Policies -- (Continued)

(iv) Cash and cash equivalents

The Company's policy is to invest available cash in short-term, investment grade, interest bearing obligations, including money market funds, municipal notes, 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 classified as cash equivalents.

(v) Research and Development Costs

Research and development costs are expensed as incurred.

(vi) Inventories

Inventories are stated at the lower of cost or net realizable value and include material, labor and manufacturing overhead.

(vii) Property and Equipment

Property and equipment are stated at cost. For financial reporting purposes, depreciation is recognized using accelerated and straight-line methods, allocating the cost of the assets over their estimated useful lives ranging from five to ten years for certain manufacturing and laboratory equipment, from three to five years for management information systems and office equipment, three years for automobiles and thirty years for the building. Leasehold improvements are amortized over the shorter of the life of the improvement or the remaining life of the leases, which range from four to ten years. Upon retirement or sale, the cost and related accumulated depreciation of the asset are removed from the accounting records. Any resulting gain or loss is credited or charged to income.

(viii) Goodwill and Intangibles

The Company has classified as goodwill, the cost in excess of fair value of the assets of the business acquired. Goodwill is being amortized on a straight line basis over ten to fifteen years. Other intangibles primarily consist of patents, licenses, and intellectual property rights and are amortized over periods ranging from four to sixteen years.

(ix) Impairment of Long-Lived Assets

The Company periodically evaluates the potential impairment of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. At the occurrence of a certain event or change in circumstances, the Company evaluates the potential impairment of an asset based on estimated future undiscounted cash flows. In the event impairment exists, the Company will measure the amount of such impairment based on the present value of estimated future cash flows using a discount rate commensurate with the risks involved. Based on management's assessment as of December 31, 1998, the Company has determined that no impairment of long-lived assets exists.

(x) Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred taxes arise from temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided for net deferred tax assets if, based on the weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Tax credits are recognized when realized using the flow through method of accounting.

(1) Business and Significant Accounting Policies -- (Continued)

(xi) Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents, and accounts receivable. The Company places its cash in federally chartered banks, each of which is insured up to $100,000 by the Federal Deposit Insurance Corporation. The Company limits credit risk in cash equivalents by investing only in short-term, investment grade securities including money market funds restricted to such securities. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes substantial sales (see Note 8). The Company does not require collateral from its customers. To reduce risk, the Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited.

(xii) Deferred Revenue

Deferred revenue consists of payments received from customers in advance of services performed.

(xiii) Computation of Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted average 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, stock options are considered common stock equivalents in periods in which they have a dilutive effect. Options and warrants that were antidilutive were excluded from the calculation.

(xiv) Segment Reporting

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," on December 31, 1998. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 supersedes SFAS No. 14, Financial Reporting for Segments of a Business Enterprise, but retains the requirements to report information about major customers. Disclosures required by this new standard are included in the notes to the consolidated financial statements under the caption "Segment Reporting and Related Information."

(xv) Recent Accounting Standards

Accounting for Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 133, "Accounting for

Derivative Instruments and Hedging Activities" (SFAS 133) was issued in June 1998. It is effective for all fiscal years beginning after June 15, 1999. The new standard requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company does not currently engage in derivative trading or hedging activity. The Company will adopt SFAS 133 in the fiscal year ending December 31, 2000, although no impact on operating results or financial position is expected.

Accounting for the Costs of Computer Software Developed or Obtained for Internal Use

In March of 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires computer software costs associated with internal use software to be charged to operations as incurred until certain capitalization criteria are met. SOP 98-1 is effective beginning January 1, 1999. The Company is currently assessing the impact that adoption of this statement will have on consolidated financial position and results of operations.

(2) Acquisition of BioSeq, Inc.

On September 30, 1998 the Company acquired the remaining common stock outstanding of BioSeq (approximately 81%) for $879,000 in cash (net of cash acquired of $121,000), warrants to purchase 100,000 shares of the Company's stock at an exercise price of $2.50 per share, minimum long-term royalty payments of $424,000, debt and accrued interest owed by BioSeq at the time of acquisition of approximately $736,000, and other acquisition costs. The Company also exchanged BioSeq's stock options for 46,623 BBI stock options with an average exercise price of $2.74. Accordingly, the Company's aggregate cost of acquiring all of BioSeq's equity, including the original 19% investment under the 1996 Purchase Agreement of $1,482,000 (classified as long-term investment at December 31, 1997, see Note 7), was approximately $4,226,000. The cash portion of the acquisition was financed from a combination of debt and cash. The acquisition has been recorded using purchase accounting, and BioSeq's results are included in the consolidated results of the Company commencing October 1, 1998.

