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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2002,

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** (Address of Principal Executive Offices)	**02379-1040** (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 ☒ 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 by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes ☐ No ☒

The aggregate market value of the voting common stock held by non-affiliates of the registrant at February 26, 2003 was $9,242,956, based on the closing price of the common stock as quoted on the Nasdaq National Market on that date. The aggregate market value of the voting common stock held by non-affiliates of the registrant at June 28, 2002 was $19,458,478 based on the closing price of the common stock as quoted on the Nasdaq National Market on that date.

As of February 25, 2003 there were 6,793,382 shares of the registrant's common stock outstanding.

PART I

ITEM 1. BUSINESS

General

Boston Biomedica, Inc. ("BBI") and its wholly-owned subsidiaries (together, "the Company"), provide products and services for the detection and treatment of infectious diseases such as AIDS and Viral Hepatitis. The Company was organized as a "C" corporation in Massachusetts on August 15, 1978. and commenced significant operations in 1986. The Company has the following four business units, which are comparable to operating segments (the terms "business units" and "operating segments" are used herein interchangeably):

(1) BBI Diagnostics, an ISO 13485 (as of December 12, 2002) certified manufacturer of quality control and other diagnostic products used to ensure the accuracy of in vitro diagnostic tests;

(2) BBI Biotech Research Laboratories ("BBI Biotech"), the research and development arm of the Company which supplements its support for the other BBI business units with research contracts and repository services primarily for agencies of the United States government;

(3) BBI Source Scientific ("BBI Source"), an ISO 9001 and EN 46001 certified developer and manufacturer of laboratory and medical instruments; and

(4) Pressure Cycling Technology ("PCT"), the research, development and commercialization of products utilizing the Company's patented pressure cycling technology, to provide new solutions for a number of healthcare issues, including extraction of nucleic acids, inactivation of pathogens in human plasma, food safety, and genomics.

Recent Business Developments

In 2002, the Company continued to pursue its strategy to leverage its scientific capabilities in microbiology, immunology, virology, and molecular biology to (1) capitalize on the end-user market for quality control products especially the molecular testing market, (2) develop new products and services, (3) enhance technical leadership, and (4) capitalize on complementary business operations. In October 2002, the Company engaged William Blair & Company, L.L.C., an investment banking firm, to advise the Company in the evaluation of strategic opportunities aimed at increasing shareholder value and increasing the capital needed for growth.

The Company continued to expend significant resources on the research and development of its PCT products. As a result of these efforts, in September 2002, the Company released for sale the Barocycler™ instrument and disposable PULSE™ tubes, the Company's first products manufactured by the Company which utilize the Company's patented PCT. The Company's pressure cycling technology uses high pressure equipment to rapidly, reversibly, and repeatedly modulate solid and liquid phases of solutions and the binding interactions of biomolecules. The PCT utilized in the Barocycler™ and PULSE™ tubes releases biologically active nucleic acids and proteins from plant and animal tissues, as well as other organisms, which are not easily disrupted by standard chemical methods.

In 2002, the Company also substantially completed its exit from the clinical laboratory segment of its business. The Company decided to exit from this business segment in late 2000. To that end, in February 2001, the Company completed the sale of the business and certain assets and liabilities of BBI Clinical Laboratories, Inc. ("BBICL"), a wholly-owned subsidiary, to a third party.

The Company's non-voting ownership interest in its former wholly-owned subsidiary, Panacos Pharmaceuticals, Inc. ("Panacos"), the entity in which the Company transferred in January 2000 all of

its technology related to its drug discovery and vaccine programs, consisting primarily of patents and related sponsored research agreements, was reduced to 16% of the outstanding equity of Panacos. In accordance with its strategic plans, Panacos obtained additional equity financing from third party investors in November 2000 and in February 2002, in order to obtain the substantial amount of capital required to progress to more advanced stages of drug development including human clinical trials.

In 2001, the Company's Board of Directors authorized loans from the Company to Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer and a current Director of the Company, totaling $450,000. Mr. Schumacher borrowed an additional $75,000 from the Company late in 2001. In January 2002, the principal of these loans was repaid in full with a portion of the proceeds of the loans described in the following sentence. The Company's loans were replaced by the Company's pledge of a $1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by Mr. Schumacher. In January 2003, the $1,000,000 was used to satisfy the Company's limited guaranty obligation to the financial institution. The Company has no further obligations to the financial institution. The Company maintains a junior security interest in the collateral pledged by Mr. Schumacher to the financial institution. This collateral includes certain of Mr. Schumacher's real property and all of his common stockholdings in the Company. The Company reflected the $1,000,000 pledge as restricted cash on its balance sheet until the cash was used to satisfy the Company's limited guaranty in January 2003 and since then has reflected a $1,000,000 loan receivable on its balance sheet.

On February 14, 2003, the Company announced that the Company's Board of Directors had terminated Richard T. Schumacher as Chairman and Chief Executive Officer, effective immediately. Mr. Schumacher remains a Director of the Company. William A. Wilson, a Director, was named Chairman of the Board. Kevin W. Quinlan, President and Chief Operating Officer, continues to lead day-to-day operations. A special committee of the Board of Directors has been appointed to oversee the management of the affairs of the Company until such time as a new Chief Executive Officer is employed.

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 materials include disposable diagnostic components, instructions, and reaction mixing vessels (generally 96-well plates or test tubes) that are coated with the relevant infectious disease antigens, antibodies or other materials. To perform the test, typically either a technician or a specially designed instrument 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 or radioactive count), that indicate the presence or absence and amount of specific indicators (or 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) that 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 complements rather than diminishes 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 use quality control products in order to develop and evaluate 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 groups: (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, plasma centers, and blood banks.

Company Products and Services

Overview

Through its business unit BBI Diagnostics, the Company offers a broad array of "Diagnostic Products," for in vitro diagnostic use, consisting of Quality Control Panels, Accurun® External Run Controls and ACCUCHART™ quality control software, and Diagnostic Components, all used in connection with infectious disease testing. 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 are as specific, reproducible, and sensitive as possible. The Company's Accurun® External 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. The Company's ACCUCHART quality control software is a web based software data management program for quality control products customers. 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. ("BBI Source"), the Company designs, develops, manufactures and markets "Laboratory Instruments", primarily consisting of readers and washers and other small medical devices. These instruments are used in hospitals and clinics, and in research, environmental and food testing laboratories. Utilizing a common hardware technology platform, these instruments are used in connection with the performance of an *in-vitro* diagnostics test, including reading the test result. The Company's PCT products are produced at the BBI Source production facility. BBI Source also serves as a contract manufacturer of analytical instruments and biomedical devices.

BBI Biotech Research Laboratories, Inc., another wholly-owned subsidiary, is the research and development "arm" of the Company, assisting in the development of new products and services for the other business units, such as the development of the PCT Barocycler™ and PULSE™tubes and related protocols used to prepare specimens. BBI Biotech seeks to obtain government grants and other research support wherever possible to help fund the cost of this research and development. In addition, BBI Biotech provides repository services for the United States government, and specialty reagents and molecular and cellular biology services for laboratories and test kit manufacturers.

The PCT segment involves research, development and commercialization of products utilizing the Company's patented PCT. In September 2002, the Company released for sale the Barocycler™ instrument and disposable PULSE™ tubes, the Company's first products

manufactured by the Company which utilize the Company's patented PCT. PCT uses high pressure equipment to rapidly, reversibly, and repeatedly modulate solid and liquid phases of solutions and the binding interactions of biomolecules. PCT utilized in the Barocycler™ and PULSE™ tubes releases biologically active nucleic acids and proteins from plant and animal tissues, as well as other organisms, which are not easily disrupted by standard chemical methods.

During each of the last three years, BBI Diagnostics and BBI Biotech contributed at least 15% of the Company's consolidated revenues. The National Institutes of Health, a United States Government agency and the largest customer of BBI Biotech, accounted for approximately 31%, 31% and 30%, respectively, of total consolidated revenues from continuing operations of the Company for the years ended December 31, 2002, 2001, and 2000, respectively. The Company's consolidated financial statements set forth in Item 8 of this report provide financial information relating to each of the Company's operating segments.

Diagnostic Products

The Company manufactures its Diagnostic Products from human plasma and serum that are obtained from nonprofit and commercial blood centers, primarily in the United States. The Company has acquired and developed an inventory of approximately 20,000 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, consisting of Quality Control Panels, Accurun® External Run Controls and ACCUCHART™ quality control software, 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, which contain 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, Asia 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 laboratory 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 laboratory 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 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, OEM, and verification panels generally range from $100 to $200 per panel.

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).

The following table describes the types, usage and customers of Quality Control Panel products currently offered by the Company:

QUALITY CONTROL PANELS

Product Line	Description	Use	Customers
Seroconversion Panels	Rare 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 specificity and sensitivity of a test in detecting a developing antigen/antibody, or presence of pathogen nucleic acid.	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 containing a known amount of an infectious disease marker as calibrated against international standards.	Evaluate the linearity and low-end analytical sensitivity of a test kit.	Test kit manufacturers, regulators and researchers.
Qualification Panels	Dilutions of human plasma or serum manifesting a full range of reactivities in test kits for a specific marker.	Demonstrate the consistent lot-to-lot performance of test kits, troubleshoot problems, evaluate proficiency, and train laboratory technicians.	Clinical reference laboratories, blood 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.
Verification Panels	Verification Panels contain naturally occurring undiluted samples at varying titers.	Verify accuracy and ensure that reagents perform to expectations: also used to troubleshoot system problems and to document problem resolution.	Clinical reference laboratories, blood banks, hospital laboratories.

As mentioned above, the Company's seroconversion and performance panels are comprised of rare plasma specimens which are 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 inventory is sold with another panel comprised of different specimens from a different individual, equally 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. However, the Company cannot be certain these relationships will continue or that it will be able to continue to obtain such specimens.

Accurun® External Run Controls

End-users of test kits use run controls to monitor test performance, in order to minimize false negative test results and improve error detection. Run controls consist of one or more specimens of known reactivity that are tested 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 for the run control, determined by the user, to assess whether the results of the other, unknown specimens may be relied upon. The run control result must be within the acceptable range to be considered valid. This is often tracked visually using what is known as 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™ web based data management tracking and charting software, used as part of a laboratory's quality assurance program, runs on a personal computer and is designed to provide the data tracking capability needed to document laboratory performance.

The Company's Accurun® family of products is targeted at the end-users of infectious disease test kits. The Company believes that it offers the most comprehensive line of serological and nucleic acid based run controls in the industry, and that its Accurun® products, in combination with its Quality Control Panel and Accuchart 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® 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® Run Control products in 1993 and has since developed and released for sale an additional 63 Accurun® products. Eight products have been discontinued, for a total of 59 run controls available as of December 31, 2002. Forty-four of these products are available for clinical diagnostic purposes; the others currently are limited to research use. Current Accurun® External Run Control products generally range in price from $5 to $60 per milliliter.

Diagnostic Components

Diagnostic Components are custom processed human plasma and serum materials supplied to infectious disease test kit manufacturers and combined (often after further processing by the manufacturer) with other materials to become various reagents (fluid components) of manufacturer's test kits. The Company supplies Diagnostic Components in three product lines: Normal Human Plasma and Serum, Basematrix, and Characterized Disease State Serum and Plasma. Normal Human Plasma is the clear liquid portion of blood which contains proteins, antibodies, hormones and other substances, with the Normal Human Serum product also having 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. The Company has also registered a trademark for its product, AccuChart Plus®, a quality control data management software program for analyzing, tracking and archiving daily run control data for monitoring test kit performance.

Laboratory Instruments

BBI Source, the Laboratory and Diagnostics Instrumentation operating segment, designs, develops, manufactures and markets laboratory instruments and other small medical devices used in hospitals and clinics and in research, environmental and food testing laboratories. These instruments 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, all of which are desired by customers reselling or supplying state-of-the-art instrumentation systems to laboratories worldwide in various applications. This segment also manufactures the PCT Barocycler™ and PULSE™ tubes.

Most of the Laboratory Instrumentation products currently being offered have been commercialized for a number of years and were primarily developed in conjunction with in vitro diagnostics test kit manufacturers prior to the acquisition of this segment in 1997. The Barocycler™ represents the Company's first major instrument-based product launch for the PCT segment. BBI Source also seeks to attract development partners for new prototype products. Management believes that these products address important market segments in biomedical and clinical diagnostic testing and in environmental monitoring and food testing research. The BBI Source product line currently includes the following:

MicroChem® and MicroChemII® Photometers. A compact, low-cost, single tube photometer designed for immunoassay and general chemistry applications, including infectious disease immuno assays, food and water safety testing.

ChemStat® 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 of immunoassay and general chemistry.

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

EXECWASH® Washing System. An automated immunoassay washing system that can be quickly configured by the user to wash different solid-phase assay formats by proprietary manifold designs. The EXEC-WASH washing system is fully compatible with a variety of other Company products, such as the ChemStat Automated Photometer and the E/LUMINA II Luminescence Analyzer.

Protocol Design Software System. A development tool for researchers and assay manufacturers, the program operates under Microsoft® Windows and serves as the master programming center for EXECWASH Washing systems to create fluid handling protocols.

Verif-EYE®. A reflectance reader for fast, reliable results for use in research and development or process inspection and verification by rapid test kit manufacturers.

PCT Products

The BBI Source facility manufactures the Company's products for the PCT segment. In September 2002, the Company released for sale the Barocycler™ instrument and disposable PULSE™ tubes, the Company's first products manufactured by the Company which utilize the Company's patented PCT. The Company's pressure cycling technology uses high pressure equipment to rapidly, reversibly, and repeatedly modulate solid and liquid phases of solutions and the binding interactions of biomolecules. The PCT utilized in the Barocycler™ and PULSE™ tubes releases biologically active nucleic acids and proteins from plant and animal tissues, as well as other organisms, which are not easily disrupted by standard chemical methods.

Services

The Company seeks to focus its specialty laboratory services in the advanced biomedical research area. The Company concentrates its

services in those areas of infectious disease testing which are complementary to its quality control and diagnostic products businesses.

Contract Research and Services

The BBI Biotech operating segment offers a variety of research services in molecular biology, cell biology and immunology to governmental agencies, diagnostic test kit manufacturers and biomedical researchers. Molecular biology services include DNA extractions and sequencing, genotyping, DNA library construction and screening and development of custom nucleic acid amplification 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 and custom western blot assays.

The Company currently provides contract research services under several contracts and grants. These services are primarily related to infectious disease diagnostics, in support of the products and services that the Company wishes to develop. Current contracts include the following: clinical trials support for candidate HIV vaccines and HBV therapies and a grant with NIH to develop an amplification-boosted analytical method, immuno-polymerase chain reaction (I-PCR) for the detection of prion proteins in the blood of humans and animals. Additional assays developed over the years include PCR based assays for HIV, Parvovirus B19, Hepatitis B virus, West Nile Virus, Lyme Disease, Babesiosis, Erhlichia, and HSV.

Blood Processing and Repository Services

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 10,500,000 specimens and processes or ships up to several thousand specimens per week in support of various NIH cancer and virus research programs. In 1998, BBI Biotech received a six-year $4.7 million repository contract (including five one-year extension options) with the National Heart, Lung and Blood Institute of the NIH. In 1999, it received a seven-year, $9.6 million repository contract with the National Institute of Allergy and Infectious Disease. In 2000, BBI Biotech was awarded a one-year $854,000 subcontract by New England Research Institutes, Inc. to provide repository and related specimen processing and testing services for the Hepatitis C Antiviral Long-term Treatment against Cirrhosis (HALT-C) Trial, a clinical trial funded by the National Institutes of Diabetes and Digestive and Kidney Diseases (NIDDK), an institute of the NIH. Subsequent funding has continued. In 2001, BBI Biotech was awarded a $10.3 million NCI five year repository contract. In 2002 BBI Biotech was awarded a one year $1,109,357 subcontract by the University of Pittsburgh to provide repository, specimen processing and testing services on a NIDDK funded grant to study the viral resistance to antiviral therapy of chronic Hepatitis-C. BBI Biotech is currently focusing on developing a

research and development program to extend the life and maintain the quality of specimens that are stored at ultra-low temperatures as well as expanding the Company's repository customer base to include more industry clients. In 2002 BBI Biotech also signed a contract with the American Red Cross to provide repository services for their National Testing Laboratory. To date all renewal options under these contracts have been approved, although the Company cannot be certain that any subsequent options will be exercised.

Other Services

Clinical Trials. The Company from time to time conducts clinical trials for domestic and foreign test kit and device manufacturers. Manufacturers must collect data for submission to the United States FDA and other countries' regulatory agencies, and these manufacturers contract with organizations such as the Company to perform this work. By providing this service, the Company is able to maintain close contact with test kit and device 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 and device manufacturers seeking to obtain FDA approval for their infectious disease test kits and medical devices.

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

After-sales Service. BBI Source also provides after-sales service, including third party maintenance. Management believes that after-sales service provides a marketing advantage in many of the Company's markets, since many of the Company's customers do not maintain their own full service departments. The Company's service department is located at BBI Source's facility in Garden Grove, California. The Company utilizes an independent third party contractor located in Giessen, Germany, to provide a fully functional European service and support center.

Research and Development

The Company's research and development efforts are focused on (i) the ongoing development of pressure cycling technology ("PCT") for nucleic acid extraction and pathogen inactivation, which the Company made available for sale in 2002; (ii) the development of new and improved Quality Control Products (Panels and Accurun®) for the end-user market and the *in vitro* diagnostics market, (iii) the development of purified reagents and proteins and nucleic acid based assays; and (iv) the design and development of new laboratory instruments and mechanical and optical detection techniques, emphasizing its Verif-EYE® reflectance reader.

The Company has approximately 22 full or part-time employees involved in its research and development effort associated with continuing operations as of December 31, 2002. Since the Company's acquisition of BioSeq Inc. in 1998, the Company has invested significantly in research and development, both in whole dollars and as a percentage of revenue, and expects to continue to do so for the foreseeable future, as it seeks to develop new applications for PCT. 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. Whenever it can, the Company seeks to supplement its research and development funding from grants provided by various agencies and departments of the United States government. See also "Contract Research and

Services." The Company's research and development expenses were approximately $2.6M, $2.3M, and $2.4M in each of the three years ended December 31, 2002, 2001 and 2000, respectively.

Quality Control Products. 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 2002, the Company introduced 21 new Seroconversion, Performance, and Sensitivity Panel products, and 11 new Accurun® External Run Controls. 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,controls for HIV drug resistance assays, and a variety of controls targeted for leading instrument platforms. The Company has increased the number of Quality Control Products it offers from approximately 20 products in 1990 to more than 200 in 2002.

Laboratory Instruments. The Company's product development activities in year 2002 related to laboratory instruments were centered on development of prototype, demonstration and preproduction Barocycler™ and PULSE™ tubes, additional configurations of a "reflectance" reader to produce objective results from rapid *in vitro* diagnostic tests, as well as an updated version of the MicroChem® (the MicroChem® II). In addition, the Company continues to work on applications for existing products to broaden their utilization.

Pressure Cycling Technology ("PCT"). The Company owns patented technology based on PCT. PCT research was primarily focused in two areas: (1) nucleic acid extraction and purification from target pathogens in connection with sample preparation for PCR or other molecular testing; and (2) pathogen inactivation of blood plasma intended for transfusion or for further fractionation into transfusion products. Both of these areas of research were previously funded by Phase II Small Business Innovative Research Grants, which provide $750,000 each, over a two year period ending February 2004. The Company has developed a pressure cycling system utilizing a computer controlled instrument, the Barocycler™ NEP2017, and specialized PULSE™ tubes which are capable of releasing biologically active nucleic acids and proteins from plant and animal tissues, as well as other organisms, such as mycobacteria, which are not easily disrupted by standard chemical methods. This pressure cycling system was made available for sale in 2002.

Sales and Marketing

The Company's sales and marketing efforts are organized by business unit consistent with the unit's business objectives, and coordinated via frequent planning with senior management. Overall, the Company employs approximately 26 people in sales, marketing, and customer service functions associated with continuing operations as of December 31, 2002. The Company's overall marketing strategy is to focus on the needs of its customers in three broad areas: (*i*) quality control products to improve the quality and accuracy of test results and kit components for the *in vitro* diagnostic industry, (*ii*) life science products and services in support of infectious disease manufacturers, researchers, and (*iii*) a sample preparation system introduced in 2002 based on PCT.

The strategy for Diagnostic Products is to focus on customer needs 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 end-user portion of this market is promoted under the marketing platform, known as "Total Quality System" ("TQS"). TQS is a package of Quality Control Products, including the Company's Accurun® External Run Controls and AccuChart Quality Control Software, that 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 equipment, 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® line of run control products. In addition, the Company continues to expand the Accurun® product line to support the high growth nucleic acid testing market, and to capitalize on the worldwide implementation of new technology to improve the safety of blood products.

The Company's Diagnostic Products are led by a Director of Sales and Marketing and 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 led by a Group Sales Manager. The domestic sales force consists of a Field Sales Manager and 12 direct sales representatives. Internationally, the Company distributes its Diagnostic Products both directly and through independent distributors located in Japan, Australia, North and South America, Southeast Asia, Israel and Europe. The Company's international sales manager oversees the Company's foreign distributors.

The Company's Laboratory Instruments marketing strategy is to focus on new contract manufacturing, increase share of business of current contracted customers, increase sales of Source brand instruments and service through a direct domestic and international sales force consisting of one director and one sales manager.

The Company incurred significant marketing and promotion related costs in 2002 primarily associated with its introduction of the PCT Barocycler™ at the Pittsburgh Conference industry trade show and related ongoing sales, marketing and promotion efforts associated with the September 2002 commercial launch of the PCT Barocycler™. As of March 2003, the Company has two sales associates dedicated to the PCT segment of the business.

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, poster presentations, news releases and direct mail pieces. These materials are supplemented by occasional advertising in industry publications, technical presentations, and exhibitions at local, national and international trade shows and expositions. The Company utilizes a product information library on its web site (www.bbii.com) allowing customers, sales personnel and international distributors immediate access to detailed product information and marketing literature.

Seasonality

Historically, the Company's results of operations have been subject to quarterly fluctuations due to a variety of factors, primarily customer purchasing patterns (sometimes driven by end-of-year expenditures), and seasonal demand. In particular, the Company's sales of its off-the-shelf Diagnostic Products typically have been highest in the fourth quarter and lowest in the first quarter of each fiscal year, whereas OEM product sales may peak in any quarter of the year, depending on the customer's underlying production cycle for their own product. Research contracts are generally for large dollar amounts spread over one to five-year periods, and upon completion, frequently do not have renewal phases. As a result, these contracts 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.

Customers

The Company's customers for Diagnostic Products consist of four major groups: (1) international diagnostics and pharmaceutical manufacturing companies, such as Abbott Diagnostics, Bayer,

bioMerieux, Biorad, Chiron, Dade-Behring, DiaSorin, Fujirebio, Hoffman LaRoche and Ortho Diagnostics (Johnson & Johnson); (2) regulatory agencies such as the United States FDA and CDC, the British Public Health Laboratory Service, the French Institut National de la Transfusion Sanguine, and the German Paul Ehrlich Institute, (3) national and international proficiency providers such as the College of American Pathologists and the European Union Concerted Action for Quality Control and (4) end-users of diagnostic test kits, such as hospital and independent clinical laboratories, including Quest Diagnostics, Specialty Laboratories, public health laboratories and blood banks, including the American Red Cross, Swiss Red Cross, and United Blood Services.

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 Hitachi Chemical Diagnostics, Beckman Coulter Inc., Vicam, Edwards Life Science, Nihon Kohden and Vysis (Abbott).

The Company's customers for contract research include various agencies of the National Institutes of Health (NIH) such as the National Institute of Allergies and Infectious Disease ("NIAIDS"), the National Cancer Institute ("NCI"), and the National Heart Lung and Blood Institute ("NHLBI").

The Company does not have long-term contracts with its customers for Diagnostic Products, which are generally sold pursuant to purchase orders for specific purchases. Laboratory Instruments are generally sold on an OEM basis under medium-term contracts with monthly delivery dates. The Company believes that its relationships with customers are satisfactory.

During the fiscal years 2002, 2001 and 2000, the Company's international sales were $3,305,000, $3,437,000 and $4,175,000, respectively. During those years, most of the Company's international sales were made in European countries. The Company's Consolidated Financial Statements, including the Notes thereto, set forth in Item 8 of this report provide additional information relating to the Company's foreign and domestic sales. The Company expects foreign sales to represent a significant portion of revenue in the foreseeable future. The Company cannot guarantee that revenues by geographic region in the foreseeable future will be comparable to those achieved in recent years. The Company's international operations expose it to a number of difficulties in coordinating its activities abroad and in dealing with multiple regulatory environments.

During the fiscal years 2002, 2001, and 2000, sales (from continuing operations) to the Company's three largest customers accounted for an aggregate of approximately 28%, 30% and 20%, respectively, of the Company's net sales, although the customers were not identical in each period. The government contract revenues are from United States government agencies, primarily various branches of the National Institutes of Health (NIH) and represent the only customer with revenue in excess of 10% of consolidated revenue in each of the years ended December 31, 2002, 2001 and 2000. During the fiscal years 2002, 2001, and 2000, the combined revenues from all branches of the National Institutes of Health, a United States Government agency, accounted for approximately 31%, 31% and 30%, respectively, of total consolidated revenues from continuing operations of the Company. While these contracts contain standard terms and conditions relative to audits, and/or termination, in whole or in part, without prior notice at the Government's convenience, the Company has never had any contracts terminated and has no knowledge of any actions pending. While the Company believes that the loss of any one of these customers would have an adverse effect on the Company's results, this risk is partially mitigated by the diversity of its customer base within the *in*

vitro diagnostics 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. Laboratory instruments and PCT products are manufactured and assembled at the Company's facility in Garden Grove, California. All important raw materials and components acquired come from a variety of local and/or national suppliers and distributors who have multiple sources of supply. Both of these facilities are ISO 9001 certified and BBI Diagnostics is also an ISO 13485 (as of December 12, 2002) certified manufacturer of quality control and other diagnostic products.

The Company operates its research and development laboratory (including PCT) in Gaithersburg, Maryland and a repository facility in Frederick, 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 its current and future markets 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 Acrometrix, Ambion, Bio-Rad Laboratories, Inc., Blackhawk Biosystems Inc. and MAS. in run controls, and with a number of smaller, privately-held companies in quality control panels. In Europe, in addition to the above, the Dutch Red Cross offers several run control and panel products. The Company believes that all of these competitors currently offer a less diverse line of panel and run control products than the Company, although the Company cannot be certain that these companies will not expand their product lines.

In the Diagnostic Components area, the Company competes with 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.), APW, and Plexus (SeaMed), as well as numerous, smaller companies, such as Awareness Technology Inc.

The Company believes that there are substantial benefits of its PCT system over current methods of sample preparation of "hard to lyse" cells. The Company believes the PCT system offers faster, safer and more reproducible results. The current products incorporating PCT for sample preparation are substantially more expensive than competing offerings from Coors, Qiagen, Fisher, Scientific Industries, Misonix, Biospec, Andwin, Glenn Mills, Branson, Ultrasonic Power Corp., Microfluidizer, American Instrument, French Press, IKA Sonicators, and ISC Inc.

BBI Biotech competes primarily on the basis of price with BioReliance Corporation and several universities for research and development contracts and with ATTC, Cyronix, Corielle and McKesson Bioservices, Inc., for repository services.

Intellectual Property

The Company holds as trade secrets current technology used to prepare Basematrix and other blood-based products. None of the Company's 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 these products and related technology. The Company cannot be certain 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 products. These patents expire between 2006 and 2013.

The Company has nine patents issued and several pending patent applications for its Pressure Cycling Technology. Several of these have been followed up with foreign applications, for which two patents were issued in Europe in 2002. The Company expects to file

additional foreign applications in the future relating to PCT. The patents which have been issued expire between 2015 and 2021.

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

BBI®, Accurun®, and Verif-EYE® are registered trademarks of the Company.

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 an existing FDA cleared, and 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 the 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® External Run Controls, when marketed for blood donor screening or 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 that exempted unassayed controls intended for use in diagnostic testing from the requirement for a 510(k) submission. BBI may now 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 controls intended for use in blood screening. The FDA 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 the FDA. The Company cannot be certain that it 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 February 1, 2003, a total of 16 products in the Accurun 1® line and 31 single analyte Accurun® External Run controls have either received 510(k) clearance or have been validated according to the Company's protocols and are manufactured according to cGMP. Certain of the Company's Accurun® External Run Controls are currently marketed "for research use only." 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, or validated prior to marketing, and initiate enforcement action against the Company, which could have a material adverse effect on the Company. The FDA has issued a Draft Policy Compliance Guideline, which, if it takes effect as currently issued, 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.

In February 2003, seven of the Company's Accurun 1® Positive Control products designed for the European market have been "approved to CE Mark" by G-Med, a designated Notified Body under the European Union's In Vitro Diagnostics (IVD) Directive. The IVD Directive describes criteria that must be met and steps that must be taken for IVD products to be qualified for sale in European Union countries beginning at the end of 2003. In the IVD Directive, the European Union classifies products according to the risks associated with their failure or misuse, and establishes a process leading to a CE Mark (approval to sell a product in EU countries) for each category. The Company's Accurun 1® product line is in the highest risk category because these products are intended for use with tests for HIV, Hepatitis B and Hepatitis C; thus the criteria for approval to CE Mark are the most stringent, and require Notified Body review.

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

The Company is registered as a medical device manufacturer with the FDA for its Diagnostic Products and Laboratory Instruments and files changes/listings of its 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. The Company must maintain high standards of quality in manufacturing, testing and documentation, and implement strict cGMP/QSR requirement 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 cGMP/QSR requirements, regulations governing testing, control, and documentation and reporting of adverse experiences with the use of the device. The FDA monitors ongoing compliance with cGMP/QSR requirements and other applicable regulatory requirements by conducting periodic inspections. FDA regulations require FDA 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 pre-market 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 pre-market approval or clearance. The Company cannot be certain, 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. As of December 2002, the Company's Diagnostic Products business unit is ISO 13485 certified, with registration by G-MED.

The Company's Laboratory Instruments business unit is ISO9001 certified, with registration by the British Standard Institute. 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 members of the European Union and the European Free Trade Association) are in the process of adopting various product and service "Directives" to address essential health, safety, and environmental requirements associated with the products and services. These "Directives" cover both quality system requirements (ISO Series 9000 Standards, ISO 13485 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. The Company cannot be certain that it 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, repository operations, contract research, and instrumentation services) 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 and other national regulatory agencies. 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") and Good Manufacturing Practice ("GMP") regulations, investigational new drug or device regulations, Institutional Review Board ("IRB") regulations and informed consent regulations.

The Company currently holds permits issued by 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 Maryland State and US Nuclear Regulatory Commission (*in vitro* testing with by-product material under general license, covering the use of certain radioimmunoassay test methods and radioactive materials).

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, 2002 the Company employed 197 persons, all of whom were located in the United States. Of these, 95 persons were employed at the West Bridgewater, Massachusetts facility, 80 at its two Maryland facilities, and 22 at the Garden Grove, California facility. None of the Company's employees is covered by a collective bargaining agreement. The Company believes it has a satisfactory relationship with its employees

Backlog

BBI Source had an instrument manufacturing backlog of approximately $1,124,000 as of December 31, 2002, as compared to approximately $2,367,000 as of December 31, 2001. Shipments expected within the next twelve-month period, included in this backlog, amounted to approximately $755,000 as of December 31, 2002 as compared to $1,398,000 as of December 31, 2001. Backlog at the other BBI subsidiaries is not material.

Executive Officers of the Registrant

The following table sets forth the names, ages and positions of the executive officers of the Company as of March 2003:

Name	Age	Position
Kevin W. Quinlan	53	President and Chief Operating Officer, Treasurer and Director
Patricia E. Garrett, Ph.D.	59	Senior Vice President, Science and Technology
Mark M. Manak, Ph.D.	53	Senior Vice President and General Manager of BBI Biotech
David F. Petersen	56	Senior Vice President and General Manager of BBI Source
Kathleen W. Benjamin	46	Vice President, Human Resources and Assistant Clerk
Richard D'Allessandro	56	Vice President, Information Technology

Mr. Quinlan, a Director of the Company since 1986, has served as President and Chief Operating Officer since August 1999, and Treasurer since June 2001. From January 1993 to August 1999, he served as Senior Vice President, Finance, Chief Financial Officer and Treasurer. 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 (now PricewaterhouseCoopers LLP) from 1975 to 1981. Mr. Quinlan is a Certified Public Accountant and received a M.S. in accounting from Northeastern University and a B.S. in resource economics from the University of New Hampshire.

