PRESSURE BIOSCIENCES INC
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____________ to _____________

Commission File Number 001-38185

PRESSURE BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2652826**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14 Norfolk Avenue	
South Easton, Massachusetts	**02375**
(Address of principal executive offices)	(Zip Code)

(508) 230-1828

(Registrant's telephone number, including area code)

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]	Emerging growth company [ ]

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

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

[ ] Yes [X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 7, 2018.

Class	Number of Shares
Common Stock, par value $.01 per share	1,565,082

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$18,491	$81,033
Accounts receivable	526,090	206,848
Inventories, net of $139,700 reserve at June 30, 2018 and $179,600 at December 31, 2017	900,063	857,662
Prepaid expenses and other current assets	202,736	222,158
Total current assets	1,647,380	1,367,701
Intangible assets, net of amortization of $43,269 and $0, respectively	707,611	750,000
Investment in available-for-sale equity securities	17,991	19,825
Property and equipment, net	19,177	22,662
TOTAL ASSETS	$2,392,159	$2,160,188
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$697,961	$589,263
Accrued employee compensation	427,625	368,700
Accrued professional fees and other	917,498	800,620
Other current liabilities	912,402	1,536,507
Deferred revenue	208,857	263,106
Revolving note payable	-	3,500,000
Related party convertible debt, net of debt discount of $0 and $31,372, respectively	-	259,762
Convertible debt, net of unamortized debt discounts of $547,582 and $401,856, respectively	3,222,167	8,028,014
Other debt, net of unamortized discounts of $25,982 and $48,194, respectively	703,130	1,379,863
Total current liabilities	7,089,640	16,725,835
LONG TERM LIABILITIES		
Deferred revenue	45,990	57,149
TOTAL LIABILITIES	7,135,630	16,782,984

COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' DEFICIT		
Series D Convertible Preferred Stock, $.01 par value; 850 shares authorized; 300 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively (Liquidation value of $300,000)	3	3
Series G Convertible Preferred Stock, $.01 par value; 240,000 shares authorized; 80,570 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	806	806
Series H Convertible Preferred Stock, $.01 par value; 10,000 shares authorized; 10,000 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	100	100
Series H2 Convertible Preferred Stock, $.01 par value; 21 shares authorized; 21 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	-	-
Series J Convertible Preferred Stock, $.01 par value; 6,250 shares authorized; 3,458 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	35	35
Series K Convertible Preferred Stock, $.01 par value; 15,000 shares authorized; 6,880 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	68	68
Series AA Convertible Preferred Stock, $.01 par value; 10,000 shares authorized; 5,195.4 and 0 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	52	-
Common stock, $.01 par value; 100,000,000 shares authorized; 1,537,094 and 1,342,858 shares issued and outstanding on June 30, 2018 and December 31, 2017, respectively	15,371	13,429
Warrants to acquire common stock	17,450,717	9,878,513
Additional paid-in capital	37,747,441	30,833,549
Accumulated deficit	(59,958,064)	(55,349,299)
Total stockholders' deficit	(4,743,471)	(14,622,796)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$2,392,159	$2,160,188

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Products, services, other	$618,418	$480,400	$1,203,662	$1,006,398
Grant revenue	20,355	59,972	45,885	85,331
Total revenue	638,773	540,372	1,249,547	1,091,729
Costs and expenses:				
Cost of products and services	270,046	287,299	594,835	523,296
Research and development	323,832	241,783	648,808	505,239
Selling and marketing	224,942	300,111	499,410	513,120
General and administrative	740,843	915,470	1,535,448	1,753,468
Total operating costs and expenses	1,559,663	1,744,663	3,278,501	3,295,123
Operating loss	(920,890)	(1,204,291)	(2,028,954)	(2,203,394)
Other expense:				
Interest expense	(1,159,242)	(1,983,112)	(2,282,387)	(3,509,744)
Other expense	(9,582)	(80)	(14,312)	(7,108)
Gain on extinguishment of debt	471,612	-	475,897	-
Incentive shares/warrants	(663,130)	(186,802)	(663,130)	(186,802)
Change in fair value of derivative liabilities	-	2,790,525	-	(271,227)
Total other (expense) income	(1,360,342)	620,531	(2,483,932)	(3,974,881)
Net loss	(2,281,232)	(583,760)	(4,512,886)	(6,178,275)
Deemed dividend on down round feature	(213,012)	-	(213,012)	-
Deemed dividend on beneficial conversion feature	(10,532,291)	-	(10,532,291)	-
Preferred stock dividends	(95,879)	-	(95,879)	-
Net loss attributable to common stockholders	$(13,122,414)	$(583,760)	$(15,354,068)	$(6,178,275)
Basic and diluted net loss per share attributable to common stockholders	$(9.20)	$(0.54)	$(11.01)	$(5.83)
Weighted average common stock shares outstanding used in the basic and diluted net loss per share calculation	1,426,698	1,077,529	1,395,187	1,059,250