BioSeq is a development stage company with patent pending technology based on pressure cycling technology ("PCT"). Approximately $3,381,000 of the purchase price has been allocated to in-process research and development and expensed in the third quarter based on an independent valuation of the assets acquired. The patents on the core technology have been valued and capitalized at $778,000, and are being amortized over their remaining life, approximately sixteen years. Other assets acquired are primarily laboratory equipment, which are being depreciated over their remaining useful lives of three to ten years.

Allocated in-process research and development consists of two projects that were on going at the time of the acquisition related to pathogen nucleic acid extraction and inactivation. BioSeq expended approximately $1.6 million prior to September 30, 1998 on these projects. Both of these projects have encouraging preliminary data demonstrating potential feasibility on a limited number of pathogens, but with significant scientific, mechanical and design issues remaining. The Company estimates that it will spend in excess of $4.8 million through the year 2002 to complete the development into commercially viable products and to begin generating revenue. Remaining development efforts are focused on feasibility studies to establish the key performance parameters and biological activities to be retained; designing and building a prototype instrument; further development of the prototype for the applications; scale-up of design; data generation and clinical trials; applying and obtaining Food and Drug Administration approval; final design modifications; and transfer to

manufacturing. In addition to the risk of the technology ultimately not working, failure to complete on a timely basis could allow new or existing competing technologies to be developed and commercially accepted.

The valuation methodology was based on estimated discounted future cash flows. Significant assumptions include gross and operating profit margins, and future tax, discount, and royalty rates. Recent Securities and Exchange Commission ("SEC") guidelines on valuation methodologies for in-process research and development are still evolving. The amount written off maybe subject to adjustment as the SEC continues to focus on accounting for acquired in process research and development.

The following unaudited pro forma information combines the consolidated results of operations of the Company and BioSeq as if the acquisition had occurred at the beginning of 1997, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt, and related income tax effects. The unaudited pro forma information is shown for comparative purposes only and is based on management's estimates of research and development expenditures.

	Years Ended December 31,	
Unaudited	1998	1997
Revenue	$ 26,081,076	$ 22,299,337
Operating (loss) income	(1,474,694)	191,952
Net (loss) income	(989,327)	242,834
Pro forma (loss) income per share, basic	(0.21)	0.05
Pro forma (loss) income per share, diluted	(0.21)	0.05

The pro forma information excludes acquired research and development of $4,231,000.

(3) Purchase of the Business and Net Assets of Source Scientific, Inc.

In July 1997, the Company, through its wholly owned subsidiary BBI Source Scientific, Inc. ("BBI-Source"), completed the acquisition of all of the assets, business, and selected liabilities of Source Scientific, Inc. ("Source"). In addition to the cash payment of $1,894,000 to Source, the total purchase price was $1,994,000 including consulting, legal, accounting and other acquisition costs, net of cash acquired. The acquisition is treated as an asset purchase as of July 1, 1997 and the results of operations have been included since that date. The purchase price exceeded the fair market value of net assets acquired by approximately $2,202,000, which is recognized as goodwill and is being amortized on a straight line basis over fifteen years.

(4) Inventories

The Company purchases human plasma and serum from various private and commercial blood banks. Upon receipt, such purchases generally undergo comprehensive testing, and associated costs are included in the value of raw materials. Most plasma is manufactured into Basematrix and other diagnostic components to customer specifications. Plasma and serum with the desired antibodies or antigens are sold or manufactured into Quality Control Panels, Accurun(R) Run Controls, and reagents ("Finished Goods"). Panels and reagents are unique to specific donors and/or collection periods, and require substantial time to characterize and manufacture due to stringent technical specifications. Panels play an important role in diagnostic test kit development, licensure and quality control. Panels are manufactured in quantities sufficient to meet expected user demand which may exceed one year. Inventory also includes component parts used in the manufacture of laboratory instrumentation. Inventory balances at December 31, 1998 and 1997 consist of the following:

1998	1997

Raw materials	$2,407,154	$2,033,040
Work-in-process	1,788,399	1,190,567
Finished goods	2,494,215	2,679,214
	$6,689,768	$5,902,821

(5) Property and Equipment

Property and equipment at December 31, 1998 and 1997 consist of the following:

	1998	1997
Laboratory and manufacturing equipment	$ 3,082,834	$ 2,297,590
Management information systems	2,556,193	1,925,194
Office equipment	821,538	686,608
Automobiles	206,693	189,775
Leasehold improvements	1,610,260	687,714
Land, building and improvements	2,307,039	1,872,747
	10,584,557	7,659,628
Less accumulated depreciation	3,659,134	2,679,464
Net book value	$ 6,925,423	$ 4,980,164

Depreciation expense for the years ended December 31, 1998, 1997 and 1996 was approximately $1,096,000, $731,000, and $585,500 respectively. Included in 1998 and 1997 land, building and improvements is approximately $1,345,000 and $920,000, respectively, of construction in progress.