Dr. Garrett has served as Senior Vice President, Science and Technology of the Company since 2001, and served as Senior Vice President and General Manager of BBI Clinical Laboratories from 1999 through 2001. From 1988 to 1999, she served as Senior Vice President, Regulatory Affairs and Strategic Programs. From 1980 to 1988, 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 and General Manager of BBI Biotech since August 1999. From 1992 to 1999 he served as Senior Vice President, Research and Development of BBI Biotech. From 1980 to 1992, he served as Director of Molecular Biology and Director of Contracts and Services 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 served as Senior Vice President and General Manager of BBI Source since August 1999. From May 1998 to August 1999, he was Vice President, BBI Source Scientific. Mr. Petersen has 25 years of experience in operations management and materials planning including 10 years as Senior Director of Operations for Source Scientific. Before joining Source Scientific in 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). He was also an Assistant Professor at California State University Dominguez Hills, where for seventeen years he instructed 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.

Ms. Benjamin has served as Vice President, Human Resources of the Company since January 1999 and has been Assistant Clerk of the Company since 1997. Prior to her promotion to Vice President, Ms. Benjamin served as Director of Human Resources and Investor Relations from 1997 to 1999. Prior to joining the Company in 1997 she was employed by Shields Health Care Group, a provider of Magnetic Resonance Imaging and radiation oncology, serving as their Director of Operations from 1992 to 1997. Prior to this time she was an educator. Ms. Benjamin received her B.S., from the College of Life Sciences and Agriculture at the University of New Hampshire.

Mr. D'Allessandro has served as Vice President, Information Technology of the Company since January 1999. Mr. D'Allessandro joined the Company in 1993 as Director, Management Information Systems and served in that capacity until his promotion to Vice President. Mr. D'Allessandro has 30 years of experience in data processing/information systems technology, with a focus on manufacturing and biotechnology organizations. Mr. D'Allessandro is APICS certified and received his B.S. in Management Information Systems from Northeastern University.

Officers are nominated by the President and elected by the Board of Directors.

For additional information relative to the Company's liquidity and debt covenants, and critical accounting policies and estimates, see item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" hereunder.

ITEM 2. PROPERTIES.

The Company owns its corporate offices and diagnostic products manufacturing facility for its BBI Diagnostics operating segment, which is located in a two-story, 32,000 square foot building in West Bridgewater, Massachusetts. The Company has deferred renovation and expansion of this facility during recent years, but believes that any renovations to its facility in West Bridgewater MA would be sufficient to meet its needs for several years. This building is subject to a $2,500,000 ten year mortgage dated March 31, 2000. Monthly payments on this mortgage are based on a 20 year amortization schedule with a balloon payment representing the remaining balance due in full on March 10, 2010.

The Company failed to meets its debt service coverage covenant for the year ended December 31, 2002, but the financial institution has waived this default and the Company's other defaults relating to reports and the termination of the Company's former Chairman and Chief Executive Officer.

The Company leases 27,000 square feet of space in Garden Grove, California where its BBI Source business unit manufactures laboratory instruments; the original lease, which expired in January 2002, was renewed for a three year period expiring January 31, 2005. The Company also leases laboratory facilities in Gaithersburg and Frederick, Maryland. The BBI Biotech segment's Gaithersburg facility contains 36,500 square feet of custom built laboratory and office space, and is occupied under a ten-year lease that expires on October 31, 2007. The Frederick facility contains 36,000 square feet of repository space under a seven-year lease that expires on November 30, 2006.

BBI Clinical Laboratories, a discontinued operation, operated from a 15,000 square foot facility in New Britain CT pursuant to a lease which expires in July 2005. The buyer of the business and certain assets and liabilities of BBICL reimbursed the Company for essentially all rental-related costs of this facility during the period February 21, 2001 through December 31, 2001. The Company is currently attempting to sublease this facility for the remainder of the lease term; however, in the current economic environment, it is not likely the Company will be able to sublease the facility for the duration of the lease.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any material pending legal proceedings.

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

No matter was submitted during the fourth quarter of fiscal 2002 to a vote of security holders of the Company.

PART II

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

The Company's common stock, par value $0.01 per share (the "Common Stock"), is listed on the Nasdaq National Market under the symbol "BBII".

The following table sets forth the high and low price, by quarter, during the two most recent fiscal years:

	Common Stock Price	
Fiscal Year Ended December 31, 2002	**High**	**Low**
First Quarter	$ 4.260	$ 2.790
Second Quarter	$ 5.020	$ 3.500
Third Quarter	$ 4.650	$ 2.130
Fourth Quarter	$ 3.010	$ 2.000
Fiscal Year Ended December 31, 2001	**High**	**Low**
First Quarter	$ 3.000	$ 0.750
Second Quarter	$ 3.840	$ 1.500
Third Quarter	$ 4.310	$ 1.300
Fourth Quarter	$ 3.240	$ 2.250

As of February 25, 2003, there were 20,000,000 shares of Common Stock authorized of which 6,793,382 shares were issued and outstanding, held of record by approximately 3,300 stockholders. See also Note 12 of Notes to Consolidated Financial Statements included in Part 2, Item 8 hereunder.

The Company has not declared or paid any dividends on its Common Stock. In accordance with the terms of the Company's mortgage with a bank, payment of dividends on Common Stock is not permitted. The Company plans to reinvest future profits to expand its business.

Recent Sales of Unregistered Securities

During 2002, the Company did not sell any securities that were not registered under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The statement of operations data for each of the fiscal years in the five-year period ended December 31, 2002, and the balance sheet data as of December 31, 2002, 2001, 2000, 1999, and 1998, have been derived from the consolidated financial statements of the Company. 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.

	Year Ended December 31,				
Consolidated Statement of Operations Data:	**2002**	**2001**	**2000**	**1999**	**1998(1)**
	in thousands, except per share data				
REVENUE:					
Products	$ 12,697	$ 13,093	$ 12,387	$ 14,057	$ 13,075
Services	10,068	8,733	7,083	5,741	6,190
Total revenue	22,765	21,826	19,470	19,798	19,265
COSTS AND EXPENSES:					
Cost of products	6,536	6,338	7,270	7,267	7,180
Cost of services	7,727	6,783	5,581	4,568	4,289
Research and development	2,611	2,303	2,444	3,132	2,297
Acquired research and development(2)	—	—	—	—	4,231
Selling and marketing	3,286	2,916	2,660	2,831	2,883
General and administrative	4,109	3,977	4,919	3,451	3,334
Impairment of intangible asset(3)	—	—	1,464	—	—
Total operating costs and expenses	24,269	22,317	24,338	21,249	24,214
Loss from continuing operations	(1,504)	(491)	(4,868)	(1,451)	(4,949)
Interest (expense) income, net(4)	(206)	(380)	(1,594)	(413)	(48)
Loss from continuing operations before income taxes	(1,710)	(871)	(6,462)	(1,864)	(4,997)
(Provision for) benefit from income taxes(5)	(3)	(16)	(1,152)	744	614
Loss from continuing operations before cumulative effect of change in accounting principle	(1,713)	(887)	(7,614)	(1,120)	(4,383)
Cumulative effect of change in accounting principle(4)	—	—	(190)	—	—
Loss from continuing operations	(1,713)	(887)	(7,804)	(1,120)	(4,383)
Income (loss) from discontinued operations	225	4,334	(197)	306	(6)
Net income (loss)	$ (1,488)	$ 3,447	$ (8,001)	$ (814)	$ (4,389)
Loss per share from continuing operations, basic and diluted	$ (0.26)	$ (0.14)	$ (1.43)	$ (0.24)	$ (0.94)
Net (loss) income per share, basic and diluted	(0.22)	0.56	(1.46)	(0.17)	(0.94)
Number of shares used to calculate net (loss) income per share					
Basic and Diluted	6,661	6,204	5,465	4,670	4,655

	December 31,				
Consolidated Balance Sheet Data:	**2002**	**2001**	**2000**	**1999**	**1998**
Working capital	$ 9,197	$ 9,407	$ 3,596	$ 8,615	$ 8,231
Net assets from discontinued operations	—	—	1,238	1,978	1,346
Total assets	19,843	21,414	22,549	24,934	23,038
Long term debt, less current maturities	2,338	2,403	5,287	7,146	3,977
Total stockholders' equity	12,627	13,440	7,750	13,646	14,069
Dividends	—	—	—	—	—

(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.

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

(3) Consists of a $1,464 write-down of goodwill associated with the acquisition of BBI Source Scientific.

(4) Includes $840 of interest expense in 2000 associated with the beneficial conversion feature of the Company's 3% Senior Subordinated Convertible Debentures; $190 of this amount is recorded as a cumulative effect of change in accounting principle in 2000.

(5) Includes $1,135 in 2000 for establishment of a full valuation allowance on the Company's deferred tax assets.

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

Recent Developments

In September 2002, the Company released for sale its first commercial products and services utilizing the Company's patented Pressure Cycling Technology ("PCT") which was developed by the Company during the past several years. On October 25, 2002, the Company retained an investment banking firm to advise the Company in the evaluation of strategic opportunities aimed at increasing shareholder value and liquidity by increasing the capital needed for growth. On February 14, 2003, the Company announced the termination of its Chairman and Chief Executive Officer; the Company subsequently appointed as Chairman Mr. William A. Wilson, an existing independent member of the Board of Directors. A special committee of the Company's Board of Directors has been appointed to oversee management of the affairs of the Company until such time as a new Chief Executive Officer is employed.

Overview

The Company generates revenue from products and services provided primarily to the *in vitro* diagnostic infectious disease industry. The Company currently has four operating segments: "Diagnostics," "Biotech," "Laboratory Instrumentation" and "Pressure Cycling Technology, ("PCT")". Two of these, "Diagnostics" and "Laboratory Instrumentation" primarily manufacture products. Commencing in 2002, PCT products are being manufactured at the Laboratory Instrumentation segment. Within the Diagnostics segment, there are three major product lines: Quality Control Panels, Accurun® External Run Controls, and Diagnostic Components. The remaining two segments, Biotech and PCT, generate primarily service revenue. Within Biotech there are four major product lines: Contract Research, Repository Services, Specialty Reagents and Research Services. Revenue in the "PCT" segment consists primarily of both private and National Institutes of Health ("NIH") funded support for the research activities associated with our pressure cycling technology. There was also NIH funding in 2000 for the Company's former drug discovery operations which were spun-off as an independent company in November 2000. See Note 6 of Notes to Financial Statements for a further discussion of the activities of these segments and Note 2 of Notes to Financial Statements relative to the Company's discontinued clinical laboratory operations.

Effective January 2000, all of the Company's technology related to its drug discovery and vaccine programs, consisting primarily of patents and related sponsored research agreements, were transferred to Panacos Pharmaceuticals, Inc. ("Panacos"), a former wholly-owned subsidiary that the Company formed in October 1999. In November 2000 and in February 2002, Panacos sold equity to third party investors, reducing the Company's ownership to approximately 16% which is held in non-voting preferred stock. As a result, the Company no longer consolidates the results of Panacos. As of November 14, 2000 the Company's investment in Panacos was zero and the Company is no longer required to fund Panacos's operations. Therefore no further losses of Panacos will be recorded by the Company. The Company believes that this will position Panacos to progress to more advanced stages of drug development including clinical trials, while at the same time allowing our management to focus more time on the Company's core business.

In December 2000, the Company made a decision to exit the clinical laboratory testing services segment and in February 2001, BBI Clinical Laboratories, Inc. ("BBICL"), a wholly-owned subsidiary of the Company, sold the business and certain assets and liabilities to a third party for an adjusted purchase price of $8,958,000. The escrow account was terminated in December 2001 by mutual agreement between the buyer and the Company, resulting in approximately $358,000 being received by the Company from the escrow account. The Company has retained certain other assets and liabilities of BBICL, primarily property, plant and equipment, together with the facility lease subsequent to the

closing date, which the Company is attempting to sublease. The Company wrote down all of the retained assets to their estimated net realizable value. The Company recorded an after-tax gain of $4,334,000 in 2001 and an additional after tax gain of $225,000 in 2002. The remaining estimate of closing costs, which is periodically revised and updated to reflect new information, included an estimate of costs associated with disposing of all remaining assets and retiring all existing liabilities including a facility lease. The Company utilized in 2001 certain prior period net operating loss carryforwards, previously reserved for by the Company, to partially offset the tax effect of this gain. In accordance with a transition services agreement, the Company operated the business in a normal fashion from the date of closing to December 2001, during which substantially all costs associated with operation of the business subsequent to the closing date were borne by the purchaser.

PRODUCTS

The economics and cost structures of the Company's business segments have certain differences. The Diagnostics segment has historically been the largest and most profitable segment, both in absolute dollars and in operating profit margin, as it operates primarily in a commercial environment with fewer competitors and relatively short product development cycles. The Laboratory Instrumentation segment had been in decline for several years prior to its acquisition in mid 1997, and management continues in its efforts to turn around this business; this segment commenced the manufacture of PCT products for commercial sale in year 2002. It operates in a highly

competitive, low margin business: contract manufacturing of instruments and medical devices. At the current low annual revenue level of less than $2.5 million, it operates significantly under capacity with high fixed overhead costs, and should therefore significantly benefit from relatively small revenue increases.

SERVICES

BBI Biotech has been project oriented with a high proportion of its revenue generated from government contracts (for both research and service activities) and assisting the other segments in their new product and service development. It has the highest level of inter-segment activity, and is structured around project tracking of direct costs plus overhead, general and administrative costs and a low percentage fee. Its financial goal has been to breakeven, (prior to the allocation of corporate overhead) while contributing to the development of future products and services for the Company. The "PCT" segment's research and development operation launched its first products for commercial sale in 2002. Revenue to date consists primarily of private and public (NIH) funding of segment research. Most of the expenditures by this segment are for R&D expenses, patent costs and general management expenses. The Company continues to seek funding from both private and public sources to minimize the impact of their development costs on the Company's overall operating results. Panacos Pharmaceuticals obtained independent third party equity financing in November 2000 thus terminating the Company's responsibility going forward to fund future research and development activities of Panacos. In February 2002, Panacos raised $5 million in additional equity thereby diluting the Company's interest in non-voting preferred shares of Panacos to 16%.

QUARTERLY FLUCTUATIONS

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. In particular, in the Diagnostics segment, the Company's sales of its off-the-shelf 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 OEM product sales may peak in any quarter of the year, depending on the production cycle of a given project. In the Company's Biotech segment, research contracts are generally for large dollar amounts spread over one to five year periods, and upon completion, frequently do not have renewal phases. As a result these contracts 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. Neither the Laboratory Instrumentation segment nor the PCT segment is subject to material seasonal variations.

RESEARCH AND DEVELOPMENT

Since the acquisition of BioSeq, Inc. in 1998, the Company has expended significant amounts for ongoing research and development of new technologies in PCT and Panacos (2000 only). In the past four years, the Company's BioSeq research subsidiary has incurred approximately $5.0M of research and development expenses substantially related to development of a unique instrument and disposable specimen processing tube in conjunction with PCT. Since 1998, the Company has made major progress towards the goal of commercializing PCT products and, in September 2002, the Company released for sale its first products based on its patented PCT. The Company is presently manufacturing the Barocycler™ instrument and disposable PULSE™ tubes utilizing PCT at its BBI Source Scientific facility. The Company has received nine domestic and two foreign patents for this technology as of the end of 2002. The Company has invested significantly in research and development, both in whole dollars and as a percentage of revenue, and expects to continue to do so for the foreseeable future as it seeks to continue to develop new applications for PCT.

In addition to ongoing development of new Accurun Products, the Company has also incurred $255,000 for development costs on reagent purification projects. The Company has also incurred $212,000 for development costs on an AccuChart Plus® software development project. Research and development expenses incurred in year 2000 also include approximately $600,000 related to Panacos Pharmaceuticals drug discovery and development program.

EXPORT SALES

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, 2002, 2001, and 2000 were $3.3 million, $3.4 million, and $4.2 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,

	2002	2001	2000
Revenue:			
Products	55.8%	60.0%	63.6%
Services	44.2	40.0	36.4
Total revenue	100.0	100.0	100.0
Gross profit	37.3	39.9	34.0
Operating expenses:			
Research and development	11.5	10.6	12.6
Selling and marketing	14.4	13.4	13.7
General and administrative	18.1	18.2	25.3
Impairment of intangible asset	—	—	7.5
Total operating expenses	44.0	42.1	59.1
Operating loss from continuing operations	(6.7)	(2.3)	(25.0)
Interest expense, net	(0.9)	(1.7)	(8.2)
Loss before income taxes and cumulative effect of change in accounting principle	(7.6)	(4.0)	(33.2)
Provision for income taxes	—	(0.1)	(5.9)
Cumulative effect of change in accounting principle	—	—	(1.0)
Income (loss) from discontinued operations	1.0	19.9	(1.0)
Net income (loss)	(6.6)	15.8	(41.1)
Product gross profit	48.5%	51.6%	41.3%
Services gross profit	23.2%	22.3%	21.2%

Critical Accounting Policies and 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 addition, significant estimates were made in determining the gain on disposition of the company's discontinued operations including post-closing adjustments, in estimating future cash flows to quantify impairment of assets, in determining the ultimate cost of abandoning a lease (associated with discontinued operations) at a facility no longer being utilized, in estimates regarding the collectability of accounts receivable, realizability of a loan made to the former Chairman and Chief Executive Officer including sufficiency of collateral (see Note 12), deferred tax assets, the net realizable value of its inventory, as well as an estimate for other remaining liabilities associated with discontinued operations. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates and assumptions used by management.

Revenue Recognition

We recognize revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). Revenue is recognized when realized or earned when all the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured.

Product revenue is generally recognized upon shipment of the products. The company will occasionally recognize revenue on a bill and hold basis after completion of manufacture for specific orders at the request of the customer. Bill and hold sales transactions are entered into after consideration of customer needs and capabilities relating to freezer capability to store biological substances at required temperatures. All bill and hold transactions meet specified revenue recognition criteria that include:

- The risk of ownership has passed to the customer;
- The customer has a fixed commitment to purchase the goods;
- The customer, not the company, has requested the transaction to be on a bill and hold basis;

- There is a fixed schedule for delivery of the goods;
- We do not retain any specific performance obligations such that the earnings process is not complete;
- The ordered goods are segregated from our inventory and not subject to being used to fill other orders; and
- The goods must be complete and ready for shipment.

The company also considers the following prior to recognizing revenue:

- The transaction is subject to normal billing and credit terms for the specific customer;
- The company's past experience with the pattern of bill and hold transactions;
- Whether the customer has the expected risk of loss in the event of a decline in the market value of the goods;
- Whether our custodial risks are insurable and insured;
- Whether APB 21, pertaining to the need to discounting the related receivables, is applicable; and
- Whether extended procedures are necessary in order to assure that there are no exceptions to the customer's commitment to accept and pay for the goods.

Total revenue related to bill and hold transactions was approximately $380,000, $610,000, and $562,000, for the years ended December 31, 2002, 2001, and 2000, respectively.

Revenue from service contracts is earned as the related services are performed. Revenue arrangements where multiple products or services are sold together under one contract are evaluated to determine if each element represents a separate earnings process. In the event that an element of such multiple element arrangement does not represent a separate earnings process, revenue from this element is recognized over the term of the related contract. Services are recognized as revenue upon completion of tests for 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 lasting from one to five years, including funded research and development contracts, is recorded when costs to perform such research and development activities are incurred. Billings under long-term contracts are generally at cost plus a predetermined profit. Billings occur as costs associated with time and materials are incurred. Customers are obligated to pay for such services, when billed, and payments are non-refundable. On occasion certain customers make advance payments that are deferred until revenue recognition is appropriate. Total revenue related to long-term contracts was approximately $5,802,000, $5,062,000, and $5,082,000, for the years ended December 31, 2002, 2001, and 2000, respectively. Total contract costs associated with these agreements were approximately $5,610,000, $4,911,000, and $5,540,000, for the years ended December 31, 2002, 2001 and 2000, respectively. Included in the revenue recognized under long-term contracts are certain unbilled receivables representing additional indirect costs, which are allowed under the terms of the respective contracts. Unbilled receivables were less than $62,000 for all years presented.

During the fiscal years 2002, 2001, and 2000, the combined revenues from all branches of the National Institutes of Health, a United States Government agency, accounted for approximately 31%, 31% and 30%, respectively, of total consolidated revenues from continuing operations of the Company. Additional future revenues originating from various branches of the National Institutes of Health is subject to possible future changes in government funding levels.

Accounts Receivable

Management periodically reviews outstanding balances in accounts receivable to determine future collections. Based on our historical experience, current business conditions and expected future collections, management established an allowance for uncollectible accounts. In the event circumstances change to affect the assumptions underlying this allowance, we might be required to take additional write-offs of our accounts receivable balances.

Inventory

Inventory is valued at the lower of cost or market. Certain factors may impact the realizable value of our inventory including, but not limited to, technological changes, market demand, changes in product mix strategy, new product introductions and significant changes to our cost structure. In addition, estimates of reserves are made for obsolescence based on the current product mix on hand and its expected net realizability. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by management, additional inventory write-downs or increases in obsolescence reserves may be required. We treat lower of cost or market adjustments and inventory reserves as an adjustment to the cost basis of the underlying inventory. Accordingly, favorable changes in market conditions are not recorded to inventory in subsequent periods.

Long-lived Assets and Goodwill

Intangible assets primarily relate to the remaining value of acquired patents associated with PCT. The cost of these acquired patents is amortized on a straight-line basis over the estimated life of the patent which is generally four to sixteen years. Our policy regarding long-lived assets is to evaluate the recoverability or usefulness of these assets when the facts and circumstances suggest that these assets may be impaired. This analysis relies on a number of factors, including changes in strategic direction, business plans, regulatory developments, economic and budget projections, technological improvements, and operating results. The test of recoverability or usefulness is a comparison of the asset value to the undiscounted cash flow of its expected cumulative net operating cash flow over the asset's remaining useful life. Any write-downs would be treated as permanent reductions in the carrying amount of the asset and an operating loss would be recognized. To date, we have had recurring operating losses in the PCT segment and the recoverability of our long-lived assets is contingent upon executing our business

plan that includes expected revenues and cash flows to be generated from sales of PCT products and services. Our goodwill relates to our acquisition of the Source operating segment. This segment is expected to manufacture PCT related products and realizability of this goodwill is dependant, among other factors, on the success of our PCT product line. If we are unable to execute our business plans related to PCT, we may be required to write down the value of our long-lived assets and goodwill in future periods.

Deferred Tax Valuation Allowance

A valuation allowance is established if it is more likely than not that all or a portion of a deferred tax asset will not be realized. In the year 2000, the Company established a full valuation allowance for its deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109 and in consideration of three consecutive years of losses. The Company has not recognized an income tax benefit associated with the loss from continuing operations in years 2002, 2001 and 2000, as these tax assets have been fully reserved for. Accordingly, a valuation allowance has been established for the full amount of the deferred tax asset due to the uncertainty of realization.

Discontinued Operations

The Company periodically reviews the adequacy of its reserve for discontinued operations associated with the Company's decision to exit the clinical laboratory testing segment of the business in 2000. The Company has established reserves to cover expected future costs including those associated with an existing facility lease expiring July 2005.

Pledge to Former Chairman and Chief Executive Officer

As of December 31, 2002, the Company evaluated the recoverability of the restricted cash used as pledge for its former Chairman and Chief Executive Officer. The Company's review includes an evaluation of the collateral associated with the loan. The Company maintains a junior interest in this collateral. The collateral consists of real estate holdings and common stock of the Company. When considering the adequacy of the collateral, the Company considers the balance of the loan outstanding with this financial institution and the fact that the Company has a junior position in regards to the collateral as well as the liquidity and net realizable value of the assets underlying the collateral.

The Company's analysis assumed transactions costs to sell the properties, and applied a liquidity discount to the trading value of the common stock. The ultimate value that may be recovered by the Company is dependant on numerous factors including market conditions relative to the real estate, the value of and ability to sell the Company's common stock, and the financial status of its former Chairman and Chief Executive Officer. At December 31, 2002, the Company performed a test for impairment of the restricted cash by analyzing the value of the collateral, and determined that the restricted cash was not impaired. While the restricted cash was not impaired as of December 31, 2002, the termination of the Company's Chairman and Chief Executive Officer by the Board of Directors in February 2003, together with the decline in the quoted market value of the Company's common stock, which comprises a major element of the collateral, are indicators of impairment. Based on the Company's assessment as of and through March 27, 2003, the Company estimates that the value of the collateral has declined below the amount of the Company's recorded loan. Accordingly, the Company estimates it may record a valuation reserve against this asset in the three months ended March 31, 2003 in the range of $300,000 to $500,000. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by management, additional write-downs of this assets might be required.

YEARS ENDED DECEMBER 31, 2002 AND 2001

Revenue

Total revenue from continuing operations increased 4.3%, or $939,000, to $22,765,000 in year 2002 from $21,826,000 in year 2001. The increase in revenue was the result of a 15.3% increase in service revenue or $1,334,000, to $10,068,000 in 2002 from $8,733,000 in 2001, partially offset by a small decrease in product revenue of 3.0%, or $396,000, to $12,697,000 in 2002 from $13,093,000 in 2001.

Product Revenue. The decrease of $396,000 in product revenue was due primarily to decreases of product sales at the Biotech segment and a decrease of $254,000 of product sales at the Laboratory Instrumentation segment (the latter segment experienced strong sales to existing customers in the first half of 2001).

Service Revenue. The $1,334,000 increase in service revenue was primarily related to strong activity in two service contracts related to HIV vaccine development and Hepatitis C work at the Biotech segment (the former resulting from increased revenue for the Biotech segment as the result of increased activity from a subcontractor), and increased grant revenue at the Company's PCT segment.

Gross Profit

Overall gross profit decreased 2.3%, or $203,000, to $8,502,000 in 2002 from $8,705,000 in 2001. Product gross profit decreased 8.8%, or $594,000, to $6,161,000 in 2002 from $6,755,000 in 2001; product gross margin declined to 48.5% in 2002 from 51.6% in 2001. Services gross profit increased 20.0% or $391,000 to $2,341,000 in 2002 from $1,950,000 in 2001, while service gross margin increased to 23.2% in 2002 from 22.3% in 2001.

Product Gross Margin. A decrease in both product gross profit and margin was associated with increased sales of higher margin catalog products in 2001 at the Diagnostics segment and higher raw material costs in 2002, a decrease in high margin product sales at the Biotech segment in 2002, and lower revenues from instrument sales in 2002 over a relatively fixed cost structure (which includes increased costs associated with a facility lease renewal effective in February 2002 coupled with a facility sublease that expired in January 2002) at the Laboratory Instrumentation segment.

Service Gross Margin. The increase in both service gross profit and margin was primarily due to increased activity associated with two service contracts related to HIV vaccine development and Hepatitis C work at the Biotech segment, partially offset increased wage expense and higher facility operating costs at the Biotech segment in 2002.

Research and Development

Research and development expenditures increased 13.3%, or $308,000, to $2,611,000 in 2002 from $2,303,000 in 2001. The increased level of expenditures was associated with ongoing PCT related projects including optimization protocols for various tissue types. In addition, there was an increase in development work on AccuChart Plus®, a quality control data management software program for analyzing, tracking and archiving daily run control data for monitoring test kit performance. Since the Company's acquisition of BioSeq Inc. in 1998, the Company has invested significantly in research and development, both in whole dollars and as a percentage of revenue, and expects to continue to do so for the foreseeable future, as it seeks to develop new applications for PCT.

Selling and Marketing

Selling and marketing expenses increased by 12.7%, or $370,000, to $3,286,000 in 2002 from $2,916,000 in 2001. The Company incurred significant marketing and promotion related costs in 2002 primarily associated with its introduction of the PCT Barocycler™ at the Pittsburgh Conference industry

trade show and related ongoing sales, marketing and promotion efforts associated with the September 2002 commercial launch of the PCT Barocycler™, and expects these PCT related activities to continue in 2003.

General and Administrative

General and administrative costs increased 3.3%, or $132,000, to $4,109,000 in 2002 from $3,977,000 in 2001, due to higher wage and facility lease and utility costs incurred in 2002 partially offset by a one time $54,000 credit associated with a telecommunications claim and the cessation, commencing January 2002, of amortization of goodwill associated with the Laboratory Instrumentation segment, compared to 2001, in which the Company benefited from the reversal of an $80,000 legal expense accrual associated with the June 2001 legal settlement reached with Paradigm Group, LLC. In the second quarter of 2001, the Company increased its provision for doubtful accounts by $82,000 based on a significant deterioration in the financial condition of a customer in its Diagnostics segment.

Operating Income (Loss) from Continuing Operations

Operating (loss) from continuing operations amounted to $(1,504,000) in 2002 compared to an operating (loss) of $(491,000) in 2001. The Diagnostics segment's operating income decreased to $1,478,000 in 2002 from $1,674,000 in 2001 due to a decline in product gross margin. The Biotech segment's operating (loss) increased to $(319,000) in 2002 from $(212,000) in 2001; a 14.3% increase in service revenues coupled with an increase in service gross margin was more than offset by increased sales and marketing expenses and increased general and administrative expenses. The operating loss of the PCT segment increased to $(2,156,000) in 2002 from $(1,493,000) in 2001 due to increased research and development costs associated with the final phases of product development and advanced prototype manufacture and increased sales, promotion and marketing costs associated with the commercial launch, in late September of 2002, of the PCT Barocycler™.

The Company continues evaluate the market for the PCT Barocycler™, as the sales cycle appears to be longer in duration than originally envisioned. While the Company believes strongly in the benefits of PCT's novel technology, the market potential of the existing PCT Barocycler™ appears uncertain. The manufacture of PCT products at the laboratory instrument segment of the business was part of the Company's plan to return BBI Source Scientific, Inc. to profitability in year 2003. The Company intends to evaluate other applications and products utilizing PCT and to reexamine the core contract manufacturing business of BBI Source Scientific, Inc. If the Company is unable to execute its business plans related to PCT, we may be required to write down the value of our intangible long-lived assets and goodwill in future periods.

Interest Expense

Interest expense decreased to $248,000 in 2002 from $438,000 in 2001. The Company redeemed the remaining $2,040,000 (face value) of outstanding 3% Senior Subordinated Convertible Debentures ("Debentures"), which were originally issued in August 2000, plus accrued interest and a premium of $190,000 (which was charged to interest expense) in early 2001. Interest expense in 2001 also included interest on the Company's line of credit, which was terminated by the Company in February 2001. Both years' include interest expense associated with the Company's outstanding mortgage.

Income Taxes

In 2000, the Company established a full valuation allowance for its deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109 and in consideration of three consecutive years of losses; accordingly, the Company has not recognized an income tax benefit associated with the loss from continuing operations in 2002 and 2001, as these tax assets have been

fully reserved for. The Company incurred state income and franchise tax expense of approximately $3,000 and $16,000 in 2002 and 2001, respectively.

Loss from Continuing Operations

Loss from continuing operations amounted to $1,713,000 for the year ended December 31, 2002 as compared to a loss of $887,000 for the year ended December 31, 2001 as a result of the items discussed above.

Discontinued Operations

On February 20, 2001, the Company sold the business and certain assets and liabilities of its wholly-owned subsidiary BBICL to a third party. The Company retained certain other assets and liabilities of BBICL, primarily property, plant and equipment, together with the facility lease subsequent to the closing date, which the Company is attempting to sublease. The Company wrote down all of the retained assets not otherwise redistributed to other business units to their estimated net realizable value.

The Company has accrued $710,000 as of December 31, 2002 for its estimate of remaining liabilities to exit the clinical laboratory testing business. The major component of this remaining accrual is estimated lease exit and facility related costs ($504,000) with the remainder for health care claims, other regulatory audit adjustments, and for other miscellaneous costs associated with exiting this business segment. The Company adjusted its estimated remaining liability in the third quarter and recorded an after tax gain of $225,000.