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Comprehensive Loss				
Net loss	$(2,281,232)	$(583,760)	$(4,512,886)	$(6,178,275)
Other comprehensive loss				
Unrealized income on marketable securities	-	6,190	-	6,190
Comprehensive loss	$(2,281,232)	$(577,570)	$(4,512,886)	$(6,172,085)

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

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PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(4,512,886)	$(6,178,275)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common stock issued for debt extension	28,490	10,000
Depreciation and amortization	45,874	4,716
Accretion of interest and amortization of debt discount	986,155	2,922,265
Issuance of incentive shares and common stock warrants	663,130	186,802
Inventory reserve recovery	(39,900)	-
Gain on extinguishment of debt	(475,897)	-
Stock-based compensation expense	148,270	179,511
Amortization of third party fees paid in common stock and warrants	-	30,558
Shares issued with debt	7,800	-
Change in fair value of derivative liabilities	-	271,227
Impairment loss on investment	1,834	6,069
Changes in operating assets and liabilities:		
Accounts receivable	(319,242)	(282,728)
Inventories	(2,501)	(226,204)
Prepaid expenses and other assets	19,422	82,193
Accounts payable	108,698	338,838
Accrued employee compensation	58,925	310,615
Deferred revenue and other accrued expenses	678,789	4,715
Net cash used in operating activities	(2,603,039)	(2,339,698)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property plant and equipment	-	(16,617)
Net cash used in investing activities	-	(16,617)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from revolving note payable	460,000	1,610,000
Net proceeds from warrant exercises	-	140,215
Net proceeds from Series AA convertible preferred stock	226,091	-
Net proceeds from convertible debt	3,242,950	-
Net proceeds from non-convertible debt – third party	952,501	1,987,752
Net proceeds from non-convertible debt – related party	102,100	-
Payments on convertible debt	(1,518,500)	(840,541)
Payments on non-convertible debt – related party	(52,100)	-

Payments on non-convertible debt	(872,545)	(478,141)
Net cash provided by financing activities	2,540,497	2,419,285
NET INCREASE (DECREASE) IN CASH	(62,542)	62,970
CASH AT BEGINNING OF YEAR	81,033	138,363
CASH AT END OF PERIOD	$18,491	$201,333
SUPPLEMENTAL INFORMATION		
Interest paid in cash	$525,979	$173,243
Income taxes paid	-	-
NON CASH TRANSACTIONS:		
Common stock issued in lieu of cash for interest	90,023	-
Common stock issued with debt	170,745	297,252
Discount from warrants issued with convertible debt	162,023	554,998
Discount from one-time interest	154,500	175,000
Unrealized gain from available-for-sale equity securities	-	6,190
Preferred stock dividends	95,879	-
Conversion of debt into preferred stock	12,688,634	-
Contingent beneficial conversion feature on convertible note	253,000	-
Deemed dividend-triggered down round feature	213,012	-
Deemed dividend-beneficial conversion feature	10,532,291	-
Derivative liability released upon warrant exercise	-	49,327

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

PRESSURE BIOSCIENCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

(UNAUDITED)

1) Business Overview, Liquidity and Management Plans

Pressure BioSciences, Inc. (“we”, “our”, “the Company”) is focused on solving the challenging problems inherent in biological sample preparation, a crucial laboratory step performed by scientists worldwide working in biological life sciences research. Sample preparation is a term that refers to a wide range of activities that precede most forms of scientific analysis. Sample preparation is often complex, time-consuming, and in our belief, one of the most error-prone steps of scientific research. It is a widely-used laboratory undertaking, the requirements of which drive what we believe is a large and growing worldwide market. We have developed and patented a novel, enabling technology platform that can control the sample preparation process. It is based on harnessing the unique properties of high hydrostatic pressure. This process, called pressure cycling technology, or PCT, uses alternating cycles of hydrostatic pressure between ambient and ultra-high levels (45,000 psi or greater) to safely, conveniently and reproducibly control the actions of molecules in biological samples, such as cells and tissues from human, animal, plant, and microbial sources.