(6) Intangible Assets

Intangible assets at December 31, 1998 and 1997 consist of the following:

	1998	1997
Goodwill	$2,293,045	$2,293,045
Patents	796,380	14,754
Licences	37,752	37,751
	3,127,177	2,345,550
Less accumulated amortization	317,352	133,330
Net book value	$2,809,825	$2,212,220

Amortization expense for the years ended December 31, 1998, 1997 and 1996 was approximately $184,000, $125,000, and $16,000 respectively.

(7) Long-term Investment

On December 31, 1997 the Company had a long-term investment of $1,482,500. This amount represented 19.9% of the common stock of BioSeq, Inc. During 1998, the Company purchased the remaining stock of BioSeq and included the investment in the purchase price (see Note 2).

(8) Segment Reporting and Related Information (all dollar amounts in thousands)

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by senior

management in deciding how to allocate resources and in assessing performance of the segment. The Company is organized along legal entity lines and senior management regularly reviews financial results for all entities, focusing primarily on revenue and operating income.

The Company has four operating segments. The Diagnostics segment serves the worldwide in vitro diagnostics industry, including users and regulators of their test kits, with quality control products, test kit components, and clinical trial and research services. This segment pursues third party contracts to help fund the development of its products and services, primarily with agencies of the United States Government. The Clinical Laboratory Services segment performs specialty infectious disease testing for hospitals, blood banks, doctors and other clinical laboratories, primarily in North America. The Laboratory Instrumentation segment sells diagnostic instruments primarily to the worldwide in vitro diagnostic industry on an OEM basis, as well as performing in-house instrument servicing. Finally, "Other" consists of research and development in two areas: pressure cycling technology ("PCT") and drug discovery. The Company performs basic and applied research in the development of PCT, with particular focus in the areas of pathogen inactivation and nucleic acid purification. The Company also conducts active research, together with Dr. K. H. Lee and collaborators at the School of Pharmacy, University of North Carolina at Chapel Hill, in the area of anti-HIV drug discovery, with exclusive focus on natural products and their synthetic derivatives.

The Company's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements, as well as for segment performance and internal management reporting. Inter-segment sales are recorded on a "third party best price" basis and are significant in measuring segment operating results. The cost of most corporate functions are included in the Diagnostic Products segment as the senior management group has dual responsibility to this segment as well as the Company. The following segment information has been prepared in accordance with the internal accounting policies of the Company, as described above.

(8) Segment Reporting and Related Information (Continued)

Operating segment revenue for the years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Diagnostics	$ 15,901	$ 14,282	$ 11,518
Clinical Laboratory Services	7,187	6,024	4,568
Laboratory Instrumentation..	3,929	2,608	--
Other	--	--	--
Eliminations	(936)	(615)	(577)
Total Revenue	$ 26,081	$ 22,299	$ 15,509

Operating segment (loss) income for the years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Diagnostics	$ 714	$ 1,277	$ 1,115
Clinical Laboratory Services	134	403	55
Laboratory Instrumentation	(906)	(189)	--
Other	(613)	(99)	(155)
Acquired R&D	(4,231)	--	--
Total (Loss) Income from Operations	$(4,902)	$ 1,392	$ 1,015

Operating segment depreciation and amortization expense for the years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996

Diagnostics	$ 754	$ 520	$ 454
Clinical Laboratory Services	217	175	146
Laboratory Instrumentation .	289	163	--
Other	20	--	--
Total	$1,280	$ 858	$ 600

Identifiable operating segment assets are all located in the United States, and as of December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Diagnostics	$16,548	$16,958	$17,802
Clinical Laboratory Services	2,348	1,948	1,996
Laboratory Instrumentation .	4,428	4,744	--
Other	758	--	--
Total assets	$24,082	$23,650	$19,798

(8) Segment Reporting and Related Information (Continued)