Revenues from discontinued operations, net of intercompany eliminations, were $973,000, in the period January 1, 2001 to February 20, 2001. Operating (losses) from discontinued operations was $0 for the year ended December 31, 2002 and were $0 and $(136,000) for the years ended December 31, 2002 and 2001, respectively. The Company recorded a gain of $4,334,000, net of taxes of $969,000, in 2001. Income (loss) from discontinued operations was $225,000 for the year ended December 31, 2002 as discussed above, and $4,334,000 for the year ended December 31, 2001. The Company utilized prior period net operating loss carryforwards, previously reserved for by the Company in 2000, to partially offset the tax effect of this gain. Additionally, the Company took a tax benefit of $364,000 related to stock option exercises that was not previously recorded as the Company was in a loss position; this tax benefit was recorded as a credit to additional paid-in capital in the first quarter of 2001.

In accordance with a transition services agreement, the Company operated the clinical laboratory business on behalf of the buyer during the period February 20, 2001 through December 2001 although most operations ceased activity by the end of June 2001. All of the revenues generated by, and substantially all costs associated with operating the business subsequent to the closing date of the transaction were the responsibility of the purchaser. A portion of the proceeds from this sale were used to redeem all outstanding Debentures and to retire the Company's line of credit in the first quarter of 2001.

Net Income (Loss)

The Company had a net (loss) of ($1,488,000) in 2002 as compared to net income of $3,448,000 in 2001. The 2002 net (loss) included an after-tax gain of $225,000 from discontinued operations, whereas in 2001, the Company recorded an after-tax gain of $4,334,000 associated with discontinued operations.

YEARS ENDED DECEMBER 31, 2001 AND 2000

Revenue

Total revenue from continuing operations increased 12.1%, or $2,356,000, to $21,826,000 in 2001 from $19,470,000 in 2000. The increase in revenue was the result of an increase in product revenue of 5.7%, or $705,000 to $13,093,000 in 2001 from $12,387,000 in 2000, coupled with an increase in service revenue of 23.3%, or $1,651,000, to $8,733,000 in 2001 from $7,082,000 in 2000.

Product Revenue. The product revenue increase was primarily attributable to increased sales of basematrix and characterized specimens to IVD test kit manufacturers and continued strong domestic sales of Accurun® External Run Controls in the Diagnostics

segment.

Service Revenue. The Biotech segment experienced a significant increase in repository and research services revenue. In addition, service revenue recognized in 2000 also included $161,000 of funding received by Panacos for drug discovery activities; as noted above, the Company no longer consolidates the results of operations of Panacos.

Gross Profit

Overall gross profit increased 31.5%, or $2,087,000, to $8,705,000 in 2001 from $6,619,000 for 2000. Product gross profit increased 32.0%, or $1,637,000, to $6,755,000 in 2001 from $5,118,000 for 2000; product gross margin increased to 51.6% in 2001 from 41.3% in 2000. Services gross profit increased $449,000 to $1,950,000 in 2001 from $1,501,000 for 2000 and service gross margin increased to 22.3% in 2001 from 21.2% in 2000.

Product Gross Margin. The increase in product gross margin at the Diagnostics segment resulted from increased sales of higher margin catalog products coupled with a higher level of sales. In addition, product gross margin increased at the Laboratory Instrumentation segment driven by the cost reduction plan implemented in September 2000. In 2000, the Company recorded charges for inventory valuation at both of these segments, offsetting the increases in gross margins.

Service Gross Margin. The increase in service gross margin was due to an increase in higher margin commercial services as well as increased repository revenue, both performed at the Biotech segment.

Research and Development

Research and development expenditures decreased 5.7%, or $141,000, to $2,303,000 in 2001 from $2,444,000 in 2000. Research and development expenses in 2000 included $600,000 associated with Panacos, the results of which are no longer included in the Company's results of operation as discussed above. Exclusive of funding to Panacos in 2000, research and development expenses increased $459,000 in 2001, most of which was driven by higher research and development spending on the Company's PCT program activities.

Selling and Marketing

Selling and marketing expenses increased by 9.6%, or $256,000, to $2,916,000 in 2001 from $2,660,000 in 2000. This increase was a result of filling several sales and marketing positions in the latter part of 2000 as well as increased travel and promotion costs at the Diagnostic segment.

General and Administrative

General and administrative costs declined 19.2%, or $942,000, to $3,977,000 in 2001 from $4,919,000 in 2000. This decrease was primarily a result of several factors. First, there were headcount reductions at Corporate, and the Diagnostics and Laboratory Instrumentation segments in the latter part of 2000 and into 2001. Second, there was a significantly lower level of professional fees in 2001 compared to 2000, when the Company explored several strategic and financing options; also in 2001, the Company reversed $80,000 of expenses previously accrued in 2000, based on the June 2001 legal settlement reached with Paradigm Group, LLC, as discussed further in the accompanying footnotes to the financial statements. Finally, a portion of the decline was associated with the September 2000 write down of goodwill at the Laboratory Instrumentation segment, thereby reducing amortization expense in 2001 by $115,000 compared to the year 2000.

Impairment of Intangible Asset

As part of an ongoing strategic review process, the Company's Board of Directors met in late September 2000 to review the progress of its Laboratory Instrumentation segment, and that segment's prospects for the future to determine if any impairment of the segment's goodwill had occurred. Based on information presented at that meeting and subsequent analyses showing lower revenue expectations, management approved a cost reduction plan including a headcount reduction, salary freeze, and sublease of excess manufacturing space. Using the lower revenue projections associated with this plan, the Laboratory Instrumentation segment's undiscounted future cash flows were projected to be less than the carrying value of that segment's goodwill. In accordance with the provisions of "Statement of Financial Accounting Standards No. 121—Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," this segment's goodwill was written down by approximately $1,464,000 in the third quarter of 2000.

Operating Income (Loss)

Operating loss from continuing operations decreased to $491,000 in 2001 versus $4,868,000 in 2000. The Diagnostics segment's operating income increased to $1,674,000 in 2001 from $1,015,000 in 2000, due to an increase in product revenue coupled with an increase in product gross margin, but partially offset by an increased absorption of corporate overhead by this segment as explained further below. The Laboratory Instrumentation segment had an operating (loss) of $(460,000) for 2001 versus a loss for 2000 of $(2,819,000); the 2000 results of operation include a charge of $1,464,000 taken in the third quarter of 2000 related to impairment of intangible assets as discussed further above, whereas the 2001 operating results reflect the impact of the September 2000 cost reduction plan. The PCT segment had an operating (loss) of $(1,493,000) in 2001 as compared to an operating (loss) of $(1,298,000) in 2000; also in 2000, Panacos incurred a $1,027,000 pre-tax operating loss; the Company no longer consolidates the results of operation of Panacos subsequent to November 2000 as previously discussed. Effective January 2001, the Company adjusted its allocation of corporate overhead based upon a revised corporate structure effective in 2001. The present corporate structure reflects the Company's implementation, in the latter part of 2000, of a cost reduction plan at the Laboratory Instrumentation segment, the Company's spin-off of Panacos as an independent company, and the

Company's decision to exit the clinical laboratory testing business. The latter item is reflected as discontinued operations in the accompanying financial statements. In accordance with generally accepted accounting principles, the Company ceased allocating corporate overhead to the clinical laboratory testing business for all periods presented. This adjustment results in the Diagnostics unit absorbing a large portion of corporate overhead, which in prior years would have been allocated to Panacos and the clinical laboratory testing business.

Interest Expense/Cumulative change in accounting principle

Interest expense decreased from $1,617,000 in 2000 to $438,000 in 2001. The large portion of the decrease is associated with reduced interest expense incurred in 2001 on the Company's line of credit, which was outstanding for all of 2000 but was repaid and terminated by the Company in February 2001 as discussed further in the section "Discontinued Operations" below. Additional interest expense was incurred in 2001 associated with the Company obtaining a $2,447,000 (net) mortgage on its West Bridgewater MA facility in April 2000.

In 2000, the Company incurred a charge of $898,000 (including $190,223 for the cumulative effect of change in accounting principle, see Note 7 of Notes to Consolidated Financial Statements) due to amortization of the beneficial conversion feature, warrant costs and original issue discount/debt issuance costs associated with the Company's August 2000 issuance of $3,250,000 3% Senior Subordinated Convertible Debentures (the "Debentures"). In the first quarter of 2001, the Company redeemed the remaining $2,040,000 (face value) of the outstanding Debentures plus accrued interest and a premium of $190,000 (which was charged to interest expense). The pro-rata portion of unamortized original issue discount, debt issuance and warrant related costs associated with the redeemed Debentures, amounting to approximately $377,000, is included in the loss on extinguishment of the Debentures. Substantially offsetting this loss is the Company's reversal of approximately $528,000 of interest expense in 2001, previously recorded in 2000, associated with the amortization of the Debentures beneficial conversion feature.

Income Taxes

In the third quarter of 2000, the Company established a full valuation allowance for its deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109 and in consideration of three consecutive years of losses; accordingly, the Company has not subsequently recognized an income tax benefit associated with the loss from continuing operations in either 2000 or 2001 as these tax assets have been fully reserved for. The Company recorded approximately $16,000 of state tax expense in 2001.

Loss from Continuing Operations

Loss from continuing operations decreased to $(887,000) for the year ended December 31, 2001 from $(7,804,000) for year 2000, as a result of the items discussed above.

Discontinued Operations

On February 20, 2001, the Company sold the business and certain assets and liabilities of its wholly-owned subsidiary BBICL to a third party for an adjusted purchase price of $8,958,000. The escrow account entered into in connection with the transaction was terminated in December 2001 by mutual agreement between the buyer and the Company, resulting in approximately $358,000 being received by the Company from the escrow account. The Company has retained certain other assets and liabilities of BBICL, primarily property, plant and equipment, together with the facility lease subsequent to the closing date, which the Company is attempting to sublease. The Company has written down all of the retained assets not otherwise redistributed to other business units to their estimated net realizable value.

In connection with the sale of the business and certain assets and liabilities of BBICL, the Company recorded a gain of $4,334,000 net of taxes of $969,000 in 2001. The Company utilized prior period net operating loss carryforwards, previously reserved for by the Company, to partially offset the tax effect of this gain. Additionally, in 2001, the Company recognized a tax benefit of approximately $364,000 related to stock option exercises that was not previously recorded as the Company was in a loss position. This tax benefit was recorded as a credit to additional paid-in capital in 2001.

The Company recorded its estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business, totaling approximately $1,687,000 as of December 31, 2001. The major components of this accrual are estimated income taxes ($420,000), severance and other employee related costs ($75,000), estimated lease exit and facility related costs ($750,000) and potential health care claims and other related potential audit adjustments ($318,000), with the remainder for other miscellaneous costs associated with exiting this business segment.

Revenues from discontinued operations, net of intercompany eliminations, were $973,000 for the period from January 1, 2001 to February 20, 2001 and $8,367,000 for the year ended December 31, 2000. Operating (losses) from discontinued operations were $(136,000) for the year ended December 31, 2001 and $(197,000) for the year ended December 31, 2000. In summary, income (loss) from discontinued operations was $4,334,000 for the year ended December 31, 2001 and $(197,000) for the year ended December 31, 2000.

In accordance with a transition services agreement, the Company operated the business in a normal fashion during the period February 20, 2001 through December 2001. All of the revenues generated by, and substantially all costs associated with operating the business subsequent to the closing date of the transaction were the responsibility of the purchaser. A portion of the proceeds from this sale were used to redeem all outstanding Debentures and to retire the Company's line of credit in the first quarter of 2001.

Summary

In summary, the Company had net income of $3,448,000 for the year ended December 31, 2001 as compared to a net loss of $(8,001,000) for the year ended December 31, 2000. This improvement was driven by four factors: first and foremost, the gain recognized on the sale of the Company's clinical laboratory testing business; second, a significantly reduced operating loss in 2001 compared to 2000 as all business units posted improved operating results, and Panacos (which incurred a pretax loss of $1,027,000 in 2000) no longer being consolidated in 2001; third, the impairment of intangible assets at the Laboratory Instrumentation segment recorded in 2000, which increased the loss for 2000; and fourthly, higher interest expense in 2000 due to the higher debt carried prior to the repayments that occurred after the sale of the clinical laboratory testing business.

The earnings per share computation for 2001 reflects both the issuance of 801,325 additional shares of common stock in the first quarter of 2001, as certain holders of the Debentures exercised their rights to convert $1,210,000 of such Debentures into shares of the Company's common stock, and the issuance of 178,877 additional shares of common stock associated with the exercise of stock options, warrants and purchases made pursuant to the employee stock purchase plan. In addition, on June 15, 2001, the Company and Paradigm Group, LLC entered into an agreement to permanently settle their disputes. Under the terms of the agreement, Paradigm Group, LLC rescinded their exercise of the common stock purchase warrants, which have since expired, and the Company retained the 500,000 shares associated with their exercise. These shares were included in the total shares outstanding as well as in the calculation of earnings (loss) per share from February 17, 2000 (the date of exercise) through June 15, 2001 (the date of the agreement). As of September 30, these shares were cancelled by the Company. In December 2001, an additional 600,000 shares of common stock were subscribed to and paid for by a group of investors for $1,500,000. These shares were issued in the first quarter of 2002 and therefore were not included in the total shares outstanding as well as in the calculation of earnings (loss) per share for the year ended December 31, 2001.

LIQUIDITY AND FINANCIAL CONDITION

As of December 31, 2002, the Company had approximately $9.2 million in working capital. At December 31, 2002, the Company had cash and cash equivalents of $975,649, excluding restricted cash of $1,000,000, compared to cash of $2,857,916 at December 31, 2001. In January 2003, the $1,000,000 of restricted cash pledged to a financial institution to secure the Company's limited guarantee of a loan

from the financial institution to an entity controlled by Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer, was used to satisfy the Company's guaranty obligation to the financial institution as discussed further below. The Company has experienced operating losses from continuing operations of $1,504,000 and $491,000 and has experienced negative cash flows from operations of $200,000 and $56,000 for the years ended December 2002 and 2001, respectively. In addition, it is anticipated there may be additional working capital requirements in connection with PCT Barocycler™ sales and marketing activities. Management has met its recent historical cash flow needs by managing its working capital and utilizing proceeds from the February 2001 sale of one of its business segments. It plans to manage its future liquidity needs through cost reductions and additional selling initiatives.

Net cash used in operations for the year ended December 31, 2002 was $200,000 as compared to $56,000 for the year ended December 31, 2001. The operational use of cash during 2002 was primarily the result of the operating loss incurred coupled with the buildup of PCT raw materials inventory, partially offset by an increase in trade accounts payable and an increased level of cash collections on outstanding accounts receivable. Net cash used in operations in 2001 included the operating loss incurred in 2001, a buildup of inventory, the reversal of non-cash interest expense and a decline in accrued expenses, partially offset by the receipt of an income tax refund and an increase in trade accounts payable.

Cash used in investing activities for the year ended December 31, 2002 was $625,000 compared to $416,000 during year 2001. The increase of cash used for investing in 2002 was due to the purchase of a DNA Sequencer at the Company's Biotech subsidiary and the construction of several preproduction PCT Barocyclers™ as demonstration units.

Cash used in financing activities for the year ended December 31, 2002 was $392,000 compared to cash used of $6,110,000 during 2001. In early 2002, the Company pledged $1,000,000 via a deposit in an interest bearing account at a financial institution; this was partially offset by repayment to the Company of a loan to Richard T. Schumacher as discussed further below. In 2001, the Company used proceeds from the sale of certain assets of BBICL to pay off in full the remaining $5,762,635 balance on its line of credit and all remaining outstanding 3% Senior Subordinated Convertible Debentures and issued a loan to Richard T. Schumacher as discussed in the section entitled "Related Party Transaction" below.

In April 2000, the Company borrowed $2,447,000 (net of issuance costs) under a mortgage agreement on its West Bridgewater, MA facility. The Company used these funds to reduce the outstanding balance on its line-of-credit. The mortgage is due on March 31, 2010. During the first five years the note carries an interest rate of 9.75%; after five years the rate charged will be 0.75% greater than the bank base rate then in effect. Under this mortgage agreement the Company is subject to certain financial covenants. The Company failed to meet its debt service coverage covenant for the year ended December 31, 2002, but the financial institution has waived this default and the Company's other defaults relating to reports and the termination of the Company's former Chairman and Chief Executive Officer. Payments due on this mortgage are based on a 20 year amortization schedule with a balloon payment representing the remaining balance due in full on March 10, 2010.

Based on current forecasts, management believes that the company has sufficient liquidity to finance operations for the next twelve months. Management's forecasts involve assumptions that could prove to be incorrect. If the Company continues to incur operating losses or negative cash flows, it may need to raise additional funds. There can be no assurance that these funds will be available when required on terms acceptable to the Company, if at all. If adequate funds are not available when needed, the Company may be required to further reduce its fixed costs and delay, scale back, or eliminate certain of its activities, any of which could have a material adverse long term effect on its business, financial condition and results of operations. The Company is considering various sources of additional financing, including but not limited to, sale of business segments, strategic alliances and private placements of debt or equity securities, which could result in dilution to the Company's

stockholders. On October 25, 2002, the Company retained an investment banking firm to advise the Company in the evaluation of strategic opportunities aimed at increasing shareholder value and liquidity by increasing the capital needed for growth.

Contractual Obligations

The following is a summary of the Company's future contractual obligations as of December 31, 2002:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Mortgage payments*	$ 3,864,000	$ 287,000	$ 575,000	$ 575,000	$ 2,427,000
Capital Lease and Other Obligations	71,000	37,000	26,000	8,000	—
Real Estate Facility Leases	4,773,000	1,166,000	3,066,000	541,000	-0-
Minimum future royalty payments**	50,000	50,000	—	—	—
Obligations relating to Discontinued Operations	710,000	302,000	378,000	10,000	20,000
Pledge and Loan Guarantee***	1,000,000	1,000,000			
Total Contractual Cash Obligations	**$ 10,468,00**	**$ 2,842,000**	**$ 4,045,000**	**$ 1,134,000**	**$ 2,447,000**

* Future monthly payments on this mortgage include principal and interest, based on a 20-year amortization schedule with a balloon payment representing the remaining balance due in full on March 10, 2010. During the first five years the note carries an interest rate of 9.75%; after five years the rate charged will be .75% greater than the Corporate Base Rate then in effect. The information presented in the table above is presented using an assumed annual mortgage interest rate of 9.75% for all periods presented.

** The Company acquired in 1998 all the remaining outstanding common stock of BioSeq, Inc., a development stage company involved with PCT. In accordance with the provisions of a technology transfer agreement assumed in the transaction, the Company is obligated to pay a 5% royalty on net sales until March 2016 of future sales by any entity of the Company utilizing PCT, with minimum royalty payments through year 2003. The Company announced the availability of its PCT products for commercial sale in the latter part of year 2002.

*** In January 2002, the Company made a $1,000,000 pledge and loan guarantee of certain indebtedness of an entity controlled by Mr. Schumacher via a deposit of equal amount in an interest bearing account with a financial institution. This is reflected as restricted cash on the accompanying balance sheet as of December 31, 2002. In January 2003, the $1,000,000 pledged to a financial institution was used to satisfy the Company's guaranty obligation to the financial institution. A description of this transaction is noted above.

Related Party Transaction

As of December 31, 2001, the Company had entered into a one year loan of $525,000 to Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer and a current Director of the Company, renewable at the Company's option, and collateralized by 90,000 of Mr. Schumacher's shares of the Company's common stock. This loan constituted an increase from the $350,000 had been loaned as of September 30, 2001. Interest on the loan was payable monthly at the annual rate of 7% but has not been paid to date. As of December 31, 2001, the loan was shown on the balance sheet as a decrease to stockholders equity. In January 2002, the principal of these loans was repaid in full with a portion of the proceeds of the loans described in the following sentence. The Company's loans were replaced by the Company's pledge of a $1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of $2,418,000 from the

financial institution to an entity controlled by Mr. Schumacher. The loans are personally guaranteed by Mr. Schumacher. The Company's pledge is secured by a junior subordinated interest in the collateral provided by Mr. Schumacher to the financial institution. Such collateral includes certain of his real property and all of his common stock holdings in the Company. The Company's original loan and subsequent pledge of $1,000,000 were made to assist Mr. Schumacher in refinancing indebtedness related to, among other things, his divorce settlement and to enable him to avoid the need to sell his common stock holdings in the Company on the open market to satisfy his debts. The Company's Board of Directors and, with respect to the decision to pledge the $1,000,000 cash collateral, a special committee of the independent directors, evaluated a number of options and concluded that the original loan to Mr. Schumacher and the subsequent pledge were the best option and in the best interests of the Company's stockholders in the belief that it would, among other things, avoid selling pressure on the Company's common stock and relieve the financial pressures on Mr. Schumacher that could otherwise divert his attention from the Company. In January 2003, the $1,000,000 account was used to satisfy the Company's limited guaranty obligation. The Company has now satisfied its obligation under the limited guaranty and pledge with the financial institution. The Company continues to maintain its junior interest in collateral pledged by Mr. Schumacher to the financial institution. The collateral includes certain of Mr. Schumacher's real property and all of his common stockholdings in the Company. The Company reflected the $1,000,000 pledge as restricted cash on its balance sheet until the cash was used to satisfy the Company's limited guaranty in January 2003 and since then has reflected a $1,000,000 loan receivable on its balance sheet. On February 14, 2003, the Company announced that the Company's Board of Directors had terminated Richard T. Schumacher as Chairman and Chief Executive Officer, effective immediately. Mr. Schumacher remains a Director of the Company. William A. Wilson, a Director, was named Chairman of the Board. Kevin W. Quinlan, President and Chief Operating Officer, will continue leading day-to-day operations. A special committee of the Board of Directors has been appointed to seek a replacement for Mr. Schumacher and to oversee the transition.

Recent Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective in 2003. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Adoption of the standard did not materially affect the Company's financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Adoption of the standard is generally required in 2003. Under the standard, gains and losses on early extinguishment of debt, will be reported as other nonoperating income or expense. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes Emerging Issues Task Force Issue (EITF) 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The standard affects the accounting for restructuring

charges and related activities and generally will lengthen the timeframe for reporting of expenses relating to restructuring activities beyond the period in which a plan is initiated. The provisions of this statement are required to be adopted for exit or disposal activities that are initiated after 2002. The provisions of EITF 94-3 will continue to apply with regard to the Company's previously announced restructuring plans.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions—an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9." This Statement had no impact on the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As provided for in SFAS No. 123, the company has elected to apply APB No. 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans. APB No. 25 does not require options to be expensed when granted with an exercise price equal to fair market value. The company is complying with the disclosure requirements of SFAS No. 148 in this note under (xvii) Stock-Based Compensation.

In March 2000, the FASB issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," (an Interpretation of Accounting Principles Bulletin Opinion No. 25 ("APB 25")) ("FIN 44"). FIN 44 provides guidance on the application of APB 25, particularly as it relates to options. The effective date of FIN 44 was July 1, 2000, and the Company has adopted FIN 44 as of that date. The application of FIN 44 has not had a material effect on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," (An interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34") ("FIN 45"). FIN 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. The Interpretation also requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The accounting requirements for the initial recognition of guarantees are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for all guarantees outstanding, regardless of when they were issued or modified, for annual periods that end after December 15, 2002. The adoption of FIN No. 45 did not have a material effect on the Company's consolidated financial statements. See the section above entitled "Related Party Transaction" for a discussion of the Company's limited guaranty and pledge of a $1,000,000 interest bearing deposit at a financial institution to provide additional security for loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by the former Chief Executive Officer of the Company. In addition, BBI Clinical Laboratories, a discontinued operation, operated from a 15,000 square foot facility in New Britain CT pursuant to a lease which expires in July 2005 and which was guaranteed by the Company. In connection with the Company's decision to exit this business segment, the Company has assumed the obligation to make the remaining lease payments, which is included in the Company's estimate of remaining liabilities associated with discontinued operations

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights

("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new

model for consolidation applies to an entity for which either: (a) the equity investors (if any) do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The Company is required to apply FIN No. 46 to all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the Company is required to apply FIN No. 46 on July 1, 2003. The Company does not expect FIN No. 46 will have a material effect on its financial statements.

In November 2002, the EITF reached a final consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The provisions of EITF 00-21 are required to be adopted for revenue arrangements entered into by the Company after June 28, 2003, although early adoption is permitted. EITF 00-21 addresses arrangements with customers that have multiple deliverables such as equipment and installation and provides guidance as to when recognition of revenue for each deliverable is appropriate. The Company is evaluating the timing and impact of adoption of EITF 00-21.

Forward-Looking Information

This Annual Report on Form 10-K contains forward-looking statements concerning the Company's financial performance and business operations. In some cases, forward-looking statements are identified by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Also, these forward-looking statements represent the Company's estimates and assumptions only as of the date of this report. Except as otherwise required by law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any of the Company's forward-looking statements are based. Factors that could cause or contribute to differences in the Company's future financial results include those discussed in the risk factors set forth below as well as those discussed elsewhere in this report. The Company qualifies all of our forward-looking statements by these cautionary statements. The Company wishes to caution readers of this Annual Report on Form 10-K that actual results might differ materially from those projected in any forward-looking statements.

RISK FACTORS

This report also contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report should be read as applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this report.

WE RELY ON PURCHASE ORDERS AND CONTRACTS FROM A SMALL NUMBER OF CUSTOMERS FOR A LARGE PORTION OF OUR REVENUES; THE LOSS OF BUSINESS FROM THESE CUSTOMERS COULD MATERIALLY REDUCE OUR REVENUES AND INCOME.

Purchase orders account for the majority of our orders; none of our customers have contractually committed to make future product purchases from us. In 2002, our three largest commercial customers, Ortho Clinical Laboratories, Inc., Roche Diagnostics Corporation, and Abbott Laboratories, together accounted for approximately 11.4% of our revenues. In addition, the various agencies of the National Institutes of Health, including the National Institutes of Allergies and Infectious Disease, the National Cancer Institute and the National Heart Lung and Blood Institute, in the aggregate, accounted for approximately 31% of our revenues in 2002. Each agency within the National Institutes of Health, however, makes independent purchasing decisions. The loss of any major customer, including any agency within the National Institutes of Health, the failure of any agency of the National Institutes of Health to fully fund any contract or renew any contract with us, or a material reduction in any major customer's purchases would materially reduce our revenues and our operating results.

IF WE ARE UNABLE TO INCREASE OUR SALES OF QUALITY CONTROL PRODUCTS TO END-USERS OF INFECTIOUS DISEASE TEST KITS, THEN OUR FUTURE REVENUES COULD BE LESS THAN WE HAVE PROJECTED.

Currently, we sell most of our quality control products for infectious disease test kits to test kit manufacturers and regulators, which is a relatively small market. However, we also sell our quality control products to end-users of infectious disease test kits, including hospital laboratories, blood donor testing centers, public health laboratories and commercial laboratories. This end-user market is a larger market which has not yet become accustomed to using quality control products to monitor test results, but which we believe is a growing market. Currently, we expect an increase in both the frequency of use and the number of products used by our current end-user customers. However, these end-users of infectious disease test kits may not increase their use of our products. Further, large manufacturers and distributors of quality control products that have historically sold to the non-infectious disease market and that have greater financial, manufacturing and marketing resources than we have could begin selling their products to the end-users of infectious disease test kits. This would increase competition for an adequate supply of the rare specimens of plasma and serum necessary for certain of our quality control and run control products. If the end-user market for quality control products for infectious disease testing does not develop further, or if we are unable to increase sales of our products to this market, our future revenues could be substantially less than we have projected.

IF OUR BBI BIOSEQ, INC. AND BBI SOURCE SCIENTIFIC, INC. SUBSIDIARIES CONTINUE TO HAVE SUBSTANTIAL OPERATING LOSSES, THEN WE MAY NOT BE ABLE TO REALIZE THE BOOK VALUE OF THEIR ASSETS.

Our BBI BioSeq subsidiary has incurred operating losses of approximately $4,900,000, since its acquisition in September 1998 through December 31, 2002. This subsidiary may not be successful in marketing and further developing its technology, and its technology may never achieve commercial viability. Accordingly, our BBI BioSeq subsidiary may never become profitable and we may need to write off some or all of the current net book value of its intangible assets related to its patents, which was approximately $571,000 as of December 31, 2002.

As a result of our July 1997 acquisition of Source Scientific, Inc., we recorded approximately $2,200,000 of goodwill. Since this acquisition, our BBI Source Scientific subsidiary has incurred cumulative operating losses of approximately $3,764,000 (not including a $1,464,000 write down of goodwill in the third quarter of 2002), as of December 31, 2002. As of December 31, 2002, the remaining net book value of goodwill from the BBI Source Scientific acquisition was approximately $227,000. That subsidiary may continue to have operating losses and may never become profitable. If

operating losses continue, some or all of the remaining goodwill associated with BBI Source Scientific in the amount of $227,000 may be written down or written off entirely.

IF WE ARE UNABLE TO OBTAIN BOTH THE NECESSARY REGULATORY APPROVALS AND SUBSTANTIAL FUNDS FOR OUR BBI BIOSEQ SUBSIDIARY'S PRODUCTS, OR IF DEMAND FOR NEW PRODUCTS AND SERVICES FAILS TO MATERIALIZE, OUR FUTURE REVENUES AND INCOME WILL BE LESS THAN WE HAVE PROJECTED.

Our BBI BioSeq subsidiary, in conjunction with our other subsidiaries has developed products that involved significant development, preclinical and clinical testing, regulatory approvals and investment of substantial funds prior to their commercialization. Our BBI BioSeq subsidiary and BBI Source Scientific subsidiary have developed a pressure cycling technology process into a working laboratory instrument now available for commercial sale. We first introduced our Barocycler™ instrument and related disposable PULSE™ tubes based upon pressure cycling technology for commercial sale in September 2002. Demand for these commercial applications of pressure cycling technology may not materialize as expected. As a result, we may not be successful in selling the Barocycler™ instrument and disposable PULSE™ tubes in sufficient numbers to be commercially viable.

In addition, we may not be successful in further developing pressure cycling technology into other commercially viable products and services, or such activities may take longer than currently expected; and if successful in such development activities, demand for such products and services may not develop as we anticipate.

While we have nine issued U.S. patents relating to pressure cycling technology, certain pressure cycling technology applications may not fall within the claims of those issued patents. Further, individuals and groups utilizing present cycling technology may not be required to license such technology from us. Further, our future revenues and income could be less than we have projected.

IF THE FDA REQUIRES CLEARANCE OR APPROVAL FOR EITHER OUR PRODUCTS THAT ARE DESIGNATED ONLY FOR RESEARCH AND NOT FOR DIAGNOSTIC PROCEDURES OR OUR PRODUCTS THAT WE BELIEVE ARE EXEMPT FROM FDA CLEARANCE AND INITIATES ENFORCEMENT ACTION FOR OUR FAILURE TO DO SO, WE WILL LIKELY EXPEND SIGNIFICANT RESOURCES TO RESOLVE THE MATTER.

In the United States, the Food, Drug, and Cosmetic Act prohibits the marketing of most IN VITRO diagnostic products until the Food and Drug Administration either clears or approves the products through processes that are time-consuming, expensive and uncertain. Some IN VITRO diagnostic products may be exempt from FDA clearance or approval if they have undergone validation studies. As of February 1, 2003, 47 of our Accurun 1(R) and Accurun(R) products had received FDA clearance.

During 2003, our Accurun(R) External Run Controls products accounted for approximately 11.55% of our revenue. Although it has not done so in the past, the FDA may not agree that some of these products are entitled to an exemption and may adopt a different interpretation of the Food, Drug, and Cosmetic Act or other laws it administers. We believe that products which are used only for research and not in diagnostic procedures are not subject to FDA clearance or approval. We currently label some of our products "for research use only" because they are not intended for use in diagnostic procedures, and have not been cleared or approved by the FDA. It is possible, however, that some purchasers of these products may use them for diagnostic purposes rather than for research, despite our labeling. Under any of these circumstances, the FDA could allege that some or all of these products should have been cleared or approved, or otherwise validated prior to marketing, and could initiate enforcement action against us. If the FDA initiates enforcement action against us, we will likely expend a large amount of time, money, resources and management attention to resolve the matter. In addition, if we cannot obtain or are delayed in obtaining FDA clearances or approvals for our products, we may encounter delays or be unable to ever sell those products.

IF WE FAIL TO COMPLY WITH GOOD MANUFACTURING PRACTICES IN CONNECTION WITH THE MANUFACTURE OF OUR MEDICAL DEVICE PRODUCTS, WE MAY NOT BE ABLE TO DISTRIBUTE OUR PRODUCTS AND MAY NOT GENERATE PRODUCT REVENUES.