Our pressure cycling technology uses internally developed instrumentation that is capable of cycling pressure between ambient and ultra-high levels - at controlled temperatures and specific time intervals - to rapidly and repeatedly control the interactions of bio-molecules, such as DNA, RNA, proteins, lipids, and small molecules. Our laboratory instrument, the Barocycler®, and our internally developed consumables product line, including PULSE® (Pressure Used to Lyse Samples for Extraction) Tubes, other processing tubes, and application specific kits (which include consumable products and reagents) together make up our PCT Sample Preparation System, or PCT SPS.

In 2015, together with an investment bank, we formed a subsidiary called Pressure BioSciences Europe (“PBI Europe”) in Poland. We have 49% ownership interest with the investment bank retaining 51%. As of now, PBI Europe does not have any operating activities and we cannot reasonably predict when operations will commence. Therefore, we do not have control of the subsidiary and did not consolidate in our financial statements. PBI Europe did not have any operations in the six months ended June 30, 2018 or in fiscal year 2017.

2) Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, we have experienced negative cash flows from operations with respect to our pressure cycling technology business since our inception. As of June 30, 2018, we do not have adequate working capital resources to satisfy our current liabilities and as a result, there is substantial doubt regarding our ability to continue as a going concern. We have been successful in raising cash through debt and equity offerings in the past and as described in Notes 6 and 7. In addition we raised cash through debt financing after June 30, 2018 as described in Note 8. We have financing efforts in place to continue to raise cash through debt and equity offerings. Although we have successfully completed financings and reduced expenses in the past, we cannot assure you that our plans to address these matters in the future will be successful. These financial statements do not include any adjustments that might result from this uncertainty.

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

3) Interim Financial Reporting

The accompanying unaudited consolidated balance sheet as of December 31, 2017, which was derived from audited financial statements, and the unaudited interim consolidated financial statements of Pressure BioSciences, Inc. have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K (the "Form 10-K") for the fiscal year ended December 31, 2017 as filed with the Securities and Exchange Commission on April 2, 2018.

4) Summary of Significant Accounting Policies

Principles of Consolidation

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

Reclassifications

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

Recent Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either finance or an operating lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods therein. We will adopt ASC 842 effective January 1, 2019. We are currently in the process of evaluating the impact of the guidance on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents on the statement of cash flows and disclosure of how the statement of cash flows reconciles to the balance sheet if restricted cash is shown separately from cash and cash equivalents on the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company early adopted the ASU 2016-18 on January 1, 2017.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to provide additional guidance with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company early adopted the ASU 2016-18 on January 1, 2017 starting with its purchase of BaroFold assets.

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

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

In July 2018, the FASB issued ASU 2018-07, Compensation- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting as an amendment and update expanding the scope of Topic 718. The amendment specifies that Topic 718 now applies to all share-based payment transactions, even non-employee awards, in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. Under the new guidance, awards to nonemployees are measured on the grant date, rather than on the earlier of the performance commitment date or the date at which the nonemployee’s performance is complete. Also, the awards would be measured by estimating the fair value of the equity instruments to be issued, rather than the fair value of the goods or services received or the fair value of the equity instruments issued, whichever can be measured more reliably. In addition, entities may use the expected term to measure nonemployee awards or elect to use the contractual term as the expected term, on an award-by-award basis. The new guidance is effective for the Company in annual periods beginning after December 15, 2018, and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of this new guidance.

Revenue Recognition

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

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

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

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

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

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

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

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

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

c) The transaction lacks commercial substance.