Operating segment capital expenditures for the years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Diagnostics	$2,702	$2,148	$ 503
Clinical Laboratory Services	202	196	176
Laboratory Instrumentation .	22	269	--
Other	4	--	--
Total	$2,930	$2,613	$ 679

Revenue by geographic area for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
United States	$21,978	$17,706	$11,183
Europe	2,453	2,614	2,844
Pacific Rim	1,063	1,285	948
Total all others	587	694	534
Total	$26,081	$22,299	$15,509

Revenue of Product and Service classes in excess of 10% of consolidated revenue (excludes inter-segment sales) for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
Quality Control Products ..	$9,369	$8,220	$6,132
Clinical Laboratory Testing	6,806	5,695	4,296
Government Contracts	3,535	2,638	1,920

The government contract revenues are from United States government agencies, primarily the National Institutes of Health (NIH) and represent the only customer with revenue in excess of 10% of consolidated revenue.

(9) Debt

Effective March 28, 1997, as amended, the Company entered into a $7.5 million uncollateralized revolving line of credit (the "Line") with its bank. The Line matures on June 30, 2000; bears interest at the Company's option based on either base rate, LIBOR plus 1.75%, or overnight money market rate plus 1.75%; and carries a facility fee of .25% per annum, payable quarterly. The Line contains covenants regarding the Company's ratio of total liabilities-to-equity, minimum tangible net worth, and minimum debt service coverage ratio. The Line further provides for restrictions on the payment of dividends, and limitations on additional borrowings. At December 31, 1998, the interest rate was 7.75% and the total balance due was approximately $3,977,000. At December 31, 1998, the Company was in violation of certain covenants however it obtained a waiver from its bank on March 31, 1999. The Company did not draw upon the Line during 1997.

The Company's outstanding debt includes an installment note payable with an interest rate of 9.75%, due August 2001. The note is collateralized by office furniture and laboratory equipment. The amounts outstanding including the current portion, at December 31, 1998 and 1997 was $26,820 and $40,948, respectively.

(10) Other Liabilities

The Company's California facility lease includes scheduled base rent increases over the term of the lease. The amount of base rent payments is charged to expense using the straight-line method over the term of the lease. As of December 31, 1998 and 1997, the Company has recorded a long-term liability of $153,290 and $189,867, respectively ($188,519 and $223,748 including the current portion), to reflect the excess of rent expense over cash payments since inception of the lease. In addition to base rent, the Company pays a monthly allocation of the operating expenses and real estate taxes for the above facility.

Included in long-term liabilities at December 31, 1998 is the present value of future minimum royalty payments of approximately $424,000 payable to the former owners of BioSeq, Inc. (See Note 2)

(11) Accrued Compensation

Accrued compensation consists of the following:

	Year Ended December 31	
	1998	1997
Accrued payroll	$ 598,937	$ 421,369
Accrued vacation	360,509	370,332
Other accrued compensation	324,716	312,136
	1,284,162	1,103,837

(12) Income Taxes

The components of the (benefit) provision for income taxes are as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Current (benefit) provision: federal	$ (63,868)	$ 567,373	$ 404,775
Current provision: state	$ 28,145	$ 100,125	$ 71,431
Total current (benefit) provision	(35,723)	667,498	476,206
Deferred (benefit) provision: federal	(417,315)	(5,078)	(132,120)

Deferred (benefit) provision: state	(111,361)	7,469	(23,315)
Total deferred (benefit) provision	(528,676)	2,391	(155,435)
Total (benefit) provision for income taxes	$(564,399)	$ 669,889	$ 320,771

</TABLE>

Significant items making up deferred tax liabilities and deferred tax assets are as follows:

	1998	1997
Current deferred taxes:		
Inventory	$ 169,796	$ 72,249
Accounts receivable allowance	224,240	153,469
Technology licensed	322,516	--
Other accruals	130,716	102,844
Total current deferred tax assets	847,268	328,562
Long term deferred taxes:		
Accelerated tax depreciation	(279,358)	(217,029)
Goodwill and intangibles	17,729	15,176
Tax credits	60,000	--
Operating loss carryforwards	861,066	52,520
Less: valuation allowance	(798,800)	--
Total long term deferred tax liabilities, net	(139,363)	(149,333)
Total net deferred tax assets	$ 707,905	$ 179,229

(12) Income Taxes (Continued)

On December 31, 1998, operating loss carryforwards were partially offset by a valuation allowance of $798,800. This allowance is to reserve for the entire loss carryforward obtained through the acquisition of BioSeq, Inc. The Company establishes valuation allowances in accordance with the provisions of SFAS 109 "Accounting for Income Taxes". The Company continually reviews the adequacy of the valuation allowance. The state net operating loss carryforwards expire at various dates beginning in 1999 through 2007. As of December 31, 1998, the Company had $60,000 of federal research credits which expire during 2019.