We are also subject to strict FDA good manufacturing practice regulations which govern testing, control and documentation practices, and other post-marketing restrictions on the manufacture of our medical device products. Our IN VITRO diagnostic products and our laboratory instrumentation products are considered "medical device products," as defined by the FDA. Regulatory authorities monitor our ongoing compliance with good manufacturing practices and other applicable regulatory requirements through periodic inspections. If we fail to comply with good manufacturing practices or other regulatory requirements, we may not be able to obtain future pre-market clearances or approvals, or the FDA or other regulatory agencies may impose corrective action requirements, including total or partial

suspension of product distribution, injunctions, civil penalties, recall or seizure of products, and criminal prosecution. Any of these events would lead to increased costs and a drain on resources and could reduce our revenues and operating results.

BECAUSE WE CONDUCT OUR BUSINESS WORLDWIDE, CHANGES IN INTERNATIONAL REGULATORY REQUIREMENTS MAY MATERIALLY REDUCE OUR TOTAL REVENUES.

Our international sales accounted for approximately 14.5% of our total revenues for the year ended December 31, 2002. Several Accurun(R) External Run Controls products are subject to international regulatory approvals in Germany and France.

As of February 2003, seven of the Company's Accurun 1(R) Positive Control products designed for the European market have been "approved to CE Mark" by G-Med, a Designated Notified Body under the European Union's In Vitro Diagnostics Directive. The IVD Directive describes criteria that must be met and steps that must be taken for in vitro diagnostic products to be qualified for sale in European Union countries beginning at the end of 2003. In the IVD Directive, the European Union classifies products according to the risks associated with their failure or misuse, and establishes a process leading to CE Mark (approval to sell a product in EU countries) for each category. Our Accurun 1(R) product line is in the highest risk category because these products are intended for use with tests for HIV and Hepatitis B and C; thus the criteria for approval to CE Mark are the most stringent, and require Notified Body review. These international approval processes are similar to the FDA clearance process and good manufacturing practice regulations. Changes in international regulatory requirements and policies, including both changes in existing restrictions and future restrictions on importation of blood and blood derivatives, could result in reduced international sales, which may materially reduce our total revenues and income.

IF WE ARE UNABLE TO OBTAIN A STEADY AND ADEQUATE SUPPLY OF RARE SPECIMENS OF PLASMA AND SERUM, THEN WE MAY BE UNABLE TO PRODUCE OUR QUALITY CONTROL PANEL PRODUCTS AND OUR ACCURUN® EXTERNAL RUN CONTROLS PRODUCTS.

We manufacture our diagnostic products, including our quality control panel products and Accurun® External Run Controls products, from human plasma and serum which we obtain from nonprofit and commercial blood centers in the United States and from similar sources throughout the world. Our BBI Diagnostics business unit, which manufactures and sells these diagnostic products, accounts for approximately 51% of our revenues. Our quality control panel products and Accurun® External Run Controls products contain rare plasma specimens that we collect from individuals who have been infected with particular diseases. The specimens are rare because we can collect them only during the brief period of time when the markers for a particular disease in an infected individual are converting from negative to positive. It is difficult to identify such infected individuals and to collect

specimens from them during the brief period of time when the markers for a particular disease are converting from negative to positive. As a result, quantities of these specimens are limited. As we sell our quality control panel products and Accurun® External Run Controls products, we must find replacement specimens that are equally rare. We may also face competition to obtain these specimens which could further limit our ability to obtain the specimens and to produce our quality control panel products and Accurun® External Run Controls products. A limit in our ability to produce our products would reduce our future revenues and operating results.

IF WE ARE NOT ABLE TO REACT QUICKLY TO TECHNOLOGICAL CHANGE, WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.

The infectious disease test kit industry is characterized by rapid and significant technological change, and changes in customer requirements. As a result, our ability to continue to compete effectively in this industry depends upon our ability to enhance our existing products and to develop or acquire, and introduce in a timely manner, new products that take advantage of technological advances and respond to customer requirements. We may not be successful in developing and marketing such new products or enhancements to our existing products on a timely basis, if at all, and such products may not adequately address the changing needs of the marketplace. Furthermore, rapid technological development may result in our products or services becoming obsolete or noncompetitive before we recover our investment in research, development and commercialization.

IF WE CANNOT PROTECT OUR INTELLECTUAL PROPERTY, WE MAY BE UNABLE TO COMPETE EFFECTIVELY.

Our ability to compete effectively with other companies depends in part on our ability to maintain the proprietary nature of our technologies and products. We rely primarily on a combination of trade secrets and non-disclosure and confidentiality agreements to establish and protect our proprietary rights in our technology and products. For the pressure cycling technology developed by our BBI BioSeq subsidiary, we have nine issued patents and several other patents pending. If we have not adequately protected our technology, or if our competitors misappropriate our intellectual property, we could lose market share and our future revenues and operating income could be significantly less than projected.

IF WE ARE UNABLE TO ATTRACT AND RETAIN A NEW CHIEF EXECUTIVE OFFICER, THEN WE MAY NOT BE SUCCESSFUL IN FULLY EXECUTING OUR BUSINESS PLAN.

On February 14, 2003, we announced the termination of our Chairman and Chief Executive Officer. We subsequently appointed as Chairman Mr. William A. Wilson, an existing independent member of the Board of Directors. A special committee of our Board of Directors has been appointed to oversee management of the affairs of the Company until such time as a new Chief Executive Officer is employed. There are a limited number of qualified candidates for the position with the necessary technical background and management experience. We are competing for those candidates with companies that are larger and have greater financial resources than we. If we are not able to attract and retain a new, suitably qualified, Chief Executive Officer within a reasonable period of time, we may not be able to properly evaluate our strategic choices, our existing management may not be able to focus their attention on all necessary management

matters and we may not be successful in fully executing our business plan.

IF WE ARE UNABLE TO ATTRACT AND RETAIN HIGHLY QUALIFIED SCIENTIFIC AND MANAGEMENT PERSONNEL, THEN WE MAY NOT BE ABLE TO DEVELOP AND REFINE OUR PRODUCTS AND SERVICES.

Our products and services are highly technical and our key personnel must have specialized training or advanced degrees in order to develop and refine these products and services. There are a

limited number of qualified scientific and management personnel who possess the technical background necessary to adequately understand and improve our products and services. We compete for these personnel with other companies, academic institutions, government entities and other organizations engaged in research and development of products similar to ours. If we are unable to attract and retain scientific and management personnel with the appropriate credentials who are capable of developing and refining our products and services, then our products and services could become inaccurate or unreliable, or could fail to obtain FDA approval and we may be unable to deliver new products.

WE MAY NOT BE ABLE TO FULLY COLLECT THE PRINCIPAL AND INTEREST DUE ON A $1,000,000 RECEIVABLE FROM OUR FORMER CHAIRMAN AND CHIEF EXECUTIVE OFFICER.

As of January 2003, we recorded a $1,000,000 receivable from our former Chairman and Chief Executive Officer, Richard T. Schumacher. We continue to maintain a junior security interest in collateral pledged by Mr. Schumacher to a financial institution. The collateral includes certain of Mr. Schumacher's real property and all of his shares of our common stock. The collateral and personal assets of Mr. Schumacher may not be sufficient to permit us to fully recover the principal, interest and other costs associated with this receivable. If the value of the collateral decreases, we may have to write down or write off the receivable. Therefore, we cannot be certain that we will collect the full amount of the receivable.

A FEW STOCKHOLDERS CONTROL A SIGNIFICANT PERCENTAGE OF VOTING POWER AND MAY EXERCISE THEIR VOTING POWER IN A MANNER ADVERSE TO OTHER STOCKHOLDERS' INTERESTS.

Our former Chairman and Chief Executive Officer, Richard T. Schumacher, and our other existing officers and directors collectively have voting control over approximately 15% of the outstanding shares of our common stock as of February 2003. In addition, approximately 23% of the outstanding shares of our common stock as of February 2003 were controlled by Mr. Richard Kiphart, an unaffiliated investor. Accordingly, these stockholders, should they choose to act in concert, are in a position to exercise a significant degree of control and to significantly influence stockholder votes on the election of directors, increasing the authorized capital stock, and authorizing mergers and sales of assets. These stockholders may act in a manner that is adverse to your personal interests.

PROVISIONS IN OUR CHARTER AND BY-LAWS AND OUR SHAREHOLDER RIGHTS PLAN MAY DISCOURAGE OR FRUSTRATE STOCKHOLDERS' ATTEMPTS TO REMOVE OR REPLACE OUR CURRENT MANAGEMENT.

Our amended and restated articles of organization and restated bylaws contain provisions that may make more difficult or discourage changes in our management that our stockholders may consider to be favorable. These provisions include:

- classified board of directors;
- advance notice for stockholder nominations to the board of directors;
- limitations on the ability of shareholders to remove directors; and
- a provision that allows a majority of the directors to fill vacancies on the board of directors.

These provisions could prevent or frustrate stockholders' attempts to make changes in our management that our stockholders consider to be beneficial.

On February 27, 2003, our Board of Directors adopted a Shareholder Purchase Rights Plan. This Plan may have the effect of discouraging or preventing a change in control.

All of these provisions could limit the price that our stockholders might receive in the future for shares of our common stock.

THE EXERCISE OF ALL OUTSTANDING OPTIONS AND THE CONVERSION OF ALL OUTSTANDING WARRANTS COULD HAVE AN ADVERSE EFFECT ON THE PRICE OF OUR COMMON STOCK.

We have 1,395,687 options outstanding as of December 31, 2002 which are exercisable at various prices. In addition, we have outstanding warrants, with various strike prices, which are exercisable for a total of 231,901 shares of our common stock as of December 31, 2002. The options and warrants exercisable as of December 31, 2002 represent approximately 19.6% of our issued and

outstanding common stock based on the number of shares issued and outstanding as of December 31, 2002 on a fully diluted basis. The exercise of our outstanding options and warrants could place downward pressure on the price of our common stock.

WE ARE INCURRING SIGNIFICANT LOSSES AND CANNOT ASSURE THAT WE WILL BECOME PROFITABLE.

We incurred net losses in four out of the last five years. For the year ended December 31, 2002, we incurred a net loss of $1,488,000. For the year ended December 31, 2001 we had net income of $3,447,000, but the results for that year included $4,334,000 from discontinued operations. We cannot assure that we will become profitable or that we can maintain profitability if we attain it.

In January 2002, we pledged a $1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of $2,418,000 from a financial institution to an entity controlled by our former Chairman and Chief Executive Officer, Richard T. Schumacher. In January 2003, the $1,000,000 was used to satisfy our limited guaranty obligation to the financial institution. This may adversely affect our operational needs for cash in 2003 and thereafter.

If revenues are lower than anticipated or expenses are higher than anticipated, we may require additional capital sooner than expected and there can be no assurance that we will be able to obtain additional financing or capital on acceptable terms or that we will be successful in eliminating or scaling back certain of our activities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to interest rate risk in connection with its long-term debt. The aggregate hypothetical loss in earnings for one year of those financial instruments held by the Company at December 31, 2002, that are subject to interest rate risk resulting from a hypothetical increase in interest rates of 10 percent is less than $100,000, after-tax. The hypothetical loss was determined by calculating the aggregate impact of a 10 percent increase in the interest rate of each variable rate financial instrument held by the Company at December 31, 2002, that is subject to interest rate risk. Fixed rate financial instruments were not evaluated, as the Company believes the risk exposure is not material.

The Company is exposed to concentrations of credit risk in cash and cash equivalents and trade receivables. Cash and cash equivalents are placed with major financial institutions with high quality credit ratings. Trade receivables credit risk exposure is significant as the Company derives a significant portion of its revenues from a small number of customers. However, this risk is mitigated by the dispersion across different industries and geographies in which the customers operate; in addition to this, approximately 31% of 2002 consolidated revenue was from all branches of the National Institutes of Health, a U.S. Government agency. The Company is exposed to credit-related risks associated with its trade accounts receivable from foreign customers but they are denominated in U.S. dollars mitigating the currency risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 975,649	$ 2,857,916
Accounts receivable, less allowances of $117,671 in 2002 and $125,617 in 2001	3,701,105	4,073,513
Inventories	7,094,053	6,763,144
Prepaid expenses and other current assets	303,396	176,275
Restricted cash (Note 12)	1,000,000	—
Total current assets	13,074,203	13,870,848
Property and equipment, net	5,826,817	6,533,671
OTHER ASSETS:		
Goodwill and other intangible assets, net	798,542	854,864
Other long-term assets	143,807	154,871
Total other assets	942,349	1,009,735

TOTAL ASSETS	$ 19,843,369	$ 21,414,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,970,517	$ 1,666,771
Accrued employee compensation	898,449	907,426
Other accrued expenses	506,823	607,004
Net liabilities from discontinued operations (Note 2)	302,436	1,148,222
Current maturities of long term debt	79,875	82,053
Deferred revenue and other current liabilities	118,609	52,398
Total current liabilities	3,876,709	4,463,874
LONG-TERM LIABILITIES:		
Long term debt, less current maturities	2,337,874	2,402,837
Net liabilities from discontinued operations (Note 2)	408,005	538,325
Other liabilities	593,735	568,906
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; 20,000,000 shares authorized, 6,786,335 and 6,132,718 issued and outstanding at December 31, 2002 and 2001, respectively	67,863	61,327
Additional paid-in capital	21,811,262	20,170,492
Common Stock Subscription, net of issuance costs	—	1,497,568
Loan to officer/director (Note 12)	—	(525,000)
Accumulated deficit	(9,252,079)	(7,764,075)
Total stockholders' equity	12,627,046	13,440,312
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 19,843,369	$ 21,414,254

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2002	2001	2000
REVENUE:			
Products	$ 12,696,830	$ 13,092,771	$ 12,387,416
Services	10,067,807	8,733,336	7,082,538
Total revenue	22,764,637	21,826,107	19,469,954
COSTS AND EXPENSES:			
Cost of products	6,535,429	6,337,437	7,269,817
Cost of services	7,727,137	6,783,329	5,581,636
Research and development	2,611,060	2,303,350	2,443,779
Selling and marketing	3,286,183	2,916,013	2,659,935
General and administrative	4,108,734	3,976,568	4,918,899
Impairment of intangible asset	—	—	1,464,220
Total operating costs and expenses	24,268,543	22,316,697	24,338,286
Operating loss from continuing operations	(1,503,906)	(490,590)	(4,868,332)

Interest income	41,809	57,515	23,598
Interest expense, including beneficial conversion feature (Note 7)	(247,971)	(438,008)	(1,617,311)
Loss from continuing operations before income taxes and cumulative effect of change in accounting principle	(1,710,068)	(871,083)	(6,462,045)
Provision for income taxes	(2,936)	(15,678)	(1,151,940)
Loss from continuing operations before cumulative effect of change in accounting principle	(1,713,004)	(886,761)	(7,613,985)
Cumulative effect of change in accounting principle (Note 7)	—	—	(190,223)
Loss from continuing operations	$ (1,713,004)	$ (886,761)	$ (7,804,208)
Discontinued operations (Note 2)			
Income (loss) from discontinued operations of Clinical Laboratory segment (less income taxes of $0, $969,000, and $0 in 2002, 2001 and 2000, respectively)	225,000	4,334,498	(196,751)
Net income (loss)	$ (1,488,004)	$ 3,447,737	$ (8,000,959)
Loss from continuing operations per share, basic & diluted	$ (0.26)	$ (0.14)	$ (1.43)
Income (loss) per share from discontinued operations, basic & diluted	$ 0.03	$ 0.70	$ (0.03)
Net income (loss) per share, basic & diluted	$ (0.22)	$ 0.56	$ (1.46)
Number of shares used to calculate net income (loss) per share basic and diluted	6,660,662	6,204,384	5,465,358

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, 2002, 2001 AND 2000

	Common Stock							
	Shares	$.01 Par Value	Additional Paid-In Capital	Receivable for Exercised Warrants	Prepaid Common Stock Subscription	Loan to Officer/ Director	Accumulated Deficit	Total Stockholders' Equity
BALANCE, December 31, 1999	4,773,365	$ 47,734	$ 16,809,242				$ (3,210,853)	$ 13,646,123
Common stock issued in connection with Employee Stock Purchase Plan	8,458	84	26,264					26,348
Stock warrants issued			1,000					1,000
Stock options and other warrants exercised	370,693	3,707	906,304					910,011
Exercise of Paradigm warrants	500,000	5,000	1,954,979	(2,225,000)				(265,021)
Reserve for exercise of Paradigm warrants			(1,959,979)	2,225,000				265,021
Stock warrants issued/beneficial conversion feature in connection with 3% Senior Subordinated Convertible Debentures			1,167,052					1,167,052
Net loss							(8,000,959)	(8,000,959)
BALANCE, December 31, 2000	5,652,516	56,525	18,904,862			—	(11,211,812)	7,749,575
Common stock issued in connection with Employee Stock Purchase Plan	15,292	153	26,210					26,363
Conversion of 3% Senior Subordinated Convertible Debentures	801,325	8,013	970,876					978,889
Beneficial conversion feature in connection with 3% Senior Subordinated Convertible								

Debentures			(527,519)					(527,519)
Stock based compensation			30,000					30,000
Stock options and other warrants exercised	163,585	1,636	397,063					398,699
Cancelled Exercise of Paradigm warrants	(500,000)	(5,000)	5,000					—
Tax benefit of stock options exercised			364,000					364,000
Loan to Officer / Director						$ (525,000)		(525,000)
Prepaid Common Stock Subscription, net				$ 1,497,568				1,497,568
Net Income							3,447,737	3,447,737
BALANCE, December 31, 2001	6,132,718	$ 61,327	$ 20,170,492	$ —	$ 1,497,568	$ (525,000)	$ (7,764,075)	$ 13,440,312
Common stock issued in connection with Employee Stock Purchase Plan	9,749	98	25,343					25,441
Issuance of Common Stock, net	600,000	6,000	1,491,568		(1,497,568)			—
Stock options and other warrants exercised	43,868	438	123,859					124,297
Repayment of Loan to Officer / Director						525,000		525,000
Net Loss							(1,488,004)	(1,488,004)
BALANCE, December 31, 2002	6,786,335	$ 67,863	$ 21,811,262	$ —	$ —	$ —	$ (9,252,079)	$ 12,627,046

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (1,488,004)	$ 3,447,737	$ (8,000,959)
Less income (loss) from discontinued operations	225,000	4,334,498	(196,751)
Loss from continuing operations	(1,713,004)	(886,761)	(7,804,208)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,302,106	1,415,253	1,609,454
Non-cash interest expense on convertible debentures	—	(508,906)	707,704
Stock based compensation	—	30,000	—
Cumulative effect of change in accounting principle	—	—	190,223
Impairment of intangible assets	—	—	1,464,220
Provision for doubtful accounts	—	55,808	2,064
Deferred income tax valuation allowance	—	—	1,155,325
Loss on disposal of property and equipment	—	—	4,721
Changes in operating assets and liabilities:			
Accounts receivable	380,354	(247,378)	469,943
Inventories	(330,908)	(297,596)	(3,855)
Prepaid expenses and other current assets	(127,121)	60,456	48,316
Receivable for income taxes	—	212,762	(212,762)
Other long-term assets	3,119	(19,294)	11,910
Accounts payable	303,746	434,074	(554,880)
Accrued compensation	(8,977)	70,622	3,571
Other accrued expenses	(100,181)	(367,602)	(101,408)
Deferred revenue	66,211	22,237	23,897
Deferred rent and other liabilities	24,828	(29,262)	190,078
Net cash used in operating activities	(199,827)	(55,587)	(2,795,687)
CASH FLOWS FROM INVESTING ACTIVITIES:			

Payments for additions to property and equipment	(624,581)	(416,202)	(1,025,460)
Proceeds from sale of property and equipment	85,651	35,509	—
Net cash used in investing activities	(538,930)	(380,693)	(1,025,460)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from mortgage, net of issuance costs	—	—	2,446,573
Net proceeds (repayments) from issuance of convertible debentures	—	(1,663,352)	2,531,023
Proceeds from issuance of warrants	—	—	327,643
Proceeds from issuance of common stock	149,738	425,062	936,359
Proceeds from prepaid common stock subscription, net of issuance costs	—	1,497,568	—
Loan to officer/director	525,000	(525,000)	—
Pledge of restricted cash as security for loan from bank to officer/director	(1,000,000)		
Repayments on line of credit	—	(5,762,635)	(1,383,016)
Repayments of long-term debt, net	(67,140)	(82,127)	(75,462)
Net cash provided (used) by financing activities	(392,402)	(6,110,484)	4,783,120
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	(1,131,159)	(6,546,764)	961,973
Change in cash and cash equivalents provided by discontinued operations	(751,108)	7,622,580	543,959
Cash and cash equivalents, beginning of year	2,857,916	1,782,100	276,168
Cash and cash equivalents, end of year	$ 975,649	$ 2,857,916	$ 1,782,100
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 1,112	$ 29,801	$ 85,119
Interest paid	244,407	370,149	416,557
NON-CASH ACTIVITIES:			
Capital lease obligations incurred	—	$ 21,242	$ 95,577
Conversion of Debentures to equity	—	978,889	—
Issuance of 600,000 shares associated with prepaid stock subscription	$ 1,497,568	—	—

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

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 as of December 31, 2002. The Company also invests in new technologies related to infectious diseases. 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.

As of December 31, 2002, the Company had approximately $9,200,000 in working capital. At December 31, 2002, the Company had cash and cash equivalents of $975,649, excluding restricted cash of $1,000,000, compared to cash of $2,857,916 at December 31, 2001. In January 2003, the $1,000,000 of restricted cash pledged to a financial institution to secure the Company's limited guaranty of a loan from the financial institution to an entity controlled by Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer, was used to satisfy the Company's guaranty obligation to the financial institution as discussed further below. The Company has experienced operating losses from continuing operations of $1,504,000 and $491,000 and has experienced negative cash flows from operations of $200,000 and $56,000 for the years ended December 2002 and 2001, respectively. In addition, it is anticipated there may be additional working capital requirements in connection with PCT Barocycler™ sales and marketing activities. Management has met its recent historical cash flow needs by managing its working capital and utilizing proceeds from the February 2001 sale of one of its business segments. It plans to manage its future liquidity needs through cost reductions and additional selling initiatives.

The Company failed to meet its debt service coverage covenant for the year ended December 31, 2002, but the financial institution has waived this default and the Company's other defaults relating to reports and the termination of the Company's former Chairman and Chief executive officer.

Based on current forecasts, management believes that the company has sufficient liquidity to finance operations for the next twelve months. Management's forecasts involve assumptions that could prove to be incorrect. If the Company continues to incur operating losses or negative cash flows, it may need to raise additional funds. There can be no assurance that these funds will be available when required on

terms acceptable to the Company, if at all. If adequate funds are not available when needed, the Company may be required to further reduce its fixed costs and delay, scale back, or eliminate certain of its activities, any of which could have a material adverse long term effect on its business, financial condition and results of operations. The Company is considering various sources of additional financing, including but not limited to, sale of business segments, strategic alliances and private placements of debt or equity securities.

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 Source Scientific, Inc. ("BBI Source"), and BBI BioSeq, Inc. ("BBI BioSeq"). BBI consists primarily of the Diagnostic Products segment as well as the executive corporate office. In January 2000, the Company incorporated Panacos Pharmaceuticals, Inc., ("Panacos"). All of the Company's technology related to its drug

discovery and vaccine programs, consisting of primarily patents and related sponsored agreements, were transferred to Panacos effective January 2000. Panacos was accounted for as a consolidated subsidiary of the Company during the period January 1, 2000 to November 14, 2000, subsequent to which Panacos obtained independent third party funding and the Company ceased consolidation of Panacos as a wholly-owned subsidiary. As of November 14, 2000 the Company's investment in Panacos was zero and the Company is no longer required to fund Panacos's operations. Therefore no further losses of Panacos will be recorded by the Company. As of February 2002, the Company holds a 16% interest in non-voting preferred shares of Panacos. All significant intercompany accounts and transactions have been eliminated in the consolidation.

In February 2001, the Company sold the business and certain assets and liabilities of BBI Clinical Laboratories, Inc. ("BBICL") to a third party in conjunction with its decision to exit the clinical laboratory business segment. In accordance with the provisions of APB No. 30, concerning the reporting the effects of disposal of a segment of a business, the Company classified the results of BBICL as discontinued operations in the accompanying statements of operations.

(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 addition, significant estimates were made in determining the gain on the disposition of the Company's discontinued operations including post-closing adjustments, in estimating future cash flows to quantify impairment of assets, in determining the ultimate cost of abandoning a lease (associated with discontinued operations) at a facility no longer being utilized, in estimates regarding the collectability of accounts receivable, realizability of loans made to employees including sufficiency of collateral, deferred tax assets, the net realizable value of its inventory, as well as an estimate for remaining liabilities associated with discontinued operations. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates and assumptions used by management.

(iii) Revenue Recognition

We recognize revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). Revenue is recognized when realized or earned when all the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured.

Product revenue is generally recognized upon shipment of the products. The company will occasionally recognize revenue on a bill and hold basis after completion of manufacture for specific orders at the request of the customer. Bill and hold sales transactions are entered into after consideration of customer needs and capabilities relating to freezer capability to store biological substances at required temperatures. All bill and hold transactions meet specified revenue recognition criteria that include:

- The risk of ownership has passed to the customer;
- The customer has a fixed commitment to purchase the goods;
- The customer, not the company, has requested the transaction to be on a bill and hold basis;

- There is a fixed schedule for delivery of the goods;
- We do not retain any specific performance obligations such that the earnings process is not complete;
- The ordered goods are segregated from our inventory and not subject to being used to fill other orders; and
- The goods must be complete and ready for shipment

The company also considers the following prior to recognizing revenue:

- The transaction is subject to normal billing and credit terms for the specific customer;
- The company's past experience with the pattern of bill and hold transactions;
- Whether the customer has the expected risk of loss in the event of a decline in the market value of the goods;
- Whether our custodial risks are insurable and insured;
- Whether APB 21, pertaining to the need to discounting the related receivables, is applicable; and
- Whether extended procedures are necessary in order to assure that there are no exceptions to the customer's commitment to accept and pay for the goods

Total revenue related to bill and hold transactions was approximately $380,000, $610,000, and $562,000, for the years ended December 31, 2002, 2001, and 2000, respectively

Revenue from service contracts is earned as the related services are performed. Revenue arrangements where multiple products or services are sold together under one contract are evaluated to determine if each element represents a separate earnings process. In the event that an element of such multiple element arrangement does not represent a separate earnings process, revenue from this element is recognized over the term of the related contract. Services are recognized as revenue upon completion of tests for 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 lasting from one to five years, including funded research and development contracts, is recorded when costs to perform such research and development activities are incurred. Billings under long-term contracts are generally at cost plus a predetermined profit. Billings occur as costs associated with time and materials are incurred. Customers are obligated to pay for such services, when billed, and payments are non-refundable. On occasion certain customers make advance payments that are deferred until revenue recognition is appropriate. Total revenue related to long-term contracts was approximately $5,802,000, $5,062,000, and $5,082,000, for the years ended December 31, 2002, 2001, and 2000, respectively. Total contract costs associated with these agreements were approximately $5,610,000, $4,911,000, and $5,540,000, for the years ended December 31, 2002, 2001 and 2000, respectively. Included in the revenue recognized under long-term contracts are certain unbilled receivables representing additional indirect costs, which are allowed under the terms of the respective contracts. Unbilled receivables were less than $62,000 for all years presented.

During the fiscal years 2002, 2001, and 2000, the combined revenues from all branches of the National Institutes of Health, a United States Government agency, accounted for approximately 31%, 31% and 30%, respectively, of total consolidated revenues from continuing operations of the Company. Additional future revenues originating from various branches of the National Institutes of Health is subject to possible future changes in government funding levels.

(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. At December 31, 2002, the Company had cash and cash equivalents of $975,649, excluding restricted cash of $1,000,000 pledged to a financial institution to secure the Company's limited guarantee of a loan from the financial institution to an entity controlled by Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer (See Note 12).

(v) Research and Development Costs

Research and development costs, which are comprised of costs incurred in performing research and development activities including wages and associated employee benefits, facilities and overhead costs, are expensed as incurred

(vi) Inventories

Inventory is valued at the lower of cost or market. Certain factors may impact the realizable value of our inventory including, but not limited to, technological changes, market demand, changes in product mix strategy, new product introductions and significant changes to our cost structure. In addition, estimates of reserves are made for obsolescence based on the current product mix on hand and its expected net realizability. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by management, additional inventory write-downs or increases in obsolescence reserves may be required. We treat lower of cost or market adjustments and inventory reserves as an adjustment to the cost basis of the underlying inventory. Accordingly, favorable changes in market conditions are not recorded to inventory in subsequent periods.

(vii) Property and Equipment

Property and equipment are stated at cost. For financial reporting purposes, depreciation is recognized using the straight-line method, 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. Depreciation on PCT demonstration units is allocated over the expected useful life of two years.

(viii) Goodwill and Intangible Assets

The Company has classified as intangible assets, costs associated with the fair value of certain assets of the businesses acquired. Intangible assets such as patents, licenses, and intellectual property rights, are being amortized on a straight-line basis over four to sixteen years. Goodwill was amortized through December 31, 2001, using the straight-line method over periods ranging up to fifteen years; accumulated amortization was $510,500 as of December 31, 2001. In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". The Company adopted SFAS No. 142 effective January 1, 2002. Under SFAS No. 142, amortization of goodwill ceased and the Company assesses the realizability of these assets annually and whenever events or changes in circumstances indicate it may be impaired. Such events or circumstances generally include the occurrence of operating losses or a significant decline in earnings associated with one or

more of the Company's reporting units. The Company estimates the fair value of its reporting units by using forecasts of discounted cash flows. When impairment is indicated, any excess of carrying value over fair value is recorded as a loss. An impairment analysis of remaining goodwill performed during the year pursuant to the requirements of that accounting pronouncement concluded no impairment had occurred; see Note 5.

(ix) Long-Lived Assets

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows. If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the fair value of the asset and records the impairment as a reduction in the carrying value of the related asset and a charge to operating results. While the Company's current and historical operating losses and cash flow are indicators of impairment, the Company completed an annual test for impairment at December 31, 2002 and determined that goodwill was not impaired.

(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. In the year ended December 31, 2000, the Company established a full valuation allowance for all of its deferred tax assets based on applicable accounting standards and in consideration of incurring three consecutive years of losses (see Note 9).

(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 and cash equivalents with high credit quality financial institutions. 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 6). 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 (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing income (loss) 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 are antidilutive are excluded from the calculation.

Potentially dilutive securities having a net effect of 164,002, 9,531, and 2,500 common shares were not included in the computation of diluted loss per share because to do so would have been antidilutive for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, 2001 and 2000 options outstanding having exercise prices greater than the fair market price of common shares totaled 181,000, 1,087,287 and 2,500 respectively.

(xiv) Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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. 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

Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141), is effective for all business combinations initiated after June 30, 2001. The new standard requires companies to record business combinations using the purchase method of accounting. The Company has not done a business combination since the issuance of SFAS 141.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective in 2003. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Adoption of the standard did not materially affect the Company's financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Adoption of the standard is generally required in 2003. Under the standard, gains and losses on early extinguishment of debt, will be reported as other nonoperating income or expense. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes Emerging Issues Task Force Issue (EITF) 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The standard affects the accounting for restructuring charges and related activities and generally will lengthen the timeframe for reporting of expenses relating to restructuring activities beyond the period in which a plan is initiated. The provisions of this

statement are required to be adopted for exit or disposal activities that are initiated after 2002. The provisions of EITF 94-3 will continue to apply with regard to the Company's previously announced restructuring plans.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions—an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9." This Statement had no impact on the Company.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As provided for in SFAS No. 123, the company has elected to apply APB No. 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans. APB No. 25 does not require options to be expensed when granted with an exercise price equal to fair market value. The company is complying with the disclosure requirements of SFAS No. 148 in this note under (xvii) Stock-Based Compensation.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," (An interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34") ("FIN 45"). FIN 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. The Interpretation also requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The accounting requirements for the initial recognition of guarantees are applicable on a prospective basis for guarantees issued or modified

after December 31, 2002. The disclosure requirements are effective for all guarantees outstanding, regardless of when they were issued or modified, for annual periods that end after December 15, 2002. The adoption of FIN No. 45 did not have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB 51." The primary objectives of FIN No. 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity for which either: (a) the equity investors (if any) do not have a controlling financial interest; or (b) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN No. 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The Company is required to apply FIN No. 46 to all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the Company is required to apply FIN No. 46 on July 1, 2003. The Company does not expect FIN No. 46 will have a material effect on its financial statements.