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

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

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

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

Disaggregation of revenue

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

In thousands of US dollars ($)	**Three Months Ended**	**Six Months Ended June 30,**

	June 30,			
Primary geographical markets	**2018**	**2017**	**2018**	**2017**
North America	351	396	716	722
Europe	64	1	219	158
Asia	224	143	315	211
	639	540	1,250	1,091

	Three Months Ended June 30,		Six Months Ended June 30,	
Major products/services lines	2018	2017	2018	2017
Hardware	397	347	817	743
Grants	20	60	45	85
Consumables	64	52	139	115
Contract research services	67	-	67	-
Sample preparation accessories	47	39	96	74
Technical support/extended service contracts	22	26	50	43
Shipping and handling	16	11	28	21
Other	6	5	8	10
	639	540	1,250	1,091

	Three Months Ended June 30,		Six Months Ended June 30,	
Timing of revenue recognition	2018	2017	2018	2017
Products transferred at a point in time	609	471	1,185	985
Products and services transferred over time	30	69	65	106
	639	540	1,250	1,091

Contract balances

In thousands of US dollars ($)	June 30, 2018	December 31, 2017
Receivables, which are included in 'Accounts Receivable'	526	207
Contract liabilities (deferred revenue)	255	320

Transaction price allocated to the remaining performance obligations

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

In thousands of US dollars ($)	2018	2019	2020	Total
Extended warranty service	209	46	-	255

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

Contract Costs

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

Use of Estimates

To prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we are required to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In addition, significant estimates were made in projecting future cash flows to quantify deferred tax assets, the costs associated with fulfilling our warranty obligations for the instruments that we sell, and the estimates employed in our calculation of fair value of stock options awarded and warrant derivative liability. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates and assumptions used.

Concentrations

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash, cash equivalents, and trade receivables. We have cash investment policies which, among other things, limit investments to investment-grade securities. We perform ongoing credit evaluations of our customers, and the risk with respect to trade receivables is further mitigated by the fact that many of our customers are government institutions, large pharmaceutical and biotechnology companies, and academic laboratories.

The following table illustrates the level of concentration as a percentage of total revenues during the three months and six months ended June 30, 2018 and 2017.

	For the Three Months Ended June 30,	
	2018	2017
Top Five Customers	54%	60 %
Federal Agencies	12%	11 %

	For the Six Months Ended June 30,	
	2018	2017
Top Five Customers	38%	42 %
Federal Agencies	8 %	8 %

The following table illustrates the level of concentration as a percentage of net accounts receivable balance as of June 30, 2018 and December 31, 2017. The Top Five Customers category may include federal agency receivable balances if applicable.

	June 30, 2018	December, 31, 2017
Top Five Customers	70 %	85 %
Federal Agencies	11 %	1 %

Product Supply

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

- CNC Machining
- Contract Assembly & Kitting
- Component and Subassembly Design
- Inventory Management
- ISO certification

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

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

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

Investment in Available-For-Sale Equity Securities

As of June 30, 2018, we held 100,250 shares of common stock of Everest Investments Holdings S.A. ("Everest"), a Polish publicly traded company listed on the Warsaw Stock Exchange. We account for this investment in accordance with ASC 320 *"Investments — Debt and Equity Securities"* as securities available for sale. On June 30, 2018, our consolidated balance sheet reflected the fair value of our investment in Everest to be approximately $18,000, based on the closing price of Everest shares of $0.18 USD per share on that day. The carrying value of our investment in Everest common stock held will change from period to period based on the closing price of the common stock of Everest as of the balance sheet date. The change in market value since the receipt of stock was determined to be other than temporary. We recorded $1,834 as an impairment loss in the first half of 2018.

Computation of Loss per Share

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

The following table illustrates our computation of loss per share for the three months and six months ended June 30, 2018 and 2017:

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$(2,281,232)	$(583,760)	$(4,512,886)	$(6,178,275)
Deemed dividend on down round feature	(213,012)	-	(213,012)	-
Deemed dividend on beneficial conversion feature	(10,532,291)	-	(10,532,291)	-
Preferred stock dividends	(95,879)	-	(95,879)	-
Net loss applicable to common shareholders	$(13,122,414)	$(583,760)	$(15,354,068)	$(6,178,275)

Denominator for basic and diluted loss per share:				
Weighted average common stock shares outstanding	1,426,698	1,077,529	1,395,187	1,059,250
Loss per common share – basic and diluted	$(9.20)	$(0.54)	$(11.01)	$(5.83)

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The following table presents securities that could potentially dilute basic loss per share in the future. For all periods presented, the potentially dilutive securities were not included in the computation of diluted loss per share because these securities would have been anti-dilutive to our net loss. The Series D Convertible Preferred Stock, Series G Convertible Preferred Stock, Series H Convertible Preferred Stock, Series H2 Convertible Preferred Stock, Series J Convertible Preferred Stock and Series K Convertible Preferred Stock are presented below as if they were converted into common shares according to the conversion terms.