The Company's effective income tax rate differs from the statutory federal income tax rate as follows:

	1998	1997	1996
Federal tax (benefit) provision rate	(34%)	34%	34%
State tax (benefit) provision, net of federal benefit	(1%)	6%	6%
Nondeductable writeoff of acquired research and development	23%	-	-
Other items, net	1%	-	-
Effective income tax (benefit) provision rate	(11%)	40%	40%

(13) Commitments and Contingencies

The Company leases certain office space, laboratory, research and manufacturing facilities under operating leases with various terms through October 2007. All of the real estate leases include renewal options at either market or increasing levels of rent.

Rent expense for the years ended December 31, 1998, 1997 and 1996 was $914,440 $506,300, and $365,700, respectively. At December 31, 1998, the

remaining fixed lease commitment was as follows:

Year Ended	Amount
1999	1,038,483
2000	900,122
2001	840,438
2002	572,061
2003	582,050
2004 and thereafter	2,389,455
	$6,322,609

Commencing in February 1995, the Company committed under a sponsored research agreement with a university to fund a research scientist at a cost of $13,125 per quarter for three years which costs are charged to research and development expense. In return, the Company has exclusive rights to any anti-HIV compounds or derivatives developed in the course of this research, provided the Company obtains certain regulatory approvals from the FDA.

(14) Retirement Plan

In January 1993, the Company adopted a retirement savings plan for its employees, which has been qualified under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to contribute to the plan through payroll deductions within statutory limitations and subject to any limitations included in the plan. Company contributions are made at the discretion of management. To date, no such contributions have been made. During 1998, 1997 and 1996 the Company recognized administrative expense of approximately $32,000, $23,000, and $18,000, respectively in connection with the plan.

(15) Stockholders' Equity

Common Stock

On October 31, 1996, the Company commenced trading on the NASDAQ National Market as a result of the initial public offering of its common stock ("IPO"), raising net proceeds of $11,633,000 from the sale of 1,600,000 shares at $8.50 per share.

On April 26, 1996, the Company entered into a Stock Purchase Agreement and Exclusive Distributor Agreement for five years with a foreign distributor. Pursuant to the Stock Purchase Agreement, the Company issued 117,647 shares of redeemable common stock at a price per share of $8.50, for which it received net proceeds of $898,503. Issuance costs were $101,497. Completion of the IPO terminated the redemption feature. The distributor was restricted from selling these securities for a one-year period after completion of the IPO. The Company issued 80,000 shares of Treasury Stock in connection with this transaction.

On August 8, 1996 the Board of Directors approved a 1-for-2 reverse stock split and an increase in authorized common shares to 20,000,000, and authorized 1,000,000 shares of preferred stock (par value $.01), which were approved by the stockholders on September 10, 1996. The stock split has been retroactively reflected in the accompanying financial statements and notes for all periods presented.

Options and Warrants

The Company has a nonqualified stock option plan and an incentive stock option plan both of which are administered by a committee of the Board of Directors. The exercise price of an option generally equals the fair market value of the stock at grant date. Generally, options become exercisable at the

rate of 25% at the end of each of the four years following the anniversary of the grant. Options expire ten years from the date of grant, or 30 days from the date the grantee's affiliation with the Company terminates.

At December 31, 1998, 1,245,775 shares have been reserved for incentive stock options, of which 179,887 are available for future grants. In December 1997 the non-qualified stock option plan terminated and became unavailable for future grants.

On December 11, 1998, the Company's Board of Directors authorized the Company to offer a reduction of the stock option exercise price to $3.25 per share, which represented a premium over the market price of $3.00 on that day. Any option holder with outstanding stock options with an exercise price higher than $3.25 was eligible to participate in the repricing. A total of 411,417 options were repriced, which represents substantially all eligible options. The original vesting schedule, generally four years from date of grant, remains unchanged. However, all optionees accepting the offer agreed not to exercise vested, repriced options for a period of one year from the date of amendment. The previous weighted average exercise price of the options repriced was $6.72.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Pro forma information regarding net income and earnings per share is required by SFAS 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1998. The minimum value option pricing model was used for all grants during 1996 as they were granted prior to the Company's IPO.