In November 2002, the EITF reached a final consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." The provisions of EITF 00-21 are required to be adopted for revenue arrangements entered into by the Company after June 28, 2003, although early adoption is permitted. EITF 00-21 addresses arrangements with customers that have multiple deliverables such as equipment and installation and provides guidance as to when recognition of

revenue for each deliverable is appropriate. The Company is evaluating the timing and impact of adoption of EITF 00-21.

(xvi) Reclassifications

Certain amounts included in the prior year's financial statements have been reclassified to conform to the current years presentation.

(xvii) Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), requires that companies either recognize compensation expense for grants of stock options and other equity instruments based on fair value or provide pro forma disclosure of net income (loss) and net income (loss) per share in the notes to the financial statements. At December 31, 2002, the Company has six stock-based compensation plans, which are described more fully in Note 12. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation cost has been recognized under SFAS 123 for the Company's employee stock option plans. Had compensation cost for awards under those plans been determined based on the grant date fair values, consistent with the method required under SFAS 123, the Company's net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated below:

	2002	2001	2000
Net income (loss)—as reported	$ (1,488,004)	$ 3,447,737	$ (8,000,959)
Add back: Stock-based compensation in net income (loss), as reported	—	—	—
Deduct: Stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(1,017,123)	63,754	(230,976)
Net Income (loss)—pro forma	$ (2,505,127)	$ 3,511,491	$ (8,231,935)
Basic and Diluted net income (loss) per share—as reported	$ (0.22)	$ 0.56	$ (1.46)
Basic and Diluted net income (loss) per share—pro forma	$ (0.38)	$ 0.57	$ (1.51)

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 2002, 2001 and 2000.

	2002	2001	2000
Risk-free interest rate	2.74%	4.12%	5.77%
Volatility factor	90.88%	99.17%	98.54%
Weighted average expected life	4.2	4.0 years	5.1 years
Expected dividend yield	—	—	—

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.

(2) Disposition of Assets

In December 2000, the Company made a decision to exit the clinical laboratory testing services segment and in February 2001, BBI Clinical Laboratories, Inc., a wholly-owned subsidiary of the Company, sold the business and certain assets and liabilities of its clinical laboratory business to a third party for an adjusted purchase price of $8,958,000. The escrow account was terminated in December 2001 by mutual agreement between the buyer and the Company, resulting of approximately $358,000 being received by the Company from the escrow account. The Company has retained certain other assets and liabilities of BBICL, primarily property, plant and equipment, together with the facility lease subsequent to the closing date, which the Company is attempting to sublease. The Company has written down all of the retained assets not otherwise redistributed to other business units to their estimated net realizable value. In accordance with a transition services agreement, the Company operated the business until December 2001; substantially all costs associated with operating the business subsequent to the closing date were borne by the purchaser.

The Company estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business is $710,000 as of December 31, 2002. The major component of this accrual is estimated lease exit and facility related costs ($504,000), with the remainder for other miscellaneous costs associated with exiting this business segment. The Company recorded an after-tax gain of $4,334,000 in 2001, and an additional $225,000 in 2002; the gain may be subject to future adjustments as the Company completes the process of exiting this business and permanently closing the facility. The remaining closing costs include an estimate to dispose of any remaining assets and retire all existing liabilities including the facility lease. The Company utilized in 2001 certain prior period net operating loss carryforwards, previously reserved for by the Company, to partially offset the income tax effect of this gain. All financial data presented in the accompanying financial statements has been reclassified to reflect discontinued operations of this segment of the business for all periods presented. Revenues from discontinued operations, net of intercompany eliminations of $0 and $197,287, were $973,000 and $8,366,995, in the period January 1, 2001 to February 20, 2001 (date of sale) and the year 2000 respectively. A summary of the change in total short term and long term net liabilities from discontinued operations is as follows:

Total short term and long term net liabilities from discontinued operations, 12/31/01:	$	1,686,547
Reduction in previously established reserves		(225,000)
State income taxes, net		(379,016)
Third party audits		(154,314)
Facility Lease		(161,220)
Other expenses, net		(56,556)
Total short term and long term net liabilities from discontinued operations, 12/31/02:	$	710,441

(3) 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® External 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 and commencing in 2002, PCT products. Inventory balances at December 31, 2002 and 2001 consisted of the following:

		2002		2001
Raw materials	$	3,170,988	$	2,855,390
Work-in-process		1,988,585		2,151,359
Finished goods		1,934,480		1,756,395
	$	7,094,053	$	6,763,144

(4) Property and Equipment

Property and equipment at December 31, 2002 and 2001 consisted of the following:

	2002	2001
Laboratory and manufacturing equipment	$ 3,399,055	$ 3,370,925
Management information systems	3,594,295	3,373,132
Office equipment	929,328	919,947
Automobiles	166,761	156,726
PCT demonstration equipment	157,573	—
Leasehold improvements	2,881,090	2,816,108
Land, building and improvements(1)	2,687,661	2,687,661
	13,815,763	13,324,499
Less accumulated depreciation	7,988,946	6,790,828
Net book value	$ 5,826,817	$ 6,533,671

(1) includes the Company's West Bridgewater, MA facility, which serves as collateral to an existing mortgage; see Note 7 "Debt".

Depreciation expense for the years ended December 31, 2002, 2001 and 2000 was approximately $1,246,000, $1,327,000, and $1,410,000 respectively.

At December 31, 2002, BBI Source, BBI Biotech and BBI Diagnostics had approximately $300,000, $1,200,000 and $1,150,000 in fully depreciated assets still in use, respectively.

In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", the Company capitalized approximately $448,000 of internal labor and related costs, in 1999, in connection with its ERP System Implementation. These costs are included in the Management Information Systems line item and are being depreciated over

the same life as the system, 5 years. Annual depreciation expense related to these capitalized costs was approximately $90,000 for each of the three years ended December 31, 2002.

(5) Goodwill and Other Intangible Assets

Other intangible assets consist of specifically identified intangible assets. Goodwill is the excess of any purchase price over the estimated fair market value of net tangible assets acquired not allocated to specific intangible assets. Other intangible assets at December 31, 2002 and 2001 consisted of the following:

	2002	2001
Patents, Licenses and Other Intangibles	$ 884,902	$ 884,902
Less accumulated amortization	(313,444)	(257,122)
subtotal—other intangible assets excluding goodwill	571,458	627,780
Goodwill	737,584	737,584
Less accumulated amortization	(510,500)	(510,500)
subtotal—net goodwill	227,084	227,084
Total net goodwill and other intangible assets	$ 798,542	$ 854,864

Included in intangible assets as of December 31, 2002 and 2001 is $227,084 of goodwill associated with BBI Source Scientific, Inc. Amortization expense for the years ended December 31, 2002, 2001, and 2000 was approximately $56,000, $79,000, and $173,000, respectively. The net book value of the remaining other intangible assets excluding goodwill, as of December 31, 2002 is comprised of approximately $571,000 of acquired PCT patents which is being amortized to expense on a straight line basis at the rate of $48,635 per year over the remaining useful life. The estimated annual future amortization expense of other intangible assets excluding goodwill is as follows:

2003	$ 48,635
2004	$ 48,635
2005	$ 48,635
2006	$ 48,635

2007	$ 48,635
2008 and thereafter	$ 328,283

As part of an ongoing strategic review process, the Company's Board of Directors met in late September 2000 to review the progress of its Laboratory Instrumentation segment, and that segment's prospects for the future. Based on new updated information presented at this meeting and subsequent analyses showing lower revenue expectations, management approved implementation of a cost reduction plan including a headcount reduction, salary freeze, and sublease of excess manufacturing space. Using the assumptions associated with this revised business plan, the Company estimated future net undiscounted cash inflows and cash outflows over the remaining original amortization period of that segment's goodwill, and concluded an impairment had occurred. These annual net future cash inflows and outflows were then discounted at a rate commensurate with the business risks inherent with the future operations of the Laboratory Instrumentation segment, and thus, in accordance with the provisions of both "Accounting Principles Board Opinion No. 17—Intangible Assets" and "Statement of Financial Accounting Standards No. 121—Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," this segment's goodwill was written down by $1,464,000 in 2000. In 2002, the Company adopted SFAS 142; the Company an initial test for impairment upon the adoption of SFAS No. 142 at June 30, 2002, and determined that goodwill was not impaired. The

Company completed an annual test for impairment at December 31, 2002 and determined that goodwill was not impaired.

The following pro forma adjusted net losses have been prepared as if SFAS. No. 142 had been applied retroactively:

	Year Ended December 31,	
	2001	2000
Net income (loss)	$ 3,447,737	$ (8,000,959)
Add back: Goodwill amortization*	21,627	115,090
Adjusted net income (loss)	$ 3,469,364	$ (7,885,869)
Amounts per common share, basic and diluted:		
Net income (loss)	$ 0.56	$ (1.46)
Add back: Goodwill amortization	—	0.02
Adjusted net income (loss)	$ 0.56	$ (1.44)

* Year 2000 excludes $1,464,220 impairment of intangible asset (BBI Source Scientific, Inc. goodwill)

(6) 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 the performance of each 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 had four operating segments as of December 31, 2002, as a result of its decision in late 2000 to exit the clinical laboratory segment of the business. The Diagnostics segment serves the worldwide in vitro diagnostics industry, including users and regulators of their test kits, with quality control products, and test kit components. The Biotech segment pursues third party contracts to help fund the development of products and services for the other segments, primarily with agencies of the United States Government. The Laboratory Instrumentation segment sells diagnostic instruments primarily to the worldwide in vitro diagnostic industry on an OEM basis, and also performs in-house instrument servicing. The PCT segment consists of research and development primarily in pressure cycling technology ("PCT"). The Company performs research in the development of PCT, with particular focus in the areas of nucleic acid purification and pathogen inactivation. The Company announced the availability for commercial sale of its PCT products in late September of 2002. PCT Revenue to date consists primarily of both private and public (NIH) funding of segment research and, commencing in late 2002, from the sale of PCT products. Most of the expenditures incurred by this segment are for research and development expenses, and general management expenses including patent costs.

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 following segment information has been prepared in accordance with the internal accounting policies of the Company, as described above. Prior year data has been restated, where feasible, to conform to the current year presentation format.

Operating segment revenue for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Diagnostics	$ 11,611	$ 11,489	$ 10,863
Biotech	10,162	9,181	7,428
Laboratory Instrumentation	2,374	2,365	2,309
PCT	717	392	371
Panacos	—	—	161
Eliminations	(2,099)	(1,601)	(1,662)
Total revenue	$ 22,765	$ 21,826	$ 19,470

Operating segment income (loss) for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Diagnostics	$ 1,478	$ 1,674	$ 1,015
Biotech	(319)	(212)	(398)
Laboratory Instrumentation(1)	(507)	(460)	(2,819)
PCT	(2,156)	(1,493)	(1,298)
Panacos	—	—	(1,027)
Reclassifications/Other	—	—	(341)
Total loss from operations	$ (1,504)	$ (491)	$ (4,868)

Operating segment depreciation and amortization expense for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Diagnostics	$ 538	$ 598	$ 692
Biotech	573	593	582
Laboratory Instrumentation(1)	107	140	1,717
PCT	84	84	83
Total depreciation and amortization	$ 1,302	$ 1,415	$ 3,074

(1) Included in the Laboratory Instrumentation segments loss for 2000 is a $1,464 write down of a portion of the Laboratory Instrumentation segment's goodwill. (See also Note 5)

Identifiable operating segment assets are all located in the United States, and as of December 31, 2002 and 2001 were as follows:

	2002	2001
Corporate	$ 2,141	$ 3,186
Diagnostics	10,281	10,600
Biotech	4,844	5,286
Laboratory Instrumentation	1,826	1,628
PCT	751	714
Total assets	$ 19,843	$ 21,414

Operating segment capital expenditures for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Diagnostics	$ 139	$ 205	$ 283
Biotech	322	207	818
Laboratory Instrumentation	5	4	19
PCT	158	21	1

Total capital expenditures	$ 624	$ 437	$ 1,121

Revenue by geographic area for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
United States	$ 19,460	$ 18,389	$ 15,295
Europe	2,209	2,397	2,594
Pacific Rim	620	624	841
Total all others	476	416	740
Total	$ 22,765	$ 21,826	$ 19,470

Revenue of Product and Service classes in excess of 10% of consolidated revenue from continuing operations (excludes inter-segment sales) for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Quality Control Products	$ 7,909	$ 8,343	$ 8,210
Government Contracts	7,370	7,617	5,929
Diagnostic Components	3,182	2,629	1,788
Laboratory Instrument Products	1,654	1,895	1,953

The government contract revenues are from United States government agencies, primarily various branches of the National Institutes of Health (NIH) and represent the only customer with revenue in excess of 10% of consolidated revenue in each of the years ended December 31, 2002, 2001 and 2000. During the fiscal years 2002, 2001, and 2000, the combined revenues from all branches of the NIH accounted for approximately 31%, 31% and 30%, respectively, of total consolidated revenues from continuing operations of the Company.

(7) Debt

Effective June 30, 1999, the Company entered into an amended revolving line of credit agreement (the "Amended Line") with its bank, increasing the facility to $10 million from $7.5 million. The Amended Line bears interest at the Company's option based on either the base rate plus 1/4% or LIBOR plus 2.75%; carries a facility fee of 1/4% per annum, payable quarterly; and is collateralized by substantially all of the assets of the Company, excluding real property. Borrowings under the Amended Line are limited to commercially standard percentages of accounts receivable, inventory and equipment. The Amended Line contains covenants regarding the Company's total liabilities to tangible net worth ratio, minimum debt service coverage ratio, and maximum net loss. The Amended Line further provides for restrictions on the payment of dividends, incurring additional debt, and the amount of capital expenditures. In February 2001, the Company utilized a portion of the proceeds from the sale of BBICL to pay off in full the outstanding balance (together with accrued interest) on this line of credit, at which time the bank released all liens associated with this line of credit and terminated the line of credit. There were no payment defaults at any time associated with this line of credit.

On August 25, 2000, the Company entered into Securities Purchase Agreements providing for the issuance of $3,250,000 (face value) 3% Senior Subordinated Convertible Debentures due August 25, 2003 (the "Debentures"). Proceeds to the Company, net of a 5% original issue discount and debt issuance costs, amounted to $2,858,000, of which $327,000 has been allocated to the relative fair value of the associated common stock purchase warrants. The fair value of the warrants was determined using the Black Scholes option-pricing model and the following assumptions: a risk free interest rate of 6.02%, a volatility factor of 91.17%, a contractual life of 5 years and no expected dividend yield. The Company then allocated the proceeds of the Debentures, net of the original issue discount ($3,087,500), on a pro-rata basis using the calculated fair value of the warrants ($318,000) and the fair value of the Debentures ($2,685,000). This resulted in proceeds of approximately $327,000 and $2,761,000 being allocated to the relative fair value of the warrants and the Debentures, respectively. The Debentures are convertible into the Company's common stock commencing November 24, 2000, at a conversion price equal to the lesser of (i) $3.36 per share or (ii) 90% of the average of the five lowest volume weighted average sales prices of Common Stock as reported by Bloomberg L.P. during the twenty-five business days immediately preceding the date on which the Debenture holders notify the Company of their intention to convert all or part of the Debenture into Common Stock. In connection with this transaction, the Company issued warrants, expiring August 2005, to purchase up to 135,556 shares of the Company's common stock at an exercise price of $3.60 per share. Interest on the Debentures is payable quarterly in arrears commencing September 30, 2000. The Debentures are subordinate to both the Company's line of credit (which was terminated in February 2001) and mortgage on its West Bridgewater, MA facility. The Company may elect at any time to redeem all or any portion of the remaining unpaid principal amount of the Debentures for cash. In addition, upon receipt of a notice of conversion from a holder of the Debentures, the Company may elect to redeem that portion being converted for cash in lieu of common stock of the Company. In both cases, the redemption price equals the number of shares of common stock into which the Debenture being redeemed is convertible, times the average closing bid price of the Company's common stock for the five preceding trading days.

The Securities Purchase Agreements and related documents place certain restrictions on the Company's ability to incur additional indebtedness, to make certain payments, investments, loans, guarantees and/or transactions with affiliates, to sell or otherwise dispose of a substantial portion of assets, and/or to merge or consolidate with an unaffiliated entity.

Original issue discount and associated debt issuance costs of $162,500 and $230,000, respectively, are being amortized ratably over the three-year life of the underlying debt as additional interest expense. Also, in accordance with Emerging Issues Task Force Issues 98-5 and 00-27, proceeds of $840,000 have been allocated to the beneficial conversion feature of the Debentures by decreasing the value of the debt and increasing additional paid in capital. Of this, $351,000 was originally calculated in the third quarter of 2000 when the Debentures were issued. The additional amount of $489,000 was calculated in the fourth quarter of 2000 using the accounting conversion method preferred by the SEC pursuant to EITF 00-27 which clarified the method of calculating the beneficial conversion feature. The amount allocated to the beneficial conversion feature was valued using conversion method (ii) from above as of the date of the transaction as it was determined to be the most beneficial to the holders of the Debentures. This amount was expensed over the initial 90-day non-convertible period. For the year ended December 31, 2000, the Company recorded a charge of $898,000 (including $190,223 for the cumulative effect of a change in accounting principle noted above) due to amortization of the beneficial conversion feature, warrant costs and original issue discount/debt issuance costs associated with the Company's August 2000 issuance of $3,250,000 3% Senior Subordinated Convertible Debentures.

In the first quarter of 2001, certain holders of the Company's outstanding 3% Senior Convertible Debentures (the "Debentures") exercised their rights to convert $1,210,000 of such Debentures into shares of the Company's common stock, in accordance with the conversion formula. These conversions

resulted in the issuance of 801,325 additional shares of common stock in 2001. In addition, the Company redeemed the remaining $2,040,000 of Debentures at face plus a $190,000 premium and accrued interest. Unamortized debt discount, debt issuance costs and warrant-related costs associated with the converted Debentures, approximating $231,000 was debited to additional paid-in capital, with the remaining $377,000 of such costs associated with the redeemed Debentures being included in the loss on extinguishment of the Debentures. In addition, the Company reversed approximately $528,000 of expense previously recorded in 2000 associated with the Debentures beneficial conversion feature. Accordingly, the Company recorded a net loss of approximately $39,000 relative to this early extinguishment of debt in the first quarter of 2001. As a result of both the conversions and redemptions, which occurred in the first quarter of 2001, none of the 3%, Senior Subordinated Convertible Debentures remain outstanding subsequent to February 27, 2001.

On April 5, 2000, the Company borrowed $2,447,000, net of related costs, under a mortgage agreement on its West Bridgewater, MA facility, of which approximately $2,374,000 remains outstanding as of December 31, 2002. The Company used the funds to reduce the outstanding balance of its existing line of credit. The principal amount of the note issued in connection with the mortgage is due on March 31, 2010. During the first five years the note carries an interest rate of 9.75%; after five years the rate charged will be .75% greater than the Corporate Base Rate then in effect. The mortgage precludes the payment of dividends on the Company's common stock and contains certain other restrictive covenants. Under this mortgage agreement the Company is subject to certain financial covenants. The Company failed to meet its debt service coverage covenant for the year ended December 31, 2002, but the financial institution has waived this default and the Company's other defaults relating to reports and the termination of the Company's former chairman and chief executive officer. Monthly payments on this mortgage are based on a 20 year amortization schedule with a balloon payment representing the remaining balance due in full on March 10, 2010. The mortgage is collateralized by the Company's West Bridgewater, MA facility, which has a net book value of $2,042,000 at December 31, 2002. Future principal payments due on the Company's mortgage agreement are approximately $59,000, 65,000, $71,000, $78,000 and $87,000 for each of the years ended December 31, 2003, 2004, 2005, 2006, and 2007, respectively.

(8) 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. As of December 31, 2001, no such contributions had been made, however, commencing in 2002, the Company formally adopted and implemented a limited matching contribution program. During 2002, 2001 and 2000 the Company recognized administrative expense of approximately $22,000, $23,000, and $30,000, respectively in connection with the plan.

(9) Income Taxes

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

	2002	2001	2000
Current (benefit) provision: federal	$ —	$ —	$ —
Current provision: state	2,936	15,678	—
Total current provision	2,936	15,678	—
Deferred provision: federal	—	—	879,557
Deferred provision: state	—	—	272,383

Total deferred provision	—	—	1,151,940
Total provision for income taxes from continuing operations	$ 2,936	$ 15,678	$ 1,151,940

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

	2002	2001
Current deferred taxes:		
Inventory	$ 391,563	$ 271,949
Accounts receivable allowance	46,998	58,159
Technology licensed	231,984	254,617
Other accruals	365,960	141,801
Less: valuation allowance	(1,036,505)	(726,526)
Total current deferred tax assets	—	—
Long term deferred taxes:		
Accelerated tax depreciation	53,868	(144,011)
Goodwill and intangibles	479,200	533,646
Tax credits	484,103	577,197
Operating loss carryforwards	1,844,460	1,503,528
Less: valuation allowance	(2,861,631)	(2,470,360)
Total long term deferred tax assets (liabilities), net	—	—
Total net deferred tax assets	$ —	$ —

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance has been established for the full amount of the deferred tax asset due to the uncertainty of realization.

The Company had net operating loss carryforwards for federal income tax purposes of approximately $3,500,000 and $2,700,000 at December 31, 2002 and 2001, respectively. These net operating loss carryforwards expire at various dates from 2012 through 2022. Included in this number are loss carryforwards of approximately $1,350,000 that were obtained through the acquisition of BioSeq, Inc. These carryforwards expire from 2012 through 2018. The Company had net operating loss carryforwards for state income tax purposes of approximately $10,500,000 and $9,400,000 at December 31, 2002 and 2001, respectively. These net operating loss carryforwards expire at various dates from 2003 through 2022. Included in this number are loss carryforwards of approximately $2,000,000 that were obtained through the acquisition of BioSeq, Inc. These carryforwards expire from 2011 through 2018.

As of December 31, 2002, the Company had approximately $90,000 of alternative minimum tax credits, which do not expire, and $372,000 of federal research credits, which expire from 2011 to 2022.

Included in the net operating loss and credit carryforwards discussed above is a deferred tax asset of approximately $375,000 reflecting the benefit of deductions from the exercise of stock options. The benefit from this deferred tax asset will be recorded to additional paid-in capital when realized.

The Company's effective income tax rate from continuing operations for the years ended December 31, 2002, 2001 and 2000 differs from the statutory federal income tax rate as follows:

	2002	2001	2000
Federal tax (benefit) provision rate	(34)%	(34)%	(34)%
State tax (benefit) provision, net of federal benefit	(4)%	(4)%	(6)%
Non-cash deductions and other permanent items	2%	(10)%	(14)%
Effect of subsidiary leaving the group	—	—	4%
Valuation allowance	36%	50%	67%
Effective income tax (benefit) provision rate from continuing operations	0%	2%	17%

The Company's federal income tax returns for fiscal years 1997 and 1998 have been examined by the Internal Revenue Service. The Company has agreed to a settlement of the audit covering these years. The Company believes the final computation of any assessment due will not have a material adverse effect on the accompanying financial statements.

(10) Commitments and Contingencies

Leases

The Company leases certain office space, repository, 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. In May 2000, the Company acquired laboratory equipment pursuant to a three-year capital lease at 12% financing, resulting in total payments of approximately $115,000 over the life of the lease agreement.

At December 31, 2002, future minimum lease payments under non-cancelable leases, excluding discontinued operations, is as follows:

Year Ended	Operating Leases	Capital Leases
2003	$ 1,179,000	$ 16,000
2004	1,212,000	—
2005	944,000	—
2006	916,000	—
2007 and thereafter	541,000	—
Total minimum lease payments	$ 4,792,000	16,000
Less amount representing interest		(3,000)
Present value of minimum lease payments		$ 13,000

The Company entered into a non-cancelable sublease agreement with a third party that expired January 2002. Rent expense, net of sublease income consisted of the following:

	2002	2001	2000
Basic expense	$ 1,111,000	$ 1,274,000	$ 1,109,000
Sublease income	(14,000)	(169,000)	(42,000)
Rent expense, net	$ 1,097,000	$ 1,105,000	$ 1,067,000

In addition, as discussed further in Note 2, the Company is subject to future minimum lease payments in connection with the discontinued operations of its clinical laboratory segment of $161,000, $161,000, and $94,000 in 2003, 2004, and 2005, respectively. The Company included an estimate of this remaining lease commitment in 2001 as part of the calculation of the gain on the sale of certain assets from the clinical laboratory segment.

The Company's California and Maryland facility leases include 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, 2002 and 2001, the Company has recorded a long-term liability of $357,000 and $306,000, respectively ($356,000 and $312,000 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 California and Maryland facilities.

Royalty Commitments

The Company acquired in 1998 all the remaining common stock outstanding of BioSeq, a development stage company involved with PCT. In accordance with the provisions of a technology transfer agreement assumed in the transaction, the Company is obligated to pay, a 5% royalty on net sales until March 2016 of future sales by the Company utilizing PCT. The Company announced the availability of its PCT products for commercial sale in the latter part of year 2002. Included in long-term liabilities at December 31, 2002 and 2001 are the present value of future minimum royalty payments of approximately $—0- and $19,700, respectively, payable to the former owners of BioSeq, Inc.

Guarantees

See Note 12 hereunder for further discussion of the Company's limited guaranty and pledge agreement of a $1,000,000 interest bearing deposit at a financial institution to provide additional security for loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by the former Chief Executive Officer of the Company. In addition, BBI Clinical Laboratories, Inc., a discontinued operation, operated from a 15,000 square foot facility in New Britain CT pursuant to a lease which expires in July 2005 and which was guaranteed by the Company. In connection with the Company's decision to exit this business segment, the Company has assumed the obligation to make the remaining lease payments, which is included in the Company's estimate of remaining liabilities associated with discontinued operations. See also Note 2.

Indemnifications

In conjunction with certain transactions, the Company has agreed to indemnify the other parties with respect to certain liabilities related to the operation of the business. The scope and duration of such indemnity obligations vary from transaction to transaction. Where appropriate, an obligation for such indemnifications is recorded as a liability. Generally, a maximum obligation cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, historically the Company has not made significant payments for these indemnifications. The Company believes the estimated fair value of these agreements is minimal. Any indemnifications agreements are grandfathered under the provisions of FIN No. 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2002.

(11) Stockholders' Equity

Preferred Stock

In 1996, the Company authorized the issuance of 1,000,000 shares of preferred stock having a par value of $0.01. None of theses shares have been issued to date.

Common Stock

In December 2001, 600,000 shares of common stock were subscribed to and paid for by a group of investors for $1,500,000. These shares were issued in the first quarter of 2002 and therefore were not included in the total shares outstanding as well as in the calculation of earnings (loss) per share for the year ended December 31, 2001.

Shareholders Purchase Rights Plan

On March 3, 2003, the Company's Board of Directors adopted a shareholder purchase rights plan and has declared a distribution of one Right for each outstanding share of the Company's Common Stock to shareholders of record at the close of business on March 21, 2003. Initially, the Rights will trade automatically with the Common Stock and separate Right Certificates will not be issued.

The Rights Plan is designed to deter coercive or unfair takeover tactics and to ensure that all of the Company's shareholders receive fair and equal treatment in the event of an unsolicited attempt to acquire the Company. The Rights Plan was not adopted in response to any effort to acquire the Company, and the Board is not aware of any such effort. The Rights will expire on February 27, 2013 unless earlier redeemed or exchanged. Each Right entitles the registered holder, subject to the terms of a Rights Agreement, to purchase from the Company one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock at a purchase price of $45.00 per one one-thousandth of a share, subject to adjustment. In general, the Rights will not be exercisable until a subsequent distribution date which will only occur if a person or group acquires beneficial ownership of 15% or more of the Company's Common Stock or announces a tender or exchange offer that would result in such person or group owning 15% or more of the Common Stock. With respect to any person or group who currently beneficially owns 15% or more of the Company's Common Stock, the Rights will not become exercisable unless and until such person or group acquires beneficial ownership of additional shares of Common Stock.

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

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

Employee Stock Purchase Plan

In July 1999, the Company's Board of Directors and shareholders approved the 1999 Employee Stock Purchase Plan. The Company adopted this plan, which allows eligible employees to purchase shares of the Company's stock at 85% of market value as determined at the beginning and the end of the offering period. A total of 250,000 shares have been reserved for this plan. As of December 31, 2002, 33,499 shares had been issued under this plan.

Options and Warrants

In 1996, the Company's Board of Directors and shareholders approved the adoption of the Employee Stock Option Plan (referred to herein as the "1996 Employee Stock Option Plan"). The purpose of the 1996 Employee Stock Option Plan is to provide increased incentives to employees of the Company to remain affiliated with the Company, to promote the success of the Company's business and to

associate more closely the interests of such persons with those of the Company through the granting of options to acquire the capital stock of the Company. Under the 1996 Employee Stock Option Plan, as amended in July 1999, an aggregate of 2,000,000 shares of common stock have been authorized for issuance upon exercise of non-qualified and incentive stock options granted under the Plan. Options may be granted to those employees of the Company who are employed a minimum of 20 hours per week.

In 1999, the Board of Directors and shareholders approved the adoption of the 1999 Non-Qualified Stock Option Plan which authorizes the issuance of up to 1,250,000 shares of common stock upon exercise of non-qualified stock options. The purpose of the 1999 Non-Qualified Stock Option Plan is to attract and retain employees, directors, advisors and consultants and provide an incentive for them to assist the Company to achieve long-range performance goals, and to enable them to participate in the long-term growth of the Company. Options under the 1999 Non-Qualified Stock Option Plan may be granted to employees, directors, advisers and consultants of the Company, capable of contributing significantly to the successful performance of the Company.

The 1996 Employee Stock Option Plan and the 1999 Non-Qualified Stock Option Plan are administered by a committee of the Board of Directors. The exercise price of options granted under these plans 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, 2002, 1,764,163 shares were reserved for incentive stock options under the 1996 Employee Stock Option Plan, of which 874,876 are available for future grants. At December 31, 2002, 515,200 shares were reserved under both the 1987 Non-Qualified Stock Option Plan, which terminated in 1997, and the 1999 Non-Qualified Stock Option Plan of which 15,800 are available for future grants.

In August 1999, the Company sold 500,000 warrants to purchase the Company's stock to Paradigm Group, a private investment company. The private placement consisted of warrants to purchase 400,000 shares of common stock at a purchase price of $4.25 and 100,000 shares of common stock at a purchase price of $5.25. Paradigm Group paid the Company $50,000 for the warrants. In addition, National Securities received warrants to purchase 40,000 shares of common stock with a purchase price of $4.25, warrants to purchase 10,000 shares of common stock with a purchase price of $5.25, and warrants to purchase 25,000 shares of common stock with a purchase price of $8.00, as a transaction fee. In February 2000, the Company received notice that Paradigm Group, LLC exercised all of their warrants to purchase the Company's common stock. The holders of the warrants were required to pay the purchase price when the registration of the underlying shares became effective which was in December 2000. In August 2000, the Company received a summons and complaint from Paradigm Group, LLC naming the Company as a defendant. The suit, filed in the Circuit Court of Cook County,

Illinois, alleged breach of contract claims and fraud against the Company in connection with the sale by the Company to the Paradigm Group, LLC of the above warrants, the exercise of those warrants by Paradigm Group, LLC and a delay in the registration of those shares with the U. S. Securities and Exchange Commission. In December 2000, Paradigm Group, LLC withdrew this lawsuit. In the fourth quarter of 2000, the Company expensed approximately $265,000 of costs related to these warrants and the registration of the underlying shares. On June 15, 2001 the Company and Paradigm Group, LLC entered into an agreement to permanently settle their disputes. Under the terms of the agreement, Paradigm Group, LLC rescinded their exercise of the common stock purchase warrants, which have since expired, and the Company retained the 500,000 shares associated with the warrants issued in that private placement. These shares were included in the total shares outstanding as well as in the calculation of earnings (loss) per share from February 17, 2000 (the date of exercise) through June 15, 2001 (the date of the agreement). As of September 30,2001, these shares were cancelled by the Company.

In November 1999, the Company sold 29,153 equity units to MDBio, Inc., a Maryland not-for-profit corporation. Each equity unit consists of one share of common stock and a warrant to purchase one share of common stock at a purchase price of $10.00. MDBio paid the Company $175,000 for the equity units and has until September 2003 to exercise the warrants.