	As of June 30,	
	2018	2017
Stock options	244,467	250,109
Convertible debt	346,133	827,560
Common stock warrants	6,263,607	890,047
Convertible preferred stock:		
Series D Convertible Preferred Stock	25,000	25,000
Series G Convertible Preferred Stock	26,857	28,857
Series H Convertible Preferred Stock	33,334	33,334
Series H2 Convertible Preferred Stock	70,000	70,000
Series J Convertible Preferred Stock	115,267	117,367
Series K Convertible Preferred Stock	229,334	227,200
Series AA Convertible Preferred Stock	5,195,400	-
	12,549,399	2,469,474

Accounting for Stock-Based Compensation Expense

We maintain equity compensation plans under which incentive stock options and non-qualified stock options are granted to employees, independent members of our Board of Directors and outside consultants. We recognize stock-based compensation expense over the requisite service period using the Black-Scholes formula to estimate the fair value of the stock options on the date of grant.

Determining Fair Value of Stock Option Grants

Valuation and Amortization Method - The fair value of each option award is estimated on the date of grant using the Black-Scholes pricing model based on certain assumptions. The estimated fair value of employee stock options is amortized to expense using the straight-line method over the vesting period.

Expected Term - The Company uses the simplified calculation of expected life, as the Company does not currently have sufficient historical exercise data on which to base an estimate of expected term. Using this method, the expected term is determined using the average of the vesting period and the contractual life of the stock options granted.

Expected Volatility - Expected volatility is based on the Company's historical stock volatility data over the expected term of the award.

Risk-Free Interest Rate - The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Forfeitures - The Company records stock-based compensation expense only for those awards that are expected to vest. The Company estimated a forfeiture rate of 5% for awards granted based on historical experience and future expectations of options vesting. The Company used this historical rate as our assumption in calculating future stock-based compensation expense.

The Company recognized stock-based compensation expense of $62,249 and $104,982 for the three months ended June 30, 2018 and 2017, respectively. The Company recognized stock-based compensation expense of $148,270 and $179,511 for the six months ended June 30, 2018 and 2017, respectively. The following table summarizes the effect of this stock-based compensation expense within each of the line items of our costs and expenses within our Consolidated Statements of Operations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Research and development	$15,649	$22,949	$31,148	$38,918
Selling and marketing	7,279	13,447	14,476	24,334
General and administrative	39,321	68,586	102,646	116,259
Total stock-based compensation expense	$62,249	$104,982	$148,270	$179,511

Fair Value of Financial Instruments

Due to their short maturities, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate their fair value. Long-term liabilities are primarily related to convertible debentures and deferred revenue with carrying values that approximate fair value.

The issuances of our convertible promissory notes and common stock purchase warrant are accounted for under the fair value and relative fair value method.

The warrant is first analyzed per its terms as to whether it has derivative features or not. If the warrant is determined to be a derivative, then it is measured at fair value using the Black Scholes Option Model and recorded as a liability on the balance sheet. The warrant is re-measured at its then current fair value at each subsequent reporting date (it is "marked-to-market").

If the warrant is determined to not have derivative features, it is recorded into equity at its fair value using the Black Scholes option model, however, limited to a relative fair value based upon the percentage of its fair value to the total fair value including the fair value of the convertible note.

The convertible note is recorded at its fair value, limited to a relative fair value based upon the percentage of its fair value to the total fair value including the fair value of the warrant. Further, the convertible promissory note is examined for any intrinsic beneficial conversion feature (“BCF”) of which the convertible price of the note is less than the closing stock price on date of issuance. If the relative fair value method is used to value the convertible promissory note and there is an intrinsic BCF, a further analysis is undertaken of the BCF using an effective conversion price which assumes the conversion price is the relative fair value divided by the number of shares the convertible debt is converted into by its terms. The adjusted BCF value is accounted for as equity.

The warrant and BCF relative fair values are also recorded as a discount to the convertible promissory notes. At present, these equity features of the convertible promissory notes have been recorded at a discount to the convertible notes that is substantially equal to the proceeds received.

Fair Value Measurements

The Company follows the guidance of FASB ASC Topic 820, “*Fair Value Measurements and Disclosures*” (“ASC 820”) as it related to all financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

In determining the fair value of its assets and liabilities, the Company uses various valuation approaches. The Company employs a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2–Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.