	1998	1997	1996
Risk-free interest rate	4.69%	5.72%	6.18%
Volatility factor	75.57%	55.00%	0.10%
Weighted average expected life	5 years	5 years	5 years
Expected dividend yield	0	0	0

(15) Stockholders' Equity-(Continued)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income and pro forma net income per share is as follows:

	1998	1997	1996
Net (loss) income-as reported	$(4,388,719)	$1,004,834	$481,220
Net (loss) income-pro forma	$(4,959,228)	851,408	424,921
Net (loss) income per share-as reported, basic	(.94)	.23	.17

Net (loss) income per share-as reported, diluted	(.94)	.21	.14
Net (loss) income per share-pro forma, basic	(1.07)	.19	.14
Net (loss) income per share-pro forma, diluted	(1.07)	.18	.13

Because SFAS 123 provides for pro forma expense for options granted beginning in 1995, the pro forma expense will likely increase in future years as new option grants become subject to the pricing model. The average fair value of options granted during 1998, 1997 and 1996 is estimated as $1.89, $4.44 and $1.86, respectively.

(15) Stockholders' Equity-(Continued)

In 1991 and 1993, the Company issued warrants in connection with certain debt financings. During 1997 all of those warrants were exercised.

The Company has reserved shares of its authorized but unissued common stock for the following:

<TABLE>
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	Stock Options		Warrants			
		Weighted Average price		Weighted Average price	Total	
	Shares	per share	Shares	per share	Shares	Exercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance outstanding, December 31, 1995	800,287	$2.45	260,338	$2.85	1,060,625	879,038
Granted	140,600	7.27	-	-	140,600	
Exercised	(1,500)	4.50	(84,260)	2.88	(85,760)	
Expired	(21,500)	6.05	(56,078)	3.54	(77,578)	
Balance outstanding, December 31, 1996	917,887	3.10	120,000	2.50	1,037,887	839,272
Granted	263,050	7.42	-	-	263,050	
Exercised	(124,409)	1.44	(120,000)	2.50	(244,409)	
Expired	(30,435)	7.36	-	-	(30,435)	
Balance outstanding, December 31, 1997	1,026,093	4.28	-	-	1,026,093	672,231
Granted	358,836	3.80 *	100,000	2.50	458,836	
Exercised	(45,250)	1.97	-	-	(45,250)	
Expired	(165,013)	6.05	-	-	(165,013)	
Balance outstanding, December 31, 1998	1,174,666	2.75 **	100,000	2.50	1,274,666	669,434

</TABLE>

* Includes 46,623 shares at $2.74 granted in connection with the BioSeq, Inc. acquisition.

** Includes the effect of 411,417 options repriced in December 1998 from a weighted average price of $6.72 to $3.25 per share.

The following table summarizes information concerning options outstanding and exercisable as of December 31, 1998:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Weighted Average	Weighted Average	Weighted Average		

	Remaining Life	Number of Options	Exercise Price	Number of Options	Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$0.00-$0.85	0.40	40,000	$ 0.2500	40,000	$ 0.2500
$0.86-$1.70	2.20	187,334	$ 1.4981	187,334	$ 1.4981
$1.71-$2.55	3.70	194,767	$ 2.4920	189,767	$ 2.5000
$2.56-$3.25	7.80	740,253	$ 3.2008	245,571	$ 3.1720
$3.26-$8.50	1.30	12,312	$ 6.4446	6,762	$ 6.0262
		1,174,666		669,434	

</TABLE>

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Computation of Net Income per Share

The following illustrates the computation of basic and diluted net income per share.

	Year Ended December 31,		
	1998	1997	1996
Shares, basic	4,654,609	4,437,801	2,915,522
Net effect of dilutive common stock equivalents-based on treasury stock method using average market price *		342,269	424,714
Shares, diluted	4,654,609	4,780,070	3,340,236
Net (loss) income, basic and diluted .	$(4,388,719)	$1,004,834	$ 481,220
Net (loss) income per share-basic	(0.94)	0.23	0.17
Net (loss) income per share-diluted ..	(0.94)	0.21	0.14

* Potentially dilutive securities of 192,826 were not included in the computation of diluted earnings per share because to do so would have been antidilutive for twelve months ended December 31, 1998.