The average fair value of options granted during 2002, 2001 and 2000 is estimated as $1.97, $1.75, and $2.67, respectively.

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

	Stock Options		Warrants			
	Shares	Weighted Average price per share	Shares	Weighted Average price per share	Total Shares	Exercisable
Balance outstanding, 12/31/1999:	1,280,229	$ 3.00	834,153	$ 5.80	2,114,382	1,591,795
Granted	489,600	3.05	145,556	3.64	635,156	
Exercised	(352,879)	2.51	(521,979)*	4.38	(874,858)	
Cancelled	(171,772)	3.51	—	—	(171,772)	
Balance outstanding, 12/31/2000:	1,245,178	3.06	457,730	6.81	1,702,908	1,068,403
Granted	341,900	2.57	—	—	341,900	
Exercised	(162,750)	2.43	(829)	2.75	(163,579)	
Cancelled	(337,041)	2.94	(210,000)	9.80	(547,041)	

Balance outstanding, 12/31/2001:	1,087,287	3.02	246,901	4.13	1,334,188	857,574
Granted	608,650	2.89	—	—	608,650	
Exercised	(42,944)	2.89	(5,000)**	2.74	(47,944)	
Cancelled	(257,306)	2.76	(10,000)	4.25	(267,306)	
Balance outstanding, 12/31/2002:	1,395,687	3.01	231,901	4.40	1,627,588	789,623

* Includes a net exercise of 11,397 warrants for which 7,232 shares of the Company's common stock were issued.

** Includes a net exercise of 5,000 warrants for which 924 shares of the Company's common stock were issued.

The following table summarizes information concerning options outstanding and exercisable as of December 31, 2002:

		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Weighted Average Remaining Life	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
0.00 - 2.50	8.0	276,762	2.50	104,549	2.50
2.51 - 3.00	9.3	458,350	2.68	89,673	2.67
3.01 - 3.50	6.5	512,175	3.18	253,175	3.25
3.51 - 4.00	6.6	26,400	4.00	14,200	4.00
4.01 - 4.50	6.7	94,500	4.33	68,625	4.31
4.51 - 5.00	0.2	25,000	4.68	25,000	4.68
5.01 - 5.50	—	—	—	—	—
5.51 - 6.00	—	—	—	—	—
6.01 - 7.00	3.2	2,500	7.00	2,500	7.00
0.00 - 7.00	7.6	1,395,687	3.01	557,722	3.25

The total number of options exercisable as of December 31, 2002, 2001 and 2000 was 557,722, 610,673 and 603,586 respectively. The weighted average exercise prices of options exercisable as of December 31, 2002, 2001 and 2000 were $3.25, $3.13 and $2.97 respectively.

(12) Related Party Transaction/Subsequent Event

As of December 31, 2001, the Company had entered into a one year loan of $525,000 to Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer and a current Director of the Company, renewable at the Company's option, and collateralized by 90,000 of Mr. Schumacher's shares of Boston Biomedica common stock. This loan constituted an increase from the $350,000 that had been loaned as of September 30, 2001. Interest on the loan was payable monthly at the annual rate of 7%. As of December 31, 2001, the loan was shown on the balance sheet as a decrease to stockholders equity. In January 2002, the principal of the loan was repaid in full with a portion of the proceeds of the loans described in the next sentence. The Company's loan was replaced by the Company's limited guaranty and pledge of a $1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by Mr. Schumacher. The loans are personally guaranteed by Mr. Schumacher. The Company's pledge is secured by a junior subordinated interest in the collateral provided by Mr. Schumacher to the financial institution. Such collateral includes certain of his real property and all of his Company common stock. The Company's original loan and subsequent pledge of $1,000,000 were made to assist Mr. Schumacher in refinancing indebtedness related to, among other things, his divorce settlement and to enable him to avoid the need to sell his Company common stock on the open market to satisfy his debts. The Company's Board of Directors and, with respect to the decision to pledge the $1,000,000 cash collateral, a special committee of the independent directors, evaluated a number of options and concluded that the original loan to Mr. Schumacher and the subsequent pledge were the best option and in the best interests of the Company's stockholders in the belief that it would, among other things, avoid selling pressure on the Company's common stock and relieve the financial pressures on Mr. Schumacher that could otherwise divert his attention from the Company. In January 2003, the $1,000,000 account was used to satisfy the Company's limited guaranty obligation to the financial institution. The Company has now satisfied its obligation under the limited guaranty and pledge with the financial institution through the financial institution's calling of the Company's pledged cash. The Company continues to maintain its junior interest in collateral pledged by Mr. Schumacher to the financial institution. The collateral includes certain of Mr. Schumacher's real property and all of his Company common stock. The Company has reflected the $1,000,000 pledge as

restricted cash on its balance sheet until the cash was used to satisfy the Company's limited guaranty in January 2003 and since then has reflected a $1,000,000 loan receivable on its balance sheet.

As of December 31, 2002, the Company evaluated the recoverability of the restricted cash used as pledge for its former Chairman and Chief Executive Officer. The Company's review includes an evaluation of the collateral associated with the loan. The Company maintains a junior interest in this collateral. The collateral consists of real estate holdings and common stock of the Company. When considering the adequacy of the collateral, the Company considers the balance of the loan outstanding with this financial institution and the fact that the Company has a junior position in regards to the collateral as well as the liquidity and net realizable value of the assets underlying the collateral.

The Company's analysis assumed transactions costs to sell the properties, and applied a liquidity discount to the trading value of the common stock. The ultimate value that may be recovered by the Company is dependant on numerous factors including market conditions relative to the real estate, the value of and ability to sell the Company's common stock, and the financial status of its former Chairman and Chief Executive Officer. At December 31, 2002, the Company performed a test for impairment of the restricted cash by analyzing the value of the collateral, and determined that the restricted cash was not impaired. While the restricted cash was not impaired as of December 31, 2002, the termination of the Company's Chairman and Chief Executive Officer by the Board of Directors in February 2003, together with the decline in the quoted market value of the Company's common stock, which comprises a major element of the collateral, are indicators of impairment. Based on the Company's assessment as of and through March 27, 2003, the Company estimates that the value of the collateral has declined below the amount of the Company's recorded loan. Accordingly, the Company estimates it may record a valuation reserve against this asset in the three months ended March 31, 2003 in the range of $300,000 to $500,000. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by management, additional write-downs of this assets might be required.

(13) Selected Quarterly Financial Data (Unaudited) (Amounts in thousands, except for per share data)

2001	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total revenue	$ 4,982	$ 5,500	$ 5,409	$ 5,935
Gross profit	2,122	2,238	2,259	2,086
(Loss) income from continuing operations	(486)	38	(211)	(227)
Income from discontinued operations	3,964	—	—	370
Net income (loss)	$ 3,478	$ 38	$ (211)	$ 143
(Loss) income per share from continuing operations, basic & diluted	(0.08)	0.01	(0.03)	(0.04)
Income per share from discontinued operations, basic & diluted	0.64	—	—	0.06
Net income (loss) per share, basic & diluted	$ 0.56	$ 0.01	$ (0.03)	$ 0.02

2002	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total revenue	$ 4,953	$ 5,856	$ 5,876	$ 6,080
Gross profit	1,885	2,378	2,018	2,221
(Loss) income from continuing operations	(887)	(294)	(567)	35
Income from discontinued operations	—	—	225	—
Net income (loss)	$ (887)	$ (294)	$ (342)	$ 35
Income (loss) per share from continuing operations, basic & diluted	(0.14)	(0.04)	(0.08)	0.01
Income per share from discontinued operations, basic & diluted	—	—	0.03	—
Net income (loss) per share, basic & diluted	$ (0.14)	$ (0.04)	$ (0.05)	$ 0.01

Report of Independent Accountants

To the Board of Directors and Stockholders of
Boston Biomedica, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15 (a) of this Form 10-K, present fairly,

in all material respects, the financial position of Boston Biomedica, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 (a) 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 the 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 auditing standards generally accepted in the United States of America, 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 our opinion.

As discussed in Note 1 of Notes to Consolidated Financial Statements, in 2002 the Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets."

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
March 27, 2003

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.

Information regarding the Company's executive officers appears in Part I, Item 1-Business under the heading "Executive Officers of the Registrant" at page 17 of this report. Set forth below is certain information with respect to the Company's Directors as of March 2003.

Name	Age	Position
Francis E. Capitanio(1)(2)	59	Director
Calvin A. Saravis(1)(2)(3)	73	Director
William A. Wilson(1)(2)(3)	57	Chairman of the Board
Kevin W. Quinlan	53	President and Chief Operating Officer, Treasurer and Director
Richard T. Schumacher(2)	52	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee; effective February 2003, Mr. Capitanio replaced Mr. Schumacher as a member of the Compensation Committee.

(3) Member of the Oversight Committee.

Mr. Capitanio has served as a Director of the Company since January 1986. Mr. Capitanio has served as President of Diagnostics of Biomerica, Inc., a medical diagnostics products company, since 2000. From 1997 to 2000, he served as President of Kalisto Biologicals, Inc., a bio-diagnostics company; Kalisto Biologicals filed for reorganization under Chapter 7 of the Federal Bankruptcy Code in December 2001. In 1998, Mr. Capitanio filed a petition pursuant to Chapter 13 of the Federal Bankruptcy Code. From 1996 to 1997, he served as an independent consultant in the medical diagnostics industry. From 1980 to 1996, he served as President, Treasurer and Director of Diatech Diagnostics Inc. (formerly Immunotech Corporation), an *in vitro* diagnostics company and a wholly owned subsidiary of Healthcare Technologies Ltd. Mr. Capitanio received an M.B.A. from the Sloan School of Management, Massachusetts Institute of Technology and a B.S. in metallurgy from Massachusetts Institute of Technology.

Dr. Saravis has served as a Director of the Company since 1986. Since 1984, he has been an Associate Professor of Surgery (Biochemistry) at Harvard Medical School (presently emeritus) and an Associate Research Professor of Pathology at Boston University School of Medicine (presently emeritus). From 1971 to 1997, Dr. Saravis was a Senior Research Associate at the Mallory Institute of Pathology and from 1979 to 1997, he was a Senior Research Associate at the Cancer Research Institute-New England Deaconess Hospital. Dr. Saravis received his Ph.D. in immunology and serology from Rutgers University.

Mr. Wilson has served as a Director of the Company since 2001 and was appointed Chairman of the Board effective February 14, 2003. Since 2001, Mr. Wilson has served as Executive Vice President and Chief Operating Officer of Escient Technologies LLC, a high

technology management company that invests in and manages a portfolio of technology-based companies. From 1998 to 2001, Mr. Wilson was the Chief Financial Officer of Interliant, Inc., an internet infrastructure services company; Interliant, Inc. filed for reorganization under Chapter 11 of the Federal Bankruptcy Code on August 5, 2002. Prior to joining Interliant, Mr. Wilson served as Chief Financial Officer at XCOM

Technologies, Inc., a competitive local exchange carrier, in 1998. Prior to this, Mr. Wilson served as Senior Vice President, Finance and Chief Financial Officer of Computervision Corporation, an enterprise level software developer, in 1997. Prior to this, Mr. Wilson was Executive Vice President and Chief Financial Officer of Arch Communications Group, Inc. a wireless messaging Company from 1989 to 1997. Mr. Wilson received a Bachelor of Arts degree from Luther College, a Master of Science degree from Northeastern University, and a Master of Business Administration degree from Babson College. Mr. Wilson is a Certified Public Accountant.

Mr. Quinlan, a Director of the Company since 1986, has served as President and Chief Operating Officer since August 1999 and Treasurer since June 2001. From January 1993 to August 1999, he served as Senior Vice President, Finance, Chief Financial Officer and Treasurer. 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 (now PricewaterhouseCoopers LLP) from 1975 to 1981. Mr. Quinlan is a Certified Public Accountant and received a M.S. in accounting from Northeastern University and a B.S. in resource economics from the University of New Hampshire.

Mr. Schumacher, the Founder of the Company, has served as a Director since 1978. He was Chief Executive Officer and Chairman of the Board from 1992 to February 2003, and served as President from 1986 to August 1999. Mr. Schumacher served as the Director of Infectious Disease Services for Clinical Sciences 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.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's Executive Officers and Directors, and persons who own more than 10% of the Company's Common Stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission and Nasdaq. Executive Officers, Directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Forms 3, 4 and 5 they file.

Based solely on the Company's review of the copies of such filings it has received and written representations from certain reporting persons, the Company believes that all of its Executive Officers, Directors and greater than 10% stockholders complied with all Section 16(a) filing requirements applicable to them during the Company's fiscal year ended December 31, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth the compensation during the last three fiscal years of (i) each person who served as Chief Executive Officer during fiscal year 2002, and (ii) the four other most highly compensated Executive Officers of the Company who were serving as Executive Officers at the end of fiscal 2002 and whose total annual salary and bonus, if any, exceeded $100,000 for services in all capacities to the Company during the fiscal year ended December 31, 2002 (collectively, the "Named Executive Officers").

Summary Compensation Table

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Fiscal Year Ended	Salary ($)	Bonus ($)	Other Annual Compensation	Securities Underlying Stock Options (#)	All Other Compensation ($)
Richard T. Schumacher,	12/31/02	$ 245,866	—	$ 1,019(5)	90,000	$ 6,616(3)(4)
Chief Executive Officer and	12/31/01	237,500	—	1,163(5)	40,000	7,703(3)(4)
Chairman of the Board(1)(2)	12/31/00	229,279		1,550(5)	—	7,571(3)(4)
Kevin W. Quinlan,	12/31/02	$ 191,769	—	$ 2,973(5)	107,000	$ 2,909(3)(4)
President and Chief Operating	12/31/01	185,000	—	3,575(5)	24,000	2,854(3)(4)
Officer, Treasurer and Director	12/31/00	178,596	—	3,575(5)	—	2,821(3)(4)

Mark M. Manak, Ph.D.	12/31/02	$ 147,000	—	—	46,500	$	675(4)
Senior Vice President and	12/31/01	141,346	—	—	—		638(4)
General Manager, BBI Biotech	12/31/00	137,846	—	—	5,000		624(4)
Kathleen W. Benjamin	12/31/02	$ 115,508	—	—	10,000	$	342(4)
Vice President, Human	12/31/01	102,754	—	—	6,000		212(4)
Resources and Assistant Clerk	12/31/00	95,310	—	—	—		175(4)
Richard J. D'Allessandro,	12/31/02	$ 121,964	—	—	10,000	$	1,037(4)
Vice President, Information	12/31/01	117,046	—	—	6,000		853(4)
Technology	12/31/00	99,580	—	—	—		414(4)

(1) In 2001, the Company's Board of Directors authorized loans from the Company to Mr. Schumacher totaling $450,000. Mr. Schumacher borrowed an additional $75,000 from the Company late in 2001. In January 2002, the principal of these loans were repaid in full. The loans were replaced by the Company's pledge of a $1,000,000 interest bearing deposit at a financial institution to provide additional security for loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by Mr. Schumacher. In January 2003, the $1,000,000 pledged to the financial institution was used to satisfy the Company's guaranty obligation to the financial institution. For a detailed description of the terms of these transactions, please see "Certain Relationships and Related Transactions" in Item 13 of this report below.

(2) On February 14, 2003, the Company announced that it had terminated Mr. Schumacher as Chairman of the Board and Chief Executive Officer. Mr. Schumacher remains a Director of the Company.

(3) Includes the value of premiums paid for term life and disability insurance policies. Included in the year 2002 amounts are the value of premiums for term life and disability insurance, respectively, for Mr. Schumacher ($3,382 and $1,992, respectively), and for Mr. Quinlan ($0 and $1,970, respectively).

(4) Includes the value of imputed income from group life insurance.

(5) Consists of personal use of a Company vehicle.

The following tables set forth certain information with respect to the stock options granted to and exercised by the Named Executive Officers during fiscal 2002 and the aggregate number and value of options exercisable and unexercisable held by the Named Executive Officers during fiscal 2002.

Option Grants in Fiscal Year 2002

	Individual Grants					
					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term at Year End(1)	
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in 2002	Exercise Price ($/Sh)	Expiration Date	5% ($)	10% ($)
Richard T. Schumacher	60,000	11.68%	$ 3.08	02/11/12	$ 116,220	$ 294,524
Richard T. Schumacher	30,000	5.84%	2.70	12/02/12	47,520	123,646
Kevin W. Quinlan	52,000	10.12%	3.08	02/11/12	100,724	255,254
Kevin W. Quinlan	55,000	10.71%	2.70	12/02/12	87,120	226,685
Mark M. Manak, Ph.D.	11,500	2.24%	3.08	02/11/12	22,275	56,450
Mark M. Manak, Ph.D.	35,000	6.81%	2.70	12/02/12	55,440	144,254
Kathleen W. Benjamin	5,000	0.97%	3.08	02/11/12	9,685	24,544
Kathleen W. Benjamin	5,000	0.97%	2.70	12/02/12	7,920	20,608
Richard J. D'Allessandro	5,000	0.97%	3.08	02/11/12	9,685	24,544
Richard J. D'Allessandro	5,000	0.97%	2.70	12/02/12	7,920	20,608

(1) The 5% and 10% assumed rates of annual compounded stock price appreciation are in accordance with the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of future Common Stock prices.

These options were granted under the 1996 Employee Stock Option Plan and/or the 1999 Non Qualified Stock Option Plan. The exercise price of all options granted was equal to the fair market value of the common stock on the date of the grant. Such options granted have varying periods of vesting ranging from immediate up to four years. The options are generally not transferable, are exercisable for a ten year period from the date of the grant, and must generally be exercised with 30 days after the end of the optionee's status as an employee.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options at Year End (#)(2)		Value of Unexercised In-the-Money Options at Year End ($)(3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Richard T. Schumacher	2,380	$ 434	55,000	120,000	$ 4,000	$ 21,000
Kevin W. Quinlan	—	—	47,875	115,625	6,525	19,575
Mark M. Manak, Ph.D.	—	—	19,750	40,250	2,625	7,875
Kathleen W. Benjamin	—	—	15,000	15,000	750	3,750
Richard J. D'Allessandro	—	—	15,500	14,500	750	3,750

(1) The "value realized" represents the excess of the fair market value over the purchase price at the time of purchase based upon the closing price of the Common Stock on the Nasdaq National Market on the date of exercise, minus the respective option exercise price.

(2) Includes the number of shares underlying both "exercisable" (i.e., vested) and "un-exercisable" (i.e., unvested) stock options as of December 31, 2002.

(3) The values of "in-the-money" options reflect the positive spread between the exercise price of any such existing stock options and the closing year-end per share price of the Common Stock of $3.00, as quoted on the Nasdaq National Market on December 31, 2002.

Compensation of Directors

Non-employee Directors of the Company received a quarterly stipend of $2,500, for a yearly total of $10,000 for their services in 2002. In addition, in 2002, each non-employee Director who is a member of the Audit Committee received an additional $500 per quarter for a yearly total of $2,000 and each non-employee Director who is a member of the Compensation Committee received an additional $500 per quarter for a yearly total of $2,000. As additional Director fees in recognition of the significant additional effort and time they are required to devote to their responsibilities on the Oversight Committee, Mr. Wilson is paid $1,200 per day and Mr. Saravis is paid $1,200 per day for time spent discharging their responsibilities for the Oversight Committee. Each Director is eligible to receive options to purchase Common Stock under the Company's 1999 Non-Qualified Stock Option Plan. Non-employee Directors of the Company are granted a minimum of 15,000 non-qualified stock options at the start of their term of service, which generally vest over a three year period and have an exercise price equal to the fair market value of the underlying shares on the date of the grant.

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended December 31, 2002, the Board of Directors made decisions regarding executive compensation based on the recommendations of those members of the Board of Directors who also serve on the Compensation Committee. The individuals who serve on the Compensation Committee and who make recommendations to the full Board of Directors consist of Richard T. Schumacher, Calvin A. Saravis, and William A. Wilson, each of whom has received options to purchase Common Stock. Mr. Schumacher served as the Chief Executive Officer and Chairman of the Board of the Company in fiscal year 2002. Effective February 2003, Mr. Capitanio replaced Mr. Schumacher as a member of the Compensation Committee. Please see Item 13, Certain Relationships and Related Transactions, for a description of certain related party transactions between the Company and Mr. Schumacher. Neither Dr. Saravis nor Mr. Wilson is a current or former officer or employee of the Company.

In fiscal 2002, the members of the Compensation Committee met three times and made recommendations regarding executive compensation at meetings of the full Board of Directors. The full Board of Directors then made final decisions regarding executive compensation. Neither Mr. Schumacher nor Mr. Quinlan participated in any vote or deliberations establishing their own compensation.

Board of Directors Report on Executive Compensation

As described above under the heading "Compensation Committee Interlocks and Insider Participation", for the fiscal year ended December 31, 2002, the full Board of Directors made decisions regarding executive compensation based on the recommendations of those members of the Board of Directors who serve on the Compensation Committee. These recommendations were made at meetings of the full Board of Directors. The Compensation Committee met three times during fiscal year 2002. These The Compensation Committee made recommendations and presentations to the full Board of Directors on compensation levels, including salaries, incentive plans, benefits and overall compensation for officers and Directors and issuance of stock options to officers, Directors and employees. Subsequent to the recommendation of these the Compensation Committee, the Board of Directors voted on the Committee's proposals.

The primary objective in determining the type and amount of Executive Officer compensation is to provide a level of base

compensation which allows the Company to attract and retain superior talent. The Board of Directors endeavors to align the Executive Officer's interests with the success of the Company through participation in the Company's employee stock option plan, which provides the Executive Officer with the opportunity to build a substantial ownership interest in the Company.

The compensation of Executive Officers includes cash compensation, the grant of stock options, and participation in benefit plans generally available to employees. In determining base salary, consideration is given to executive compensation for comparably sized companies as well as the individual experience and performance of each Executive Officer and the performance of the Company generally. Base salary recommendations are at a level believed to be comparable to cash compensation of officers with similar responsibilities in similarly situated corporations.

Each of the Executive Officers (including Mr. Schumacher through February 2003), and all full-time employees are eligible to receive grants of options under the Company's employee stock option plans. The employee stock option plans are used to provide incentives to officers and employees and to associate more closely the interests of such persons with stockholders' interests and the long-term success of the Company. In determining the number of options to be granted to each Executive Officer or employee, a subjective determination is based on factors such as the individual's level of responsibility, performance, and number of options held. During fiscal 2002, a total of 263,500 options were granted to the Named Executive Officers under the employee stock option plans.

In 2002, the Company's Board of Directors established a target bonus program for Mr. Schumacher and Mr. Quinlan. There were no bonuses accrued nor paid in year 2002 pursuant to this program. During the fiscal year ended December 31, 2002, Mr. Schumacher, the Company's Chief Executive Officer, received a base salary of $245,866. The Board of Directors believes that this compensation is comparable to the cash compensation of Chief Executive Officers of comparable companies. Mr. Schumacher was granted 90,000 non-qualified stock options pursuant to the Company's 1999 Nonqualified Stock Option Plan.

In 2001, the Company's Board of Directors authorized loans from the Company to Mr. Schumacher totaling $450,000. Mr. Schumacher borrowed an additional $75,000 from the Company late in 2001. In January 2002, the principal of these loans was repaid in full with a portion of the proceeds described in the following sentence. The Company's loans were replaced by the Company's pledge of a $1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by Mr. Schumacher. The Company's pledge is secured by a junior subordinated interest in the collateral provided by Mr. Schumacher to the financial institution. Such collateral includes certain of his real property and all of his Company common stock in Boston Biomedica, Inc. In January 2003, the $1,000,000 account was used to satisfy the Company's limited guaranty obligation to the financial institution. The Company has now satisfied its obligation under the limited guaranty and pledge with the financial institution through the financial institution's calling of the Company's pledged cash. The Company continues to maintain its junior interest in collateral pledged by Mr. Schumacher to the financial institution. For a more detailed discussion of this transaction, please see Item 13, Certain Relationships and Related Transactions.

The Compensation Committee, in determining the CEO's and the President's compensation, reviews compensation for CEOs and Presidents of publicly-held companies of similar size, including those in business of detection and treatment of infectious diseases and similar businesses, their individual performance against quantitative and qualitative goals, and our Company's performance.

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction for compensation over $1,000,000 paid by a public company to its chief executive officer and its four other most highly compensated executive officers. Qualifying "performance-based" compensation is not subject to the

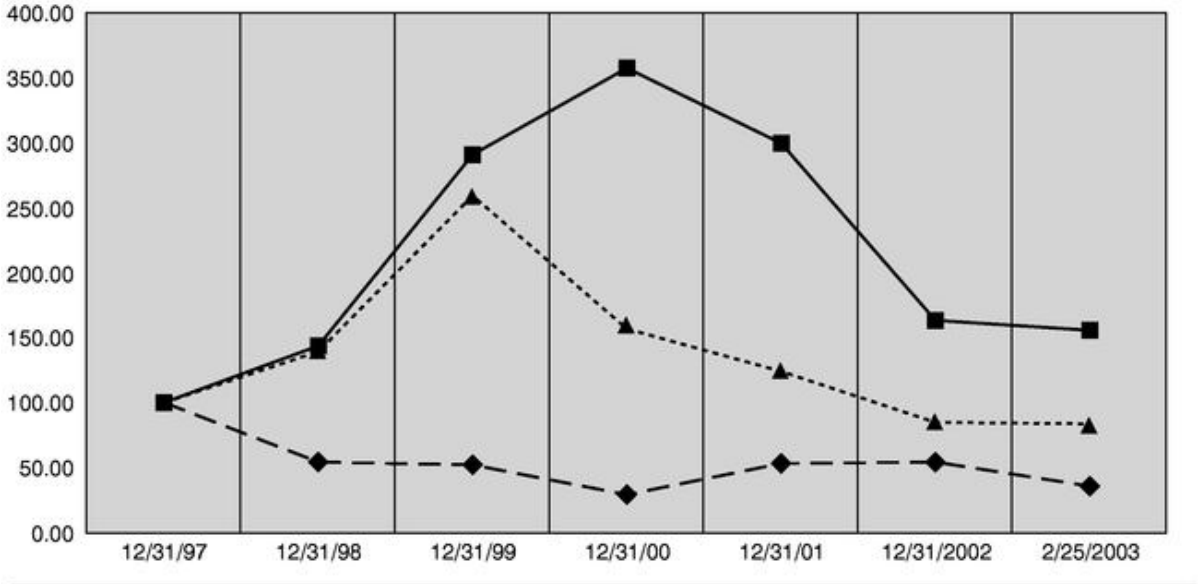
deduction limit if specified requirements are met. The Board of Directors generally intends to structure stock options granted to its executive officers in a manner to qualify as performance-based compensation under Section 162m). While the Board of Directors does not currently intend to qualify cash compensation as performance-based compensation for purposes Section 162(m), it will continue to monitor the impact of Section 162(m) on the Company.

Board of Directors

William A. Wilson
Francis E. Capitanio
Richard T. Schumacher
Kevin W. Quinlan
Calvin A. Saravis

Performance Graph

The following graph compares the change in the Company's cumulative total stockholder return from December 31, 1997 to February 25, 2003, which includes the last trading day of fiscal 2002, with the cumulative total return on the Nasdaq Stock Market Index (Composite) and the Nasdaq Stock Market Index (Biotechnology) (SIC 2830-2839 U.S. and Foreign) for that period.



Legend

Symbol	Index Description	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	02/25/03
—◆– –	Boston Biomedica, Inc.	100.00	53.98	52.27	29.55	53.09	54.55	35.45
—■—	Nasdaq Stock Market (Biotechnology)	100.00	144.28	290.92	357.81	299.83	163.92	155.97
---▲---	Nasdaq Stock Market (Composite)	100.00	139.63	259.13	157.32	124.20	85.07	84.08

Assumes $100 invested on December 31, 1997 in the Company's Common Stock, the Nasdaq Stock Market Index (Biotechnology) and the Nasdaq Stock Market Index (Composite), and the reinvestment of any and all dividends.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information as of February 26, 2003 concerning beneficial ownership of Common Stock by each Director and each Named Executive Officer in the Summary Compensation Table under "Executive Compensation" below, all Executive Officers and Directors as a group, and each person known by the Company to be the beneficial owner of 5% or more of the Company's Common Stock. Unless otherwise noted, each person identified below possesses sole voting power and investment power with respect to the shares listed. This information is based upon information received from or on behalf of the named individuals.

Name *	Number of Shares of Common Stock Beneficially Owned	Percent of Class
Richard T. Schumacher(1)* 65 Black Pond Road Taunton, MA 02780	707,907	10.31%
Kevin W. Quinlan(1)	92,619	1.35%
Mark M. Manak, Ph.D.(1)(2)	51,864	**
Kathleen W. Benjamin(1)	19,416	**
Richard J. D'Allessandro(1)	19,250	**
Calvin A. Saravis, Ph.D.(1)	29,290	**
Francis E. Capitanio(1)	18,334	**
William A. Wilson(1)	16,163	**
All Executive Officers and Directors as a group (11 Persons)(1)(2)	1,030,386	15.04%
Richard P. Kiphart(3) *		

c/o William Blair & Company, L.L.C. 222 West Adams Street Chicago IL 60606	1,578,541(3)(4)	23.12%
Shoreline Micro-Cap Fund I LP(4)* c/o William Blair & Company, L.L.C. 222 West Adams Street Chicago, IL 60606	365,613(4)	5.38%

* Address provided for beneficial owners of more than 5% of the Common Stock.

** Less than 1% of the outstanding Common Stock.

(1) Includes the following shares issueable upon exercise of options exercisable within 60 days after February 26, 2003: Mr. Schumacher—70,000; Mr. Quinlan—60,875; Dr. Manak—23,875; Ms. Benjamin—17,750; Mr. D'Allessandro—18,250; Dr. Saravis—18,334; Mr. Capitanio—18,334; Mr. Wilson—8,334; all other Executive Officers—53,000. All of Mr. Schumacher's shares of stock have been pledged to a financial institution. Please see Item 13, Certain Relationships and Related Transactions.

(2) Includes 4,000 shares held of record by Dr. Manak's daughter and 23,989 in Dr. Manak's name.

(3) Includes 90,000 shares held by Rebecca Kiphart (Mr. Kiphart's daughter), and also currently exercisable warrants (expiring August 2005) to purchase 27,734 shares of common stock. This

amount also includes 365,613 shares beneficially owned by Shoreline Micro-Cap Fund I LP described in Note 4 below.

(4) Includes 357,791 shares, and also currently exercisable warrants (expiring August 2005) to purchase 7,822 shares of common stock, held by Shoreline Micro-Cap Fund I LP, a fund of which Mr. Kiphart serves as general partner and has the sole power to vote and dispose or direct the disposition of shares held by Shoreline Micro-Cap Fund I LP.

We maintain a number of equity compensation plans for employees, officers, directors and other entities and individuals whose efforts contribute to our success. The table below sets forth certain information as of our fiscal year ended December 31, 2002 regarding the shares of our common stock available for grant or granted under the Company's equity compensation plans.

Equity Compensation Plan Information

Plan category	Number of securities to be be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of remaining available for future issuance under equity securities compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	1,386,987	$ 3.01	1,107,177
Equity compensation plans not approved by security holders(2)	240,601	$ 4.36	0
Total	1,627,588	$ 3.21	1,107,177

(1) Includes the following plans: 1987 Non-Qualified Stock Option Plan, 1999 Non-Qualified Stock Option Plan, 1996 Employee Stock Option Plan, and 1999 Employee Stock Purchase Plan.