(17) Selected Quarterly Financial Data (Unaudited)

Unaudited (Amounts in thousands, except for per share data)

1998	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total revenue	$ 6,273	$ 6,383	$ 6,181	$ 7,244
Gross profit	2,178	2,709	2,448	2,669
Net (loss) income	(645)	134	(3,377)	(502)
Net (loss) income per share, basic	(0.14)	0.03	(0.72)	(0.11)
Net (loss) income per share, diluted	(0.14)	0.03	(0.72)	(0.11)

1997	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr

Total revenue	$ 4,209	$ 4,649	$ 6,140	$ 7,301
Gross profit	1,678	1,921	2,541	3,148
Net income	148	176	246	435
Net income per share, basic	0.03	0.04	0.06	0.10
Net income per share, diluted	0.03	0.04	0.05	0.09

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
BOSTON BIOMEDICA, INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Boston Biomedica, Inc. and its subsidiaries (the "Company") at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14 (a) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Boston, Massachusetts
February 24, 1999, Except as to certain information in the first paragraph of Note 9, for which the date is March 31, 1999.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 is incorporated by reference to the information under Part I, Item 1 - Business under the heading "Executive Officers of the Registrant" at page 14 of this Report, and to the information in the Registrant's definitive Proxy Statement which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated by reference to the information in the Registrant's definitive Proxy Statement under the heading "Executive Compensation," which is expected to be filed by the Registrant within

120 days after the close of its fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated by reference to the information in the Registrant's definitive Proxy Statement under the heading "Security Ownership of Directors, Officers and Certain Beneficial Owners," which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by Item 13 is incorporated by reference to the information in the Registrant's definitive Proxy Statement under the heading "Certain Relationships and Related Transactions," which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. Index to Financial Statements:
(a) 1. Index to Financial Statements:

(a) 2. Financial Statement Schedule:

All supplemental schedules other than as set forth above are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or the Notes to Consolidated Financial Statements.

(a) 3. Exhibits:

Exhibit No.

3.1 Amended and Restated Articles of Organization of the Company**

3.2 Amended and Restated Bylaws of the Company**

4.1 Specimen Certificate for Shares of the Company's Common Stock**

4.2 Description of Capital Stock (contained in the Restated Articles of Organization of the Company filed as Exhibit 3.1) **

10.1 Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company**

10.2 Exclusive License Agreement, dated December 6, 1994, between the University of North Carolina at Chapel Hill and the Company**

10.3 Agreement, dated October 1, 1995, between Ajinomoto Co., Inc. and the Company**

10.4 Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company**

10.5 Stock Purchase Agreement, dated April 26, 1996, between Kyowa Medex Co., Ltd. And the Company**

10.6 1987 Non-Qualified Stock Option Plan**++

10.7 Employee Stock Option Plan**++

10.8 Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P. **

10.9 Purchase Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.10 Warrant Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.11 Stockholders' Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.12 License Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.13 Commercial Loan Agreement, dated as of March 28, 1997, between The First National Bank of Boston and the Company**

10.14 Asset Purchase Agreement, dated March 26, 1997 between Source Scientific, Inc. and the Company**

10.15 Contract, dated March 1, 1997, between National Cancer Institute and the Company**

10.16 Lease Agreement, dated May 16, 1997, for Gaithersburg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company**

10.17 Lease Agreement, dated January 30, 1995 for Garden Grove, California facility between TR Brell, Cal Corp. and Source Scientific, Inc., and Assignment of Lease, dated July 2, 1997, for Garden Grove, California facility between Source Scientific and BBI Source Scientific**

10.18 Contract, dated July 1, 1998, between the National Institutes of Health and the Company (NO1-AI-85341)**

10.19 Contract, dated July 1, 1998, between the National Heart Lung and Blood Institute and the Company (NO1-HB-87144)**

21.1 Subsidiaries of the Company

23 Consent of PricewaterhouseCoopers LLP

27 Financial Data Schedule

- ----------

++ Management contract or compensatory plan or arrangement.

** In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

(b) REPORTS ON FORM 8-K.

The Registrant did not file any Current Reports on Form 8-K during the quarter ended December 31, 1998.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 15, 1999 Boston Biomedica, Inc.