(2) Includes the following plans: (i) options to purchase 7,000 shares of common stock granted to a former employee upon hiring him; (ii) options to purchase 1,700 shares of common stock associated with the BioSeq, Inc acquisition completed on September 30, 1998; (iii) warrants to purchase 29,153 shares of common stock issued in connection with the sale of 29,153 shares of common stock to MDBio, Inc., in November 1999; (iv) warrants to purchase 135,556 shares of common stock issued to the purchasers of convertible debentures issued in August 2000; and (v) warrants to purchase 67,192 shares of common stock issued in connection with the Company's September 1998 acquisition of BioSeq, Inc. A description of each of these plans is as follows:

a) In January 1999, the Company granted non-qualified options to purchase 40,000 shares of common stock to a former officer of the Company at an exercise price of $3.25per share upon the hiring of such officer. These options expire in January 2009. As of December 31, 2002, options to purchase 7,000 shares of common stock remained outstanding.

b) In November 1999, the Company sold 29,153 equity units to MDBio, Inc., a Maryland not-for-profit corporation. Each equity unit consists of one share of common stock and a warrant to purchase one share of common stock with an exercise price of $10.00 per share. MDBio paid the Company $175,000 for the equity units. These warrants expire in September 2003.

c) On August 25, 2000, the Company entered into Securities Purchase Agreements providing for the issuance of $3,250,000 (face value) 3% Senior Subordinated Convertible Debentures due August 25, 2003. As of December 31, 2002, none of the 3% Senior Subordinated Convertible

Debentures were outstanding. In connection with this transaction, the Company issued warrants, to purchase up to 135,556 shares of the Company's common stock at an exercise price of $3.60 per share. As of December 31, 2002, warrants to purchase 135,556 shares of common stock remained outstanding. These warrants expire in August 2005.

d) On September 30, 1998 the Company acquired the remaining outstanding common stock (approximately 81%) of BioSeq, Inc., a development stage company with patent pending technology based on pressure cycling technology for $879,000 in cash (net of cash acquired of $121,000). In connection with the Company's acquisition of BioSeq, Inc., the Company issued warrants to purchase 100,000 shares of the Company's common stock at a purchase exercise price of $2.50 per share (subject to annual increases). As of December 31, 2002, warrants to purchase 67,192 shares of common stock remained outstanding at an exercise price of $3.66 per share. These warrants expire in October 2003. A former employee of BioSeq, Inc. holds options to purchase 1,700 shares of common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In August 2000, the Company issued $3,250,000 of 3% Senior Subordinated Convertible Debentures ("the Debentures") to investors, of which $780,000 were issued to Mr. Richard P. Kiphart and $220,000 were issued to Shoreline Micro-Cap Fund I L.P. In January 2001, Mr. Kiphart and Shoreline Micro-Cap Fund I L.P. exercised their conversion rights associated with these Debentures, thereby receiving 662,685 shares of Common Stock of the Company. In December 2001, the Company sold an additional 600,000 shares of Common Stock of the Company for an aggregate purchase price of $1,500,000 in a private placement to five accredited investors including 430,000 shares which were purchased by Mr. Kiphart. The shares were issued in the first quarter of fiscal 2002.

In 2001, the Company's Board of Directors authorized loans from the Company to Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer and a current Director of the Company. Mr. Schumacher totaling $450,000. Mr. Schumacher borrowed an additional $75,000 from the Company late in 2001. The one year loan was renewable at the Company's option, and collateralized by 90,000 of Mr. Schumacher's shares of the Company's common stock. This loan constituted an increase from the $350,000 that had been loaned to Mr. Schumacher as of September 30, 2001. Interest on the loan was payable monthly at the annual rate of 7% but has not yet been paid to date.

In January 2002, the principal of the loan was repaid in full with a portion of the proceeds of the loans described in the following sentence. The Company's loan was replaced by the Company's limited guaranty and pledge of a $1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of $2,418,000 from the financial institution to an entity controlled by Mr. Schumacher. The loans are personally guaranteed by Mr. Schumacher. The Company's pledge is secured by a junior subordinated interest in the collateral provided by Mr. Schumacher to the financial institution. Such collateral includes certain of his real property and all of his Company common stock.

The Company's original loan and subsequent pledge of $1,000,000 were made to assist Mr. Schumacher in refinancing indebtedness related to, among other things, his divorce settlement and to enable him to avoid the need to sell his Company common stock on the open market to satisfy his debts. The Company's Board of Directors and, with respect to the decision to pledge the $1,000,000 cash collateral, a special committee of the independent directors, evaluated a number of options and concluded that the original loan to Mr. Schumacher and the subsequent pledge were the best option and in the best interests of the Company's stockholders in the belief that it would, among other things, avoid selling pressure on the Company's common stock and relieve the financial pressures on Mr. Schumacher that could otherwise divert his attention from the Company.

In January 2003, the $1,000,000 account was used to satisfy the Company's limited guaranty obligation to the financial institution. The Company has now satisfied its obligation under the limited guaranty and pledge with the financial institution through the financial institution's calling of the Company's pledged cash. The Company continues to maintain its junior interest in collateral pledged by Mr. Schumacher to the financial institution.

On October 25, 2002, the Company retained the investment banking firm of William Blair and Company to advise the Company in the evaluation of strategic opportunities aimed at increasing shareholder value and liquidity by increasing the capital needed for growth. Mr. Richard P. Kiphart, an investor who owns or controls approximately 23.12% of the common stock of the Company, is a Principal and Head of the Corporate Finance Department of William Blair and Company.

ITEM 14. CONTROLS AND PROCEDURES.

Within the 90-day period prior to the filing date of this report, the Company's Principal Executive and Financial Officer performed an

evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-14(c) and 15d-14(c), which have been designed to ensure that information required to be disclosed by the Company in the reports it files under the Exchange Act is timely disclosed. Based upon that evaluation, the Principal Executive and Financial Officer concluded that the disclosure controls and procedures were effective. Since that evaluation, the Company has made no significant changes in its internal controls and procedures or in other factors that could significantly affect the Company's internal controls and procedures for financial reporting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

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.		Reference
3.1	Amended and Restated Articles of Organization of the Company	A**
3.2	Amended and Restated Bylaws of the Company	A**
3.3	Amendment to Amended and Restated Bylaws of the Company	Filed Herewith
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**
4.3	Form of warrants issued in connection with Paradigm Group	H**
4.4	3% Senior Subordinated Convertible Debenture issued to GCA Strategic Investment Fund Limited	K**
4.5	Warrant issued to GCA Strategic Investment Fund Limited	K**
4.6	Warrant issued to Wharton Capital Partners, Ltd.	K**
4.7	Warrant issued to DP Securities, Inc.	K**
4.8	Registration Rights Agreement, dated as of August 25, 2000, by and among Boston Biomedica, Inc., Wharton Capital Partners, Ltd., DP Securities, Inc. and GCA Strategic Investment Fund Limited	K**
4.9	3% Senior Subordinated Convertible Debenture issued to Richard P. Kiphart	K**
4.10	3% Senior Subordinated Convertible Debenture issued to Shoreline Micro-Cap Fund, L.P.	K**

4.11	Warrant issued to Richard P. Kiphart	K**
4.12	Warrant issued to Shoreline Micro-Cap Fund, L.P.	K**
4.13	Registration Rights Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., Richard P. Kiphart and Shoreline Micro-Cap Fund, L.P.	K**
4.14	Rights Agreement dated as of February 27, 2003 between Boston Biomedica, Inc., and Computershare Trust Company, Inc.	Q**
10.1	Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company	A**
10.2	Exclusive License Agreement, dated April 28, 1999, 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	1987 Non-Qualified Stock Option Plan*	A**
10.6	Employee Stock Option Plan*	A**
10.7	1999 Non-Qualified Stock Option Plan*	I**
10.8	1999 Employee Stock Purchase Plan*	I**
10.9	Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P.	B**
10.11	Contract, dated March 1, 1997, between National Cancer Institute and the Company	D**
10.12	Lease Agreement, dated May 16, 1997, for Gaithersburg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company	E**
10.13	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, Inc. and BBI Source Scientific	F**
10.14	Contract, dated July 1, 1998, between the National Institutes of Health and the Company (NO1-A1-85341)	G**
10.15	Contract, dated July 1, 1998, between the National Heart Lung and Blood Institute and the Company (NO1-HB-87144)	G**
10.16	Line of Credit Agreement with BankBoston dated June 30, 1999	H**

10.17	Agreement with Paradigm Group for the purchase of warrants dated August 18, 1999	H**
10.18	Agreement with MDBio for the purchase of common stock and common stock warrants, dated September 30, 1999	J**
10.19	Lease Agreement dated September 30, 1999, for Frederick, Maryland facility, between MIE Properties, Inc., and the Company.	J**
10.20	Sponsored Research Agreement with the University of North Carolina, Chapel Hill and the Company, dated, April 28, 1999 and the Company.	J**

10.21	Repository Contract with National Institute of Allergy and Infectious Disease, Division of AIDS (NO1- A1-95381), dated August 16, 1999.	J**
10.22	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., and GCA Strategic Investment Fund Limited.	K**
10.23	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., Richard P. Kiphart and Shoreline Micro-Cap Fund, L.P.	K**
10.24	Mortgage and Security Agreement dated March 31, 2000	L**
10.25	Asset Purchase Agreement dated February 20, 2001, by and between BBI Clinical Laboratories, Inc., Boston Biomedica, Inc., and Specialty Laboratories, Inc.	M*
10.26	Promissory Note dated July 10, 2001, as amended on October 4, 2001, by and among Boston Biomedica, Inc. and Richard T. Schumacher.	N*
10.27	Subscription Agreement dated as of December 6, 2001 by and between Boston Biomedica, Inc., Richard P. Kiphart, Andrew Gluck, David Valentine, Rebecca Kiphart and Arthur Hill.	O*
10.28	Junior Participation Agreement dated as of January 15, 2002, by and between Commerce Bank and Trust Company, Resorts Accommodations International, LLC, Richard T. Schumacher and Boston Biomedica, Inc.	O*
10.29	Pledge and Security Agreement dated as of January 15, 2002, by and between Richard T. Schumacher, Boston Biomedica, Inc., and Commerce Bank and Trust Company.	O*
10.30	Pledge Agreement effective as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	O*
10.31	Limited Guaranty dated as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	O*
10.32	Description of Compensation for Certain Directors*	P*
10.33	First Amendment to lease dated as of December 12, 2001 by and between Cabot Industrial Properties, Inc. and BBI Source Scientific, Inc.	P*

10.34	Loan Agreement dated March 31, 2000	Filed herewith
21.1	Subsidiaries of the registrant	Filed herewith
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants	Filed herewith
99.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith

A Incorporated by reference to the registrant'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 Exhibit No. 10.17 of the Registration Statement.

C Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

D Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997.

E Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1997.

F Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

G Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998.

H Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1999.

I Incorporated by reference to the registrant's proxy statement, filed with the Securities and Exchange Commission on June 14, 1999.

J Incorporated by reference to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1999.

K Incorporated by reference to the registrant's Report on Form 8-K filed September 8, 2000.

L Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.

M Incorporated by reference to the registrant's Report on Form 8-K filed March 8, 2001.

N Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001.

O Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

P Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.

Q Incorporated by reference to Exhibit 4 of the registrant's Current Report on Form 8-K filed March 12, 2003.

* 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, 2002.

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: March 27, 2003

Boston Biomedica, Inc.

By: */s/ KEVIN W. QUINLAN*

Kevin W. Quinlan
President and Chief Operating Officer
and Treasurer

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/ WILLIAM A. WILSON	Director and Chairman of the Board	March 27, 2003
William A. Wilson		
/s/ KEVIN W. QUINLAN	Director and Principal Executive Accounting and Financial Officer	March 27, 2003
Kevin W. Quinlan		
/s/ FRANCIS E. CAPITANIO	Director	March 27, 2003
Francis E. Capitanio		
	Director	

Richard T. Schumacher

/s/ CALVIN A. SARAVIS, PH.D.	Director	March 27, 2003
Calvin A. Saravis, Ph. D.		

CERTIFICATION

I, Kevin W. Quinlan, President, Chief Operating Officer and Treasurer of Boston Biomedica, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Boston Biomedica, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ *KEVIN W. QUINLAN*

Kevin W. Quinlan
President, Chief Operating Officer and Treasurer
(Principal Executive and Financial Officer)

SCHEDULE II

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

Allowance for Doubtful Accounts	Balance at Beginning of Period	Additions	Recoveries	Deductions	Balance at End of Period
2002	$ 125,617	$ 177	$ —	$ (8,123)	$ 117,671
2001	$ 88,981	$ 55,808	$ 11,310	$ (30,482)	$ 125,617
2000	$ 86,796	$ 2,064	$ 2,185	$ (2,064)	$ 88,981
Inventory Reserve					
2002	$ 796,064	$ 106,372	$ —	$ (15,670)	$ 886,766
2001	$ 765,700	$ 64,891	$ —	$ (34,527)	$ 796,064
2000	$ 601,167	$ 176,397	$ —	$ (11,864)	$ 765,700

QuickLinks

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EXHIBIT 3.3

AMENDMENT TO AMENDED AND RESTATED BYLAWS OF THE COMPANY

Section 3.8 of the Company's Bylaws are amended to read in its entirety:

"Section 3.8. CHAIRMAN, CEO AND PRESIDENT. The board of directors may appoint a chairman of the board. If the board of directors appoints a chairman of the board, he shall preside at all meetings of the board of directors and perform such other duties and possess such other powers as are assigned to him by the board of directors. The board of directors may appoint a chief executive officer. If the board of directors appoints a chief executive officer, he shall, subject to the direction of the board of directors, have general charge and supervision of the business of the corporation and, unless otherwise provided by the board of directors, shall preside at all meetings of the stockholders. The president shall perform such duties and shall possess such powers as the board of directors or chief executive officer, if any, may from time to time prescribe."

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Exhibit 10.34

LOAN AGREEMENT

AGREEMENT entered into this 31st day of March, 2000 by and between Boston Biomedica, Inc., a corporation organized pursuant to the laws of the Commonwealth of Massachusetts with a principal place of business at 375 West Street, West Bridgewater, Massachusetts ("Borrower") and COMMERCE BANK & TRUST COMPANY, a Massachusetts banking corporation with a principal place of business at 386 Main Street, Worcester, Massachusetts ("Lender").

WHEREAS, Borrower desires to borrow a total of Two Million Nine Hundred Thousand and 00/100 Dollars ($2,900,000.00) from the Lender to provide Two Million Five Hundred Thousand and 00/100 ($2,500,000.00) Dollars in working capital to the Borrower and Four Hundred Thousand and 00/100 ($400,000.00) Dollars to be used to acquire and renovate real property at 80 Manley Street, West Bridgewater, Massachusetts (the "Stated Purpose") to be secured by real property located at 375 West Main Street, West Bridgewater, Massachusetts and, if and when purchased by Borrower the real property at 80 Manley Street, West Bridgewater, Massachusetts (hereinafter collectively the "Premises");

NOW, THEREFORE, the parties mutually agree as follows:

I. LOANS.

A. AMOUNT.

Lender hereby agrees to lend to Borrower the sum of Two Million Nine Hundred Thousand and 00/100 Dollars ($2,900,000.00) to be evidenced by a promissory note described in Section II(B)(1)(a) below, such loan to be upon the terms and conditions set forth in this agreement (the "Loan"). Borrower shall borrow Two Million Five Hundred Thousand and 00/100 ($2,500,000.00) Dollars this date and the balance of Four Hundred Thousand and 00/100 ($400,000.00) if Borrower exercises its right to purchase the real property at 80 Manley Street and upon the conditions set forth in a commitment letter of February 24, 2000 from Lender to Borrower.

B. USE OF PROCEEDS.

Borrower agrees to use the loan proceeds solely for the Stated Purpose.

II. AGREEMENTS.

A. GENERAL PROVISIONS.

Capitalized terms not otherwise defined herein shall have the respective meanings

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assigned to them in the Loan Documents (as defined below) where they are defined. In the event of any inconsistencies or conflicts between any of the other Loan Documents in the provisions hereof, then the terms of this agreement shall govern.

B. LOAN DOCUMENTS.

1. Simultaneously with the execution of this Agreement, the Borrower shall execute and deliver agreements in form and substance satisfactory to the Lender and its counsel, to reflect the terms and conditions of this Agreement. Such documents shall include, without limitation, the following documents of even date herewith:

(a) NOTE. Borrower shall execute and deliver a Promissory Note in the form attached hereto as EXHIBIT A, incorporated herein by reference (the "Note").

(b) MORTGAGE. Borrower shall execute and deliver a mortgage and security agreement relating to the Premises (the "Mortgage"). The real property

covered by the Mortgage is referred to as the "Mortgaged Premises" and the personal property in which a security interest is granted by the Mortgage shall be the "Collateral". Collectively, the Mortgaged Premises and the Collateral; shall be referred to as the "Mortgaged Property".

(c) COLLATERAL ASSIGNMENTS. Borrower shall execute and deliver:

(i) a Collateral Assignment of Leases and Rents with respect to the Mortgaged Property (the "Lease Assignment"); and

(ii) a Collateral Assignment of Licenses and Permits with respect to the Mortgaged Property, in conjunction with the purchase of 80 Manley Street, as set forth above, (the "Permit Assignment")

(Collectively, the Lease Assignment and the Permit Assignment shall be referred to as the "Conditional Assignments".)

2. This Agreement, the Note, the Mortgage, the Conditional Assignments, and each of the documents, agreements and writings executed and delivered in connection herewith or therewith or with regard thereto, including, without limitation, the documents executed in connection with the Loan, as each may be further amended, supplemented, modified or replaced, are collectively referred to herein as the "Loan Documents".

3. The word "Entity" includes any person, trust, partnership, proprietorship, corporation, government, unit of any government, or any other association.

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4. The word "Obligations" is intended to be used in its most comprehensive sense. Obligations include any and all advances, debts, and Liabilities of the Borrower to Lender, previous, now, or hereafter made, incurred or created, whether voluntary or involuntary, whether as the result of loans, other credit transactions, imposed by law or however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, voluntary or involuntary, whether or not such Obligations are evidenced by a writing, whether or not such Obligations arise from the sale of goods, the loaning of money, or otherwise, whether or not such Obligations are presently contemplated by the parties, or whether Borrower is liable individually or jointly with others, including without limitation the loan evidenced by the Note.

C. REPRESENTATIONS. WARRANTIES AND COVENANTS.

The Borrower represents, warrants and covenants the following:

1. NO NOTICE OF VIOLATIONS. Neither the Borrower, nor the management agent or similar party for the Mortgaged Property, has received any notice or communication (i) from any public authority that the Mortgaged Property does not comply with zoning, environmental or subdivision laws or that there exists any condition which violates any municipal, county, state or federal law, rule or regulation; (ii) from any insurance carrier of the Mortgaged Property regarding any dangerous, illegal or other condition requiring any corrective action; (iii) regarding any litigation or proceeding, pending or threatened, against or relating to the Mortgaged Property; (iv) regarding any taking, condemnation or assessment, actual or proposed, with respect to the Mortgaged Property; or (v) regarding any hazardous materials (as defined in any relevant governmental law and/or regulation) on the Mortgaged Property.

2. MORTGAGE REPRESENTATIONS. All representations and warranties contained in the Mortgage, the Note, and the other Loan Documents are true, accurate and complete in all material respects on the date hereof as if made and incorporated by reference herein.

3. PRIORITY LIEN. The Mortgage secures the Note, and such security is and shall remain superior to all other mortgages, liens and encumbrances on the Mortgaged Property.

4. NO AGREEMENT. As of the date hereof, there are no agreements affecting or relating to the Mortgaged Property and no balances due for any goods, services or labor supplied to or for the benefit of the Mortgaged Property,

other than those relating to the normal operation of the Mortgaged Property, which have been contracted for by or on behalf of the Borrower or any management agent, disclosed to Lender in writing prior to the execution of this agreement and listed on EXHIBIT B, attached hereto and incorporated herein by reference. To the extent any claims are made against the Lender or the Mortgaged Property as a result of any such agreement, the Borrower shall pay such claims promptly when due.

5. AUTHORITY. The Borrower has taken all requisite action necessary to effect this

Agreement and the amendments and the other documents, instruments, agreements and certificates to be executed in connection with and pursuant to this Agreement and the terms, conditions and provisions contemplated herein and therein. All actions have been duly taken to authorize and direct the officer or officers of Borrower to execute and deliver this Agreement and all documents, instruments, agreements and certificates contemplated herein and to carry out the terms, conditions, provisions and agreements contemplated herein and therein. The Borrower and the individual(s) signing on behalf of Borrower, have the full right, power and authority to execute and deliver this Agreement, all documents, instrument and agreements contemplated herein and all terms, conditions and provisions of this Agreement. This document and the delivery and performance of the Loan Documents are within Borrower's corporate powers, have been duly authorized by vote of the Board of Directors and (if legally required) by Borrower's Stockholders, and do not violate the terms of Borrower's Articles of Organization, its by-laws, or of any indenture, promissory note, agreement, undertaking, arbitration award, judgment, court decision, court order, statute, regulation, or governmental order to which Borrower is a party or by which it is or will become bound or affected. All necessary authorizations by all Entities have been procured. The loan Documents are valid and binding in accordance with their terms and are neither voidable nor void.

6. NO CONFLICT OR DEFAULT. The execution and delivery of this Agreement and all instruments, agreements and documents contemplated herein do not and will not conflict with, and are not and will not be in violation of, and do not and will not constitute a default under any mortgage, deed of trust or other agreement or instrument to which the Borrower is a party or by which any of them is bound, or any statute, rule or regulation, order, injunction or decree.

7. FINANCIAL STATEMENTS. The financial statement of the Borrower most recently provided to Lender (the "Financial Statements") is true, accurate and complete and fairly present the financial condition of the Borrower as of the date thereof, and there has been no material change in the financial condition of the Borrower from the date thereof to the date hereof. The operating statements for the Mortgaged Property most recently delivered to Lender are true, accurate and complete and fairly present the operations of the Mortgaged Property, and there has been no material change in the operations of the Mortgaged Property from the date thereof to the date hereof.

8. COUNSEL. The Borrower has entered into this Agreement freely after consultation with competent counsel concerning the purpose and effect of this Agreement and the other Loan Documents and is entering into this Agreement and the other Loan Documents as its free act and deed.

9. BANKRUPTCY. The Borrower has never (i) commenced a voluntary proceeding seeking relief with respect to itself, or its debts, under any bankruptcy, insolvency or other similar law, (ii) sought appointment of a trustee, receiver, liquidator or other similar official for itself or any part of its assets, (iii) consented to any of the foregoing in any involuntary

proceeding against it, (iv) generally not paid its debts as they became due, (v) admitted in writing its inability to do so, (vi) made an assignment for the benefit of creditors, (vii) offered to or entered into any composition, extension, reorganization or other agreement or arrangement with its creditors, or (viii) had an involuntary proceeding commenced against it seeking relief with insolvency or similar law, or seeking appointment of a trustee, receiver, liquidator or similar official for it or any part of its assets.

10. MORTGAGED PROPERTY.

(a) There are no service contracts, management agreements or other agreements or understandings relating to the Mortgaged Property except as set forth on EXHIBIT C attached hereto.

(b) No rent has been paid by any tenant or occupant at the Mortgaged Property for more than one (1) month in advance, and the date through which each lessee or occupant at each of the Mortgaged Property has been paid rent is set forth on the Rent Roll.

(c) All security deposits and last months' rents received from lessees or occupants at the Mortgaged Property have at all times, and will at all times, be held by the Borrower in accordance with all applicable laws.

11. PLACE OF BUSINESS AND RECORDS. Borrower has no place of business other than that shown on the first page of this document (the "Business Address") and the Mortgaged Property. Borrower keeps its records concerning accounts and contract rights at the Business Address and any other property at one of such places of business.

12. CORPORATION, QUALIFIED AND IN GOOD STANDING. Borrower is a corporation duly organized and existing in good standing under the laws of the Commonwealth of Massachusetts, and is duly qualified to do business in good standing under the laws of each state whether the nature of the business done or property owned requires such qualification.

13. CHANGES IN FINANCIAL STATEMENTS. Since the date of the financial statements referred to in the section called "Financial Statements", there has not been:

(a) any change in the condition of Borrower's assets or Liabilities, other than immaterial changes in Borrower's ordinary course of business;

(b) any material depletion of cash or decrease of working capital;

(c) any material damage, destruction or loss, whether or not covered by insurance, of Borrower's property or business;

(d) any direct or indirect declaration of or establishment of a reserve with respect to any dividend, any distribution with respect to Borrower's stock, or any redemption, purchase, or acquisition of any interest in Borrower's stock;

(e) any materially adverse: (i) controversy or problem with any labor organization or employees; (ii) problems involving any Federal, State, or local governmental agencies; or (iii) other event or condition affecting the business or properties of Borrower.

(f) any existence of or release of hazardous waste on any of the Mortgaged Property.

14. NO UNDISCLOSED LIABILITIES. Borrower has no Liabilities, material in the aggregate, which are not disclosed in the Financial Statements.

15. PROPERTY. Borrower owns all of the Mortgaged Property and has full, good, clear and marketable title thereto, free and clear of all liens, encumbrances, and security interests, except in favor of Lender.

16. STOCK, BOOKS AND RECORDS. All of Borrower's issued and outstanding capital stock has been properly issued. All Borrower's books and records (including, but not limited to, its minute books, by-laws and books of account) are accurate and current without misleading omissions. All such books and records will be accurately and currently maintained without misleading omissions.

17. LICENSES, FRANCHISES AND APPROVALS. Borrower has obtained all licenses, franchises and approvals required by any Entity for the unrestricted and lawful operation of Borrower's business, including without limitation the

operation of the Mortgaged Property, and properties as now conducted and as contemplated for the future, without infringing any Entity's rights.

18. ACCOUNTS. All accounts and contract rights held by Borrower are and will continue to be valid and enforceable and are collectible in full without discount, offset or defense in the ordinary course of business.

19. COMPLIANCE WITH LAWS. Borrower is in compliance with all applicable Laws.

20. COMPLIANCE WITH SUPERFUND AND HAZARDOUS WASTE LAWS.

(a) The Borrower warrants and represents that there is no "oil", "hazardous materials", "hazardous wastes" or "hazardous substances" (collectively, the "Materials"), as such terms are defined under the Comprehensive Environmental Response, Compensation, and

Liability Act, 42 U.S.C. Section 9601, ET SEQ., as amended, the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Section 6901 ET SEQ., as amended, and the regulations promulgated thereunder, and all applicable state and local laws, rules and regulations, including, without limitation, Massachusetts General Laws, Chapters 21C and 21E, (collectively the "Superfund and Hazardous Waste Laws") in or on the Mortgaged Property, except those for which Lender has given prior written approval, and then only to the extent that the presence of Materials is (i) properly licensed and approved by all appropriate governmental officials and in accordance with all applicable laws and regulations, and (ii) in compliance with any terms and conditions stated in the prior written approval issued by the Lender.

(b) The Borrower covenants to comply with the requirements of the Superfund and Hazardous Waste Laws and to promptly notify Lender of the presence of any Materials in or on the Mortgaged Property. The Borrower hereby covenants to protect, indemnify, and hold Lender harmless from and against any and all losses, costs, damages and liabilities, including attorneys' fees and costs of litigation, suffered or incurred by Lender on account of the presence of any such Materials in or on the Mortgaged Property, including, without limitation, any such losses, costs, damages or liabilities arising from a violation of any of the Superfund or Hazardous Waste Laws.

(c) In addition to the Events of Default set forth in Section II(W) of this Loan Agreement, the Borrower shall be deemed to be in default hereunder upon the occurrence of any of the following Events of Default:

(i) if the Borrower fails to comply with any of the covenants and representations set forth in this Section II(C)(21);

(ii) if at any time any representation or warranty made by the Borrower in this Section II(C)(21) shall be incorrect;

(iii) if any Materials become present in or on the Mortgaged Property during the term of this Loan, except those for which Lender has given prior written approval, and then only to the extent that the presence of the Materials is (1) properly licensed and approved by all appropriate governmental officials in accordance with all applicable laws and regulations, and (2) in compliance with any terms and conditions stated in the prior written approval issued by the Lender;

(iv) if at any time there is a discharge, deposit, injection, dumping, spilling, leaking, incineration or placing of any Materials into or on the Mortgaged Property; or

(v) if at any time, the use, generation, treatment, storage or disposal of any Materials on the Mortgaged Property is in violation of applicable laws and regulations.

(d) Notwithstanding the foregoing, however, if the Borrower (i) promptly gives the Lender notice of the presence of any Materials in or on the Mortgaged Property; (ii) complies with any notice requirements imposed by any of the Superfund and Hazardous Waste Laws; (iii) promptly commences to arrange for the cleanup of such Materials and/or containment of Materials where there is a threat of release; and (iv) demonstrates to the Lender's satisfaction that the Borrower has the financial resources to perform the cleanup and/or containment, as the case may be, through to completion by using best efforts, the Lender agrees not to (a) exercise any action to cure Borrower's default, (b) foreclose the Mortgage and Security Agreement, (c) accelerate payment under the Note, or (d) avail itself of any other remedies available to the Lender, unless in the Lender's sole judgment the exercise of any such remedies is necessary to protect the security of the Loan.

THE REPRESENTATIONS AND WARRANTIES IN THIS AGREEMENT ARE PART OF THE CONSIDERATION INDUCING THE LENDER TO ENTER INTO THIS AGREEMENT, AND THE AGREEMENTS BY THE LENDER CONTAINED IN OR GIVEN PURSUANT TO THIS AGREEMENT ARE EXPRESSLY CONTINGENT UPON THE ACCURACY OF THE FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS CONTAINED IN THIS SECTION. IN THE EVENT ANY SUCH PROVISION IS MATERIALLY FALSE OR MISLEADING, THEN THE BORROWER SHALL INDEMNIFY AND HOLD THE LENDER HARMLESS FROM ALL LIABILITY, HARM, COSTS AND EXPENSES ARISING THEREFROM (INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES AND COSTS.)

D. BORROWER'S AGREEMENTS.

1. TAXES. Subject to Lender's escrow requirements provided for in the Mortgage, Borrower will promptly pay when due all taxes and assessments upon the Mortgaged Property, upon its use and operation, with respect to this document, or the granting, recording, or perfection thereof, or upon any note or notes or other negotiable instrument evidencing the Obligations, including without limitation the Loan. Borrower will also pay all real and personal property taxes, assessments and charges, and all franchise, income, unemployment, old age benefit, withholding, sales, license, and other taxes assessed or levied against it or payable by it. All taxes will be paid in a timely manner, and in any event at such time and in such manner as to prevent any penalty from occurring or any lien or charge from attaching to its property. Borrower will, at the request of Lender, promptly furnish Lender the bills for all paid taxes and the receipts showing payment of them.

At the option of Lender, Borrower will furnish to Lender proof satisfactory to Lender that deposits for FICA and withholding taxes have been made as and if required. Such proof will be furnished within five days after the accrual of Borrower's duty to make such deposits.

2. ADVERSE LIENS AND ENCUMBRANCES. Borrower will keep all Mortgaged Property free from all adverse liens, security interests, mortgages, and encumbrances, whether or not having priority over Lender's security interest. Borrower will not execute or become bound by any certificate, document, or agreement which in any way conflicts with this document, or which would result in the acquisition by a third party of any interest having priority over the Mortgaged Property. Borrower will not execute or allow any adverse financing statement, mortgage, or notice of lien covering any of the Mortgaged Property to be on file in any public office.

3. NO UNREASONABLE COMPENSATION. Borrower will not pay unreasonable compensation to any of its officers, directors or employees.

4. DIVIDENDS AND STOCK TRANSACTIONS. The Borrower will pay no dividends either in cash or kind on any class of its capital stock. Borrower will make no distribution on account of its stock, nor redeem, purchase or otherwise acquire, directly or indirectly, any of its stock.

5. SECURITIES, PURCHASES, INVESTMENTS, BORROWING. Borrower will not purchase or invest in any stock or securities of any Entity. Borrower will not make investments in or become or continue to be a creditor or debtor of any entity except for reasonable deposits under purchase contracts in the ordinary course of business, and sales of finished goods in the ordinary course of business on normal credit terms to customers.

6. TRANSACTIONS WITH INTERESTED PERSONS. Borrower will not enter into any unreasonable transaction or agreement with persons or organizations who hold Borrower's stock, or who are officers, directors, or employees of Borrower, or who are controlling persons of Borrower as the term "controlling person" is used in the Securities Act of 1933 and the Securities Exchange Act of 1934. Whether a transaction or agreement is unreasonable is intended to be determined in accordance with past practice.

7. NO TRANSACTIONS OTHER THAN IN THE ORDINARY COURSE. Borrower will not enter into any transaction other than in the ordinary course of business.

8. OTHER LIABILITIES. Borrower will not incur, create, assume, suffer, permit to continue, or be liable for any liabilities whatsoever, other than: (a) Obligations to Lender, (b) existing liabilities to Fleet National Bank and (c) current liabilities arising in the ordinary course of business, not including borrowing.

9. CORPORATE EXISTENCE. Borrower will maintain its existence as a Massachusetts corporation in good standing and will promptly and duly qualify to do business in any jurisdiction in which qualification is required. Borrower will not alter or amend its capital structure, transfer any interest in treasury stock, issue any authorized but unissued stock, increase its authorized stock, or alter in any way the rights of its existing stockholders.