By: /s/Richard T. Schumacher

Richard T. Schumacher
President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURES	TITLES	DATE
/s/ Richard T. Schumacher --- Richard T. Schumacher	President, Chief Executive Officer, and Chairman of the Board (Principal Executive Officer)	April 15, 1999
/s/ Kevin W. Quinlan --- Kevin W. Quinlan	Senior Vice President, Finance; Chief Financial Officer; Treasurer and Director (Principal Accounting Officer)	April 15, 1999
/s/ Calvin A. Saravis --- Calvin A. Saravis	Director	April 15, 1999
/s/ Henry A. Malkasian, Sr. --- Henry A. Malkasian, Sr.	Director	April 15, 1999
/s/ Francis E. Capitanio --- Francis E. Capitanio	Director	April 15, 1999

EXHIBIT INDEX
- ---

Exhibit No.		Reference
3.1	Amended and Restated Articles of Organization of the Company	A**
3.2	Amended and Restated Bylaws of the Company	A**
4.1	Specimen Certificate for Shares of the Company's Common Stock	A**
4.2	Description of Capital Stock (contained in the Restated Articles of Organization of the Company filed as Exhibit 3.1)	A**

10.1	Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company	A**
10.2	Exclusive License Agreement, dated December 6, 1994, between the University of North Carolina at Chapel Hill and the Company	A**
10.3	Agreement, dated October 1, 1995, between Ajinomoto Co., Inc. and the Company	A**
10.4	Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company	A**
10.5	Stock Purchase Agreement, dated April 26, 1996, between Kyowa Medex Co., Ltd. and the Company	A**
10.6	1987 Non-Qualified Stock Option Plan*	A**
10.7	Employee Stock Option Plan*	A**
10.8	Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P.	B**
10.9	Purchase Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.10	Warrant Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.11	Stockholders' Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.12	License Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.13	Commercial Loan Agreement, as of dated March 28, 1997, between The First National Bank of Boston and the Company	C**
10.14	Asset Purchase Agreement, dated March 26, 1997 between Source Scientific, Inc. and the Company	C**
10.15	Contract, dated March 1, 1997, between National Cancer Institute and the Company	D**
10.16	Lease Agreement, dated May 16, 1997, for Gaithersburg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company	E**

10.17	Lease Agreement, dated January 30, 1995 for Garden Grove, California facility between TR Brell, Cal Corp. and Source Scientific, Inc., and Assignment of Lease, dated July 2, 1997, for Garden Grove, California facility between Source Scientific and BBI Source Scientific	F**
10.18	Contract, dated July 1, 1998, between the National Institutes of Health and the Company (NO1-AI-85341)	G**
10.19	Contract, dated July 1, 1998, between the National Heart Lung and Blood Institute and the Company (NO1-HB-87144)	G**
21.1	Subsidiaries of the Company	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
27	Financial Data Schedule	Filed herewith

- ----------

A Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-10759)(the "Registration Statement"). The number set forth herein is the number of the Exhibit in said registration statement.
B Incorporated by reference to the Registration Statement, where the Exhibit was filed as Exhibit No. 10.17 and contained in Exhibit 1.1.
C Incorporated by reference to the Company's Annual Report on Form 10K for the fiscal year ended December 31, 1996.
D Incorporated by reference to the Company's Quarterly Report on Form 10Q for the fiscal quarter ended March 31, 1997.
E Incorporated by reference to the Company's Quarterly Report on Form 10Q for the fiscal quarter ended June 30, 1997.
F Incorporated by reference to the Company's Annual Report on Form 10K for the fiscal year ended December 31, 1997.
G Incorporated by reference to the Company's Quarterly Report on Form 10Q for the fiscal quarter ended June 30, 1998.

* Management contract or compensatory plan or arrangement.

** In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

SCHEDULE II

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
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Allowance for Doubtful Accounts	Balance At Beginning of Period	Additions to Allowances	Recoveries for Accounts Previously Written Off	Uncollectable Accounts Written Off	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	
1998	$ 446,517	$ 429,036	$ 126,658	$(378,501)	$ 623,710
1997	352,058	395,272	194,154	(494,967)	446,517
1996	142,372	429,677	62,753	(282,744)	352,058

</TABLE>

EXHIBIT 21.1

Subsidiaries of the Company

<TABLE>
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Name	Jurisdiction of Organization	Location
<S>	<C>	<C>
BBI Clinical Laboratories, Inc.	Massachusetts	New Britain, CT

BBI Biotech Research Laboratories, Inc.	Massachusetts	Gaithersburg, MD
BBI Source Scientific, Inc.	Massachusetts	Garden Grove, CA
BBI BioSeq, Inc.	Massachusetts	Woburn, MA

</TABLE>

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statement of Boston Biomedica, Inc. on Form S-8 (File Nos. 333-24749) of our report dated February 24, 1999, except as to certain information in the first paragraph of Note 9, for which the date is March 31, 1999, on our audits of the consolidated financial statements and financial statements schedule of Boston Biomedica, Inc. as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, which report is included in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Boston, Massachusetts
April 14, 1999

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