10. MERGERS. Borrower will not merge or consolidate or be merged with or into any other corporation or Entity.

11. FINANCING STATEMENTS. Borrower hereby agrees to execute and deliver to Lender any financing statement, continuation statement or other notice which Lender believes to be necessary or desirable to protect its interest under this agreement. Borrower will reimburse Lender for the costs of filing or recording such statements or notices.

12. SUPPLEMENTAL AGREEMENTS. Borrowers will execute or endorse and deliver to Lender supplemental agreements, or documents in such forms as Lender may require, to effectuate the purposes of this agreement.

13. RECORDS. Borrower will maintain records relating to the Mortgaged Property clearly identifying the Mortgaged Property and its location. In case of accounts receivable, the records will show the name and address of the Entity owing the receivable to the Borrower, the amount owed, and the date the debt was incurred. Borrower will maintain such evidence of accounts receivable as will allow their proof in a court of competent jurisdiction. Borrower will maintain financial records, including, but not limited to, balance sheets and statements of profit and loss.

All records shall be in form and contents satisfactory to Lender. Borrower will also maintain such other records as it is required to maintain by law. All records will be maintained in accordance with generally accepted accounting principles, consistently applied. They will truly, clearly, and accurately reflect the events, transactions or information they purport to reflect, without misleading statements or omissions. They will be maintained promptly and currently in a complete and businesslike manner.

14. NOTIFICATION OF CHANGES. Borrower will promptly notify Lender in writing of (a) any change in the location of any place of business or of its name; (b) its intention to change the location of any Collateral; (c) the establishment of any new place of business; (d) its intention to change the location of the office in which its records described in this document are kept; (e) any material adverse change in Borrower's financial condition; (f) the threat or initiation of any claim, assessment, arbitration proceeding or litigation which might have a material adverse effect upon Borrower, its or his/her financial condition, or the Mortgaged Property if adversely determined; and (g) the occurrence of any event which does or might constitute a default thereunder. "Promptly" means as soon as possible, but in no event more than two business days.

15. COMPLIANCE WITH OTHER AGREEMENTS. Borrower will comply with the terms and conditions of any other agreement between it and Lender. Borrower will also comply with the terms and conditions of any agreement to which it is bound, even

if Lender is not a party.

16. COMPLIANCE WITH LAWS. Borrower will comply with all applicable laws.

17. MAINTENANCE OF CURRENT BUSINESS. Borrower will not change its current business without the prior written approval of Lender.

18. NO CHANGE IN OFFICERS AND DIRECTORS. Borrower shall not remove Richard Schumacher as its Chief Executive Officer without thirty days prior written notice to Lender. Lender may, at its sole discretion, declare any change in Borrower's CEO to be a default hereunder by written notice to Borrower sent within thirty days after the receipt by Lender of Borrower's notice of change.

19. APPLICATION OF PROCEEDS. Lender may apply proceeds of the Mortgaged Property, recoveries with respect to the Obligations, and payments to one or more of the Obligations and among principal or interest as Lender in its sole discretion may determine.

20. APPRAISALS. At Lender's option, in the Event of a Default by Borrower or a change in Bank regulations requiring an appraisal, Lender may obtain either an MAI appraisal or an update to an existing appraisal (the selection of which shall be made in the Lender's discretion) for the Mortgaged Property, each such appraisal or update shall be prepared by an appraiser selected by the Lender and shall be at the Borrower's sole cost and expense. The Borrower shall cooperate with all appraisers performing any such appraisal (or any other appraisal of the Premises), which cooperation shall include, without limitation, allowing appraisers access to the Mortgaged Property and to the Borrower's books and records and to all other information requested by such appraisers. Such appraisals will be the property of the Lender only, and Lender shall have no obligation to disclose such appraisal to Borrower or any other person or entity. Unless an Event of Default shall occur and be continuing, notwithstanding anything to the contrary contained herein, Lender may require a maximum of one appraisal per year.

E. ACCESS.

Upon reasonable notice to the Borrower, the Lender and its employees, agents, representatives and contractors shall have access to the Mortgaged Property at any time and from time to time for the purpose of inspecting, testing, and conducting engineering and environmental studies thereon and thereat.

F. RESERVATION OF RIGHTS.

If any Event of Default occurs, the Lender reserves any and all of its rights and remedies which it may have under the Loan Documents or at law or in equity.

G. COSTS OF COLLECTION: COST OF AMENDING AND ADMINISTERING LOAN.

If an Event of Default occurs, then the Borrower shall be responsible to pay, on demand, all costs and expenses (including, without limitation, attorneys' fees and costs) that the Lender incurs in connection with the collection and enforcement of all obligations owed or required to be performed under this Agreement and the other Loan Documents.

The Loan shall be made without cost to the Lender. The Borrower shall pay to Lender any and all, commissions, costs, charges, taxes and other expenses incurred by Lender in connection with the Loan (including, without limitation, fees and disbursements of Lender's counsel and the cost of appraisals) and thereafter any such fees, commissions, costs, charges taxes and expenses incurred by Lender from time to time in connection with the making, administering and collecting of the Loan, including, but not limited to, fees and disbursements of Lender's counsel (including counsel providing title reports and title policies or endorsements when applicable), appraisal fees, fees of the Lender's consultants, engineers and inspectors, fees and charges for surveys, costs of audits of books and records of Borrower, title insurance charges,

mortgage taxes, and all recording and filing fees and charges.

H. FURTHER ASSURANCES.

The Borrower agrees to execute and deliver or cause to be executed and delivered from time to time such additional instruments, documents and agreements as the Lender may reasonably request to carry out the terms of this Agreement, or to further evidence, secure, effectuate or perfect its obligations to the Lender under the Loan Documents or the Lender's interest or priority in the collateral granted to secure such obligations, including, without limitation, any subordination agreements necessary to insure the Mortgage and the Conditional Assignments and all amounts secured or to be secured thereby are and shall be superior to all mortgages, liens and encumbrances on the Mortgaged Property.

I. WAIVER: MODIFICATION.

In no event shall any action, inaction or waiver by the Lender on any one or more occasions constitute a waiver of any past, present or future defaults by the Borrower under this Agreement or the other Loan Documents. To be effective against Lender, a waiver, modification or amendment with respect to this Agreement or any other Loan Document must be executed in writing by a duly-authorized officer of Lender and expressly specify the exact defaults or provisions which are being waived. In no event shall any oral agreements, promises, or the like be effective to modify, terminate, extend or otherwise amend this Agreement or the other Loan Documents.

J. MULTIPLE COUNTERPARTS.

This Agreement may be executed in multiple counterparts, each of which shall constitute

an executed whole, but which together shall constitute only one instrument.

K. GOVERNING LAW.

This Agreement and the rights and obligations of the parties hereto under this Agreement and the other Loan Documents shall in all respects be governed by and construed and enforced in accordance with the laws of the Commonwealth of Massachusetts, without giving effect to Massachusetts principles of conflicts of laws.

L. NOTICES.

All notices or other communications required or provided for under this Agreement or any other Loan Document shall be in writing and shall be given to the party to which such notice is required or permitted to be given at the address or telex or telecopier number set forth below (or at such other address or hereto may hereafter specify to the others by notice in writing), and, unless otherwise specified herein, shall be deemed delivered (a) on receipt, if teletransmitted or delivered by hand, or (b) on the earlier of the date of receipt or three (3) Business Days after mailing, if mailed by registered or certified mail, postage prepaid. A "Business Day" shall mean any day on which banking institutions in Worcester, Massachusetts, are not required by law to remain closed.

If to Borrower:
Richard T. Schumacher, President
Boston Biomedica, Inc.
375 West Street
West Bridgewater, MA 02379

If to Lender to:
Commerce Bank & Trust Company
386 Main Street
Worcester, MA 01608
Attn: Senior Loan Officer

M. SET-OFF.

The Borrower grants to Lender, as security for all of Borrower's Obligations, a direct and continuing lien and security interest in and upon all deposits, balances and other sums credited by or due from Lender to the Borrower. If any payment is not made when due under any of the Loan Documents, after giving regard to applicable grace periods, if any, specified therein, or if any Event of Default or other event which would entitle the Lender to accelerate the Loan occurs, any such deposits, balances or other sums credited by or due from the Lender to the Borrower (excluding deposits which the Borrower is holding in trust or escrow for the sole benefit of third

parties and which the Borrower has previously designated to the Lender as being so held) may to the fullest extent permitted by law at any time or from time to time, without notice or compliance with any other condition precedent now or hereafter imposed by statute, rule of law or otherwise all of which are hereby waived, be set off, appropriated and applied by the Lender against any and all of Borrower's Obligations irrespective of whether demand shall have been made and although such Obligations may be unmatured, in such manner as Lender in its sole and absolute discretion may determine. Within five (5) business days of making any such set off, appropriation or application, the Lender agrees to notify the Borrower, as the case may be, thereof, provided the failure to give such notice shall not affect the validity of such set off or appropriation or application. The rights of the Lender under this Section are in addition to, and not in limitation of, other rights and remedies, including other rights of set off, which the Lender may have.

N. SUCCESSORS AND ASSIGNS.

This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

O. WAIVER OF DEFENSES.

Without limiting any of the releases contained herein or in any other Loan Document, the Borrower hereby (a) waives presentment, demand, protest and all suretyship defenses and other rights and defenses in the nature thereof; (b) waives any defenses based upon and specifically assent to any and all extensions and postponements of the time for payment, changes in terms and conditions and all other indulgences and forbearance which may be granted by he Lender to the Borrower or other party; (c) agrees to any substitution, exchange, release, surrender or other delivery of any collateral now or hereafter held to secure the Note, this Agreement or any other of the Loan Documents and to the addition or release of any other party or person primarily or secondarily liable; (d) agrees that the invalidity or unenforceability to any extent of any agreement providing collateral for the Loan Documents, including, without limitation, this Agreement and the Note, shall not vitiate the liability of the borrower or any such other party know or hereafter liable hereon; and (e) agrees to be bound by all the terms contained in this agreement and in the Loan Documents and all other instruments now or hereafter executed, evidencing or governing this agreement, the loan or all or any portion of the collateral securing such loan arrangements or agreements.

P. RIGHTS CUMULATIVE.

The rights, remedies and powers of Lender hereunder or under any other Loan Document and all options given to the Lender are for its benefit and are cumulative, and not alternative or

exclusive of any other rights, remedies or powers its would otherwise have, and such rights, remedies and power shall and may be exercised in such order and in such combination as Lender in its sole discretion may from time to time decide.

Q. PARTIAL INVALIDITY.

In case any one or more of the provisions of this Agreement or the Loan Documents now or hereafter executed are held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision

hereof. Each of the provisions of every Loan Document shall be enforceable by the Lender to the fullest extent now or hereafter permitted by law.

R. INTEGRATION.

This Agreement supersedes all prior agreements between the parties with respect to the Loans, other than the Loan Documents, whether oral or written, including, without limitation, all correspondence and discussions between the parties' respective counsel. This Agreement and the Loan Documents constitute the sole and entire agreement between the parties with respect to the Loan Documents and the obligations thereunder.

S. NO CHANGE IN TITLE, OWNERSHIP AND MANAGEMENT.

Borrower shall keep the Mortgaged Property free from any and all additional liens or encumbrances, senior or junior to Lender's interest, and shall not execute any instrument, or do any act whatsoever, that in any way would or may adversely affect title to the Mortgaged Property. The Borrower shall not, without the prior written consent of the Lender in each instance:

(i) sell, convey, assign or transfer or permit the sale, conveyance, assignment or transfer of all or any part of any legal or beneficial interest in the Mortgaged Property; or

(ii) dispose of, delegate or change in any manner the management or beneficial ownership of the Mortgaged Property.

T. NO PARTNERSHIP.

Nothing contained in this Agreement or in any of the other Loan Documents shall be construed in any manner to create any relationship between the Lender and the Borrower other than the relationship of lender and borrower; and the Lender and the Borrower shall not be considered partners or co-venturers for any purpose.

U. THIRD PARTY BENEFICIARIES.

The Borrower acknowledges and agrees that this Agreement shall not create any obligations on the part of the Lender to third parties that have a claim of any kind whatsoever against the Borrower or any of the Mortgaged Property, and that the Lender does not assume or agree to discharge any liabilities pertaining to any property which might be security for any of the obligations referred to herein. No person not a party to this Agreement shall have third party beneficiary or other similar right hereunder. The parties hereto do not intend to benefit any third parties.

V. EVENT OF DEFAULT.

If (a) the Borrower shall default (i) in the payment when due of any payments due under the Loan Documents, or (ii) in the performance or observance of any other term, covenant or condition of any of the Loan Documents continuing beyond any applicable grace period specified therein; or (b) any representation or warranty made by the Borrower shall prove to have been false in any material respect when made or any representation or warranty was not made so as to make any other representation or warranty herein contained materially misleading; or (c) an Event of Default occurs under any of the other Loan Documents, then it shall constitute an Event of Default hereunder. After the occurrence of any Event of Default, the Lender shall be entitled to whatever remedies may be available at law or in equity or under the Loan Documents, including, without limitation, specific performance or injunctive relief, and any and all other rights and remedies under the Loan Documents.

W. HEADINGS.

The caption headings in this Agreement are for convenience and reference only, and are not intended to be a part of this Agreement and shall not be construed to define, modify, alter, or describe the scope or intent of any of the terms, covenants or conditions of this Agreement.

X. DEBT SERVICE COVERAGE RATIO.

Lender may annually, based on an evaluation of Borrower's financial statements for the prior calendar year, determine whether the Debt Service Coverage Ratio (as defined below) determined as of each January 1st (commencing January 1, 2001) is equal to or greater than 1.25:1.00. If, based on such evaluation, the Debt Service Coverage Ratio is equal to less than 1.25:1.00, then Lender may, at its option, require Borrower to provide Lender with additional collateral satisfactory to Lender or to reduce the principal balance of the Loan, so that the Debt Service Coverage Ratio as reasonably estimated by Lender for the current year is equal to or greater than 1.25:1.00. The failure or inability of Borrower to reduce the principal balance or provide such additional collateral within fifteen (15) days after request by Lender shall be, at

Lender's option, an Event of Default hereunder and under every other Loan Document.

The term "Debt Service Coverage Ratio" shall mean the ratio of Borrower's Net Income to Borrower's Debt Service for the prior twelve consecutive months, all determined in accordance with generally accepted accounting principles, consistently applied. The term "Net Income" for purposes of the Debt Service Coverage Ratio shall mean net profit after taxes plus depreciation and capital expenditures, which are capitalized and not expensed. The term "Debt Service" shall mean all payments of principal and interest and other charges due in payment of long term debt plus increases in long term debt used to finance capital expenditures.

To the extent Fleet Boston Financial waives Borrower's compliance with the Debt Service Coverage Ratio in its relationship with Borrower, then Lender will waive the compliance with this covenant.

Y. LOAN TO VALUE

The loan amount shall not exceed eighty (80%) percent of the fair market value of the Premises. If, based on an appraisal, the loan amount exceeds eighty (80%) percent of the fair market value of the Premises, then Lender may, at its option, require Borrower to provide Lender with additional collateral satisfactory to Lender or to reduce the principal balance of the Loan, so that the loan amount does not exceed eighty (80%) percent of the fair market value of the Premises. The failure or inability of Borrower to reduce the principal balance or provide such additional collateral within fifteen (15) days after request by Lender shall be, at Lender's option, an Event of Default hereunder and under every other Loan Document.

III. OTHER DELIVERIES AND AGREEMENTS

The Borrower shall deliver or cause to be delivered to Lender the following items and shall fulfill the agreements set forth below at the times set forth below:

A. AUDITS. Lender reserves the right from time to time for so long as the Loan is outstanding to inspect, examine, audit, copy and made extracts from the books and records of Borrower during normal business hours. Borrower shall provide access to and cooperate with Lender or Lender's representatives and consultants for such purposes.

B. TITLE INSURANCE AND CERTIFICATION AFFIDAVITS. Simultaneous with the execution hereof, the Borrower shall deliver (i) title insurance policies insuring the first priority lien of the Mortgage on the Mortgage Premises, insuring Lender that Borrower holds marketable fee simple title to the Mortgaged Property and that such Mortgage creates, a legal, valid and enforceable first position lien on Borrower's title to such property, subject only to such exceptions as Lender may approve in writing, and which shall contain no exceptions for mechanic's liens and parties in possession, shall not insure over any matter except to the extent that any such affirmative

insurance is acceptable to Lender, and shall contain such endorsements and

affirmative insurance as Lender may require; (ii) title reports and certification by counsel approved by Lender and Lender's counsel certifying that there are no liens, encumbrances or other title matters affecting the Mortgaged Property (other than those approved in writing by Lender); and (iii) such affidavits and certificates with respect to the Mortgaged Property as are necessary or desirable to obtain the endorsements and certifications described above.

C. ANNUAL REPORTS.

1. FINANCIAL STATEMENTS. Borrower shall deliver to the Lender (a) within forty-five (45) days after close of each quarter of each fiscal year of the Borrower, a balance sheet of the Borrower as of the close of each quarter and statements of income and retained earnings for that portion of the fiscal year-to-date then ended, prepared in conformity with GAAP and certified by the president or the chief financial officer of the Borrower as accurate, true and complete; and (b) within ninety (90) days after the end of each fiscal year of Borrower, signed and sworn financial statements on an audit basis by a certified public accountant chosen by Borrower and acceptable to Lender. Such audited financial statements shall be prepared by a Certified Public Accountant and shall consist of balance sheets, sources and uses of funds, cash flow statements on all real estate owned legally or beneficially by Borrower, income statements and supporting information, including, without limitation, leases, schedule and pledge status of liquid assets, schedule of debt maturities and schedule of contingent liabilities. The financial statements shall fairly and consistently represent the financial condition of Borrower.

2. ANNUAL RENT ROLLS. On or before April 30th of each year, Borrower shall deliver a rent roll (the "Rent Roll") listing each lessee or occupant at the Premises, and for each lease or occupancy agreement the amount of rent paid monthly, the amount of any security deposit and/or last month's rent, the commencement and expiration dates of the term, and any renewal, extension, expansion or purchase options.

D. OPINION OF COUNSEL. Simultaneous with the delivery of this Agreement, the Borrower shall deliver to the Lender an opinion of counsel in form, scope and substance acceptable to the Lender and its counsel that this Agreement and the other documents executed in connection herewith Loan Documents are duly authorized, executed and delivered by the Borrower and are enforceable in accordance with their terms, as well as an opinion regarding the compliance of the Mortgaged Property with local zoning and applicable land use regulations.

E. OTHER DOCUMENTS. The Borrower shall execute and deliver such other certificates, affidavits, agreements or documents as the Lender, its counsel or its title insurance company reasonably may require to effectuate this loan transaction.

F. WAIVER OF SUBROGATION. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents or any provision of law or equity, the Borrower

hereby agrees unconditionally and irrevocable to waive:

1. any and all rights of subrogation, whether arising under contract, 11 U.S.C. sec 509 or otherwise, to the claims of Lender against the Borrower; and

2. any and all rights of reimbursement, subrogation, contribution or indemnity against the Borrower which may have theretofore arisen or which may thereafter arise in connection with any guaranty or pledge or grant of any liens or security interest made in connection with the obligations of the Borrower to Lender.

The Borrower hereby acknowledges that the waiver contained in the preceding sentence ("Subrogation Waiver") is given as an inducement to the Lender to enter into this Agreement and to complete the arrangements contemplated hereby and, in consideration of the willingness of the Lender to enter into this agreement, the Borrower agress that it shall not in any way amend or modify this Subrogation Waiver without the prior written consent of the Lender in each instance.

G. AUTOCHARGE. Borrower shall maintain with Lender an account from which Lender shall deduct the monthly payment due under the Note.

H. PURCHASE OF 80 MANLEY STREET, WEST BRIDGEWATER. In the event the Borrower purchases the property at 80 Manley Street, West Bridgewater, ("Manley") it will execute loan documentation required by Lender to provide Lender with a first mortgage on Manley and to further memorialize Lender's requirements with respect to any renovations to Manley.

I. WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY LAW, THE BORROWER AND THE LENDER EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE OR HEREAFTER HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. The Borrower hereby certifies that neither the Lender nor any of its representatives, agents or counsel has represented, expressly or otherwise, that the Lender would not, in the event of any such suit, action or proceeding, seek to enforce this waiver of right to trial by jury. The Borrower acknowledges that the Lender has been included to enter into this Agreement by, among other things, this waiver. Borrower acknowledges that it has read the provisions of this Agreement and in particular, this paragraph; has consulted legal counsel; understands the rights it is granting in this Agreement and is waiving in this paragraph particular; and makes the above waiver knowingly, voluntarily and intentionally.

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Executed as a sealed instrument as of the date first written above.

Boston Biomedica, Inc.

by: /s/ Richard T. Schumacher

Richard T. Schumacher, its duly authorized Chief Executive Officer and Assistant Treasurer

COMMERCE BANK & TRUST COMPANY

by: /s/ Roger F. Allard

Roger F. Allard
Senior Vice-President

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EXHIBIT "A"

NOTE

$2,900,000.00 March 31, 2000
Worcester, Massachusetts

FOR VALUE RECEIVED, the undersigned, Boston Biomedica, Inc., a corporation organized pursuant to the laws of the Commonwealth of Massachusetts with a principal place of business at 375 West Street, West Bridgewater, Massachusetts (herinafter called the "Borrower"), promises to pay to

COMMERCE BANK & TRUST COMPANY

a Massachusetts Trust Company organized pursuant to Massachusetts General Laws, Chapter 172 (hereafter referred to as the "Lender"), OR ORDER at its principal office at 386 Main Street, Worcester, Worcester County, Massachusetts, 01608 the principal sum of

Two Million Nine Hundred Thousand and 00/100 ($2,900,000.00) DOLLARS

or the aggregate unpaid principal amount of all advances made by the Lender to the Borrower pursuant to the terms of the Agreement (as defined below), whichever is less together with interest on the unpaid principal until paid at the rate and in the manner hereafter provided in lawful money of the United

States of America. The principal of this Note shall bear interest computed on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days.

Principal and interest not paid when due shall bear interest at the rate set forth herein from the due date until paid.

During the first five (5) years of this Note, the rate of interest payable hereunder shall be nine and three quarters (9.75%) percent per annum. Thereafter, interest shall be payable hereunder at the per annum rate of seven quarters of one (0.75%) percent in excess of the Corporate Base Rate then in effect. Corporate Base Rate shall mean the annual rate of interest established by the Lender from time to time as its corporate base rate.

Equal payments of principal and interest, on the outstanding principal, shall be paid monthly in arrears beginning one (1) month from the date hereof and continuing on the same day of each month thereafter until paid in full. Notwithstanding the foregoing, Lender may adjust the monthly payments, of principal and interest annually, each change to be effective with the next monthly payment, to insure that the monthly payments will continue to result in payment in full of the obligations of the Borrower hereunder assuming an amortization term of twenty (20) year(s) from the date of the Note, the then applicable interest rate, and the balance of principal then outstanding, all to be determined by the Lender in its exclusive discretion exercised in a commercially reasonable manner.

All indebtedness, if not sooner paid, shall be due and payable ten (10) year(s) from the date of this Note.

The Lender may collect a late charge not to exceed five (5%) percent of any installment of principal or interest, or any other amount due to the Lender which is not paid or reimbursed by the Borrower within fifteen (15) days of the due date thereof.

In addition to such late charge, after an Event of Default, that is not cured within any specified grace period, at the option of the Lender, the rate of interest payable hereunder may be increased by four (4%) percent per annum.

The Borrower shall have the right to prepay this Note in part or in full without penalty, except that, if this Note is prepaid through financing with another lending institution, (i) during the first twelve months of this Note additional interest in the amount of five percent (5%) of the amount prepaid shall be paid to the Lender, (ii) during the second twelve (12) months of this Note additional interest in the amount of four percent (4%) of the amount prepaid shall be paid to the Lender, (iii) during the third twelve (12) months of this Note additional interest in the amount of three percent (3%) of the amount prepaid shall be paid to the Lender, (iv) during the fourth twelve (12) months of this Note additional interest in the amount of two percent (2%) of the amount prepaid shall be paid to the Lender, (v) during the fifth twelve (12) months and any remaining period of this Note additional interest in the amount of one percent (1%) of the amount prepaid shall be paid to the Lender.

Borrower shall maintain with Lender an account from which Lender shall deduct the monthly payment due under the Note.

This Note has been executed and delivered in accordance with the Loan Agreement (the "Agreement") of even date herewith between the Borrower and the Lender, incorporated herein by reference, which sets forth further terms and conditions upon which the entire unpaid principal hereunder and all interest hereon may become due and payable, and generally as to further rights of the Lender and duties of the Borrower with respect hereto.

This Note shall become due and payable, including the entire balance of principal and interest then accrued and unpaid, prior to maturity at the option (exercisable without notice and regardless of any prior forbearance or indulgences) of the holder hereof upon any one or more of the following events, the occurrence of any of which shall be a default:

1. default in the performance or observance of any of the agreements, covenants or conditions of this Note or contained in any instrument securing

this Note (other than payments due hereunder) or in any other obligation of Borrower to Lender or any other Lender of Borrower; or

2. failure to make any payment due hereunder; or

3. institution of bankruptcy or insolvency proceedings by or against the Borrower, or any endorser or guarantor not discharged within thirty (30) days after the filing thereof; or

4. death, dissolution, termination of existence, insolvency or business failure of the Borrower; or

5. appointment of a receiver of any part of the property of any party to the Note, levy on or attachment of any property of any such party, or an assignment for the benefit of creditors by any such party, which is not cured within sixty (60) days.

Any deposits or other sums at any time credited by or due from the holder to Borrower or any endorser or guarantor hereof and any securities or other property of Borrower or any endorser or guarantor hereof in the possession or custody of the holder may at all times be held and treated as collateral security for the payment of this Note and any and all other liabilities, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of said respective Borrower, endorser or guarantor to the holder; and the holder on or after default in payment hereof may sell any such securities or other property at broker's board or at public sale or private sale without demand, notice or advertisement of any kind, all of which are hereby expressly waived. The holder may apply or set off such deposits or other sums against said liabilities at any time in the case of Borrower, but only with respect to matured liabilities in the case of endorsers or guarantors. In case this Note shall not be paid in full whenever it shall become due, the Borrower and any endorser or guarantor hereof agree to pay all costs and expenses of collection including court costs and reasonable attorneys' fees.

Each Borrower, guarantor, endorser or other person now or hereafter liable for the payment of any of the indebtedness evidenced by this Note (herein a "party") severally agrees, by making, guaranteeing or endorsing this Note or by making any agreement to pay any of the indebtedness evidenced by this Note, to waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and non-payment of this Note, and consents without notice or further assent (a) to the substitution, exchange, or release of the collateral securing this Note or any part thereof at any time; (b) to the acceptance by the holder or holders at any time of any additional collateral or security or other guarantors of this Note; (c) to the modification or amendment at any time, and from time to time, of this Note, and any instrument securing this Note, at the request of any person liable hereon; (d) to the granting by the holder hereof of any extension of the time for payment of the Note or for the performance of the agreements, covenants, and conditions contained in this Note, or any instrument securing this Note, at the request of any other person liable hereon; and (e) to any and all forebearances and indulgences whatsoever; and such consent shall not alter or diminish the liability of any person.

The Borrower represents that the proceeds of this Note will be used solely for commercial and business purposes and not for personal, family, household or agricultural purposes and the Borrower acknowledges that this representation has been relied upon by the Lender.

This Note shall be the joint and several obligation of the Borrower and all sureties, guarantors and endorsers, and shall be binding upon them and their respective successors and assigns and each or any of them.

IN WITNESS WHEREOF, the Borrower has signed and sealed this Note as of the day and year first above written.

Signed in the presence of: Boston Biomedica, Inc.

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Witness By: Richard T. Schumacher, its duly authorized
Chief Executive Officer and
Assistant Treasurer

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EXHIBIT B

NONE

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EXHIBIT C

TO LOAN AGREEMENT BETWEEN BOSTON BIOMEDICA, INC. &
COMMERCE BANK & TRUST COMPANY

Elevator Maintenance	Thyssen Dover
Alarm Monitoring	Central Signal
Fire Inspections	Central Signal
Building Generator	FM Generator
Freezer Building Generator	So Shore Generator
IT Room	Hiller Fire Protection
Air Compressor	Kaeser Compressors
Freight Elevator	Baron Industries
- -80 Freezers & Walk-in Coolers	Minus-Eleven
Dumb Waiter	All Tech
CCU	Building Cleaners
Pest Control	Waltham Chemical
Copy Machines/Faxes	Edron

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ALLONGE TO LOAN AGREEMENT

THIS ALLONGE TO LOAN AGREEMENT (the "Allonge") made and entered into as of the 15th day of August, 2002, between Commerce Bank & Trust Company, a Massachusetts trust company with a principal place of business at 386 Main Street, Worcester, Massachusetts (hereinafter "Lender") and Boston Biomedica, Inc. of 375 West Street, West Bridgewater, Massachusetts (hereinafter "Borrower") is firmly affixed to and made a part of a certain Loan Agreement of the Borrower entered into with the Lender dated as of March 31, 2000 (hereinafter "Loan Agreement").

WHEREAS, the borrower did enter into and execute a certain Promissory Note in favor of the Bank, dated March 31, 2000, in the original amount of Two Million Nine Hundred Thousand Dollars ($2,900,000.00), and any amendments, modifications, or renewals subsequent thereto (hereinafter the "Note").

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Borrower and Lender hereby agree that the Loan Agreement is hereby amended as follows:

1. Section II X Paragraph two is hereby amended to read as follows:
THE TERM "DEBT SERVICE COVERAGE RATIO" SHALL MEAN THE RATIO OF BORROWER'S NET INCOME TO BORROWER'S DEBT SERVICE FOR THE PRIOR TWELVE CONSECUTIVE MONTHS, ALL DETERMINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, CONSISTENTLY APPLIED. THE TERM "NET INCOME" FOR PURPOSES OF THE DEBT SERVICE COVERAGE RATIO SHALL MEAN NET PROFIT BEFORE TAXES PLUS INTEREST AND DEPRECIATION LESS UN-FINANCED CAPITAL EXPENDITURES, AND ADJUSTED UPWARDS FOR NET EQUITY RAISED. THE TERM "DEBT SERVICE" SHALL MEAN ALL PAYMENTS OF INTEREST AND ALL PAYMENTS OF PRINCIPAL AND OTHER CHARGES DUE IN PAYMENT OF LONG TERM DEBT.

2. All references in the Loan Agreement and any other Instrument or document delivered in connection therewith to the "Loan Agreement" shall be deemed to mean the Loan Agreement as amended by this Allonge.

As hereby amended, the Loan Agreement is hereby ratified and confirmed in all

respects, and all terms and provisions of the Loan Agreement not amended hereby shall remain in full force and effect.

WITNESS THE EXECUTION HEREOF, as an instrument under seal as of the date first set forth above.

Boston Biomedica, Inc. Commerce Bank and Trust Company

By: /s/ Kevin W. Quinlan, By: /s/ Roger F. Allard
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Kevin W. Quinlan, President its duly Authorized Chief Operations Officer and Treasurer

Roger F. Allard, Senior Vice President

Witness: /s/ [ILLEGIBLE]

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EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY AS OF FEBRUARY 2003

<Table>
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Name	Jurisdiction of Organization	Location
<S>	<C>	<C>
BBI Biotech Research Laboratories, Inc.	Massachusetts	Gaithersburg, MD
BBI Source Scientific, Inc.	Massachusetts	Garden Grove, CA
BBI BioSeq, Inc.	Massachusetts	Gaithersburg, MD

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EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (File Nos. 333-30320 and 333-24749), and Form S-3 (File Nos. 333-94379 and 333-46426) of Boston Biomedica, Inc. of our report dated March 27, 2003 relating to the financial statements and financial statement schedule, which appears in this Annual Report Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Boston, Massachusetts
March 31, 2003

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EXHIBIT 99.1

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF TITLE 18,
UNITED STATES CODE)

In connection with the Annual Report of Form-10K of Boston Biomedica, Inc., a Massachusetts corporation (the "Company") for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin W. Quinlan, President, Chief Operating Officer and Treasurer of Boston Biomedica, Inc., a Massachusetts corporation (the "Company"), do hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) that:

(1) The Report of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 27, 2003 /s/ KEVIN W. QUINLAN

Kevin W. Quinlan
President, Chief Operating Officer and Treasurer
(Principal Executive and Financial Officer)

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