BOSTON BIOMEDICA INC
Form 10-Q
August 14, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003 or

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

For the transition period from to

Commission file number 0-21615

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

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.

ý Yes o No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

o Yes ý No

The number of shares outstanding of the Registrant s common stock as of July 31, 2003 was 6,822,537.

Part I. Financial Information

Item 1. Financial Statements

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2003	**2002**	**2003**	**2002**
REVENUE:				
Products	$ 3,373,614	$ 3,587,980	$ 6,661,871	$ 6,563,605
Services	2,649,373	2,268,116	5,003,990	4,245,606
Total revenue	6,022,987	5,856,096	11,665,861	10,809,211
COSTS AND EXPENSES:				
Cost of products	1,895,577	1,783,483	3,514,208	3,290,523
Cost of services	1,981,817	1,694,506	3,819,969	3,255,940
Research and development	419,887	631,089	820,567	1,388,800
Selling and marketing	782,201	814,637	1,590,495	1,730,341
General and administrative	1,099,843	1,179,868	2,267,036	2,226,310
Total operating costs and expenses	6,179,325	6,103,583	12,012,275	11,891,914
Operating loss	(156,338)	(247,487)	(346,414)	(1,082,703)
Interest income	3,014	11,122	15,631	24,778
Interest expense	(71,629)	(57,528)	(144,637)	(122,834)
Loss before income taxes	(224,953)	(293,893)	(475,420)	(1,180,759)
Provision for income taxes	(351)		(3,431)	
Net loss	$ (225,304)	$ (293,893)	$ (478,851)	$ (1,180,759)
Net loss per share, basic & diluted	$ (0.03)	$ (0.04)	$ (0.07)	$ (0.18)
Number of shares used to calculate net loss per share, basic and diluted	6,801,157	6,770,103	6,795,262	6,535,061

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2003	December 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 710,348	$ 975,649
Accounts receivable, less allowances of $124,283 in 2003 and $117,671 in 2002	3,918,611	3,701,105
Inventories	6,651,203	7,094,053
Prepaid expenses and other current assets	321,995	303,396
Restricted cash (Note 6)		1,000,000
Total current assets	11,602,157	13,074,203
Property and equipment, net	5,226,225	5,826,817
OTHER ASSETS:		
Goodwill and other intangible assets, net (Note 10)	774,612	798,542
Other long-term assets	213,807	143,807
Total other assets	988,419	942,349
TOTAL ASSETS	$ 17,816,801	$ 19,843,369
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,696,228	$ 1,970,517
Accrued employee compensation	907,855	898,449
Other accrued expenses	487,878	506,823
Net liabilities from discontinued operations (Note 8)	207,587	302,436
Current maturities of long term debt (Note 9)	61,740	79,875
Deferred rent and other current liabilities	127,825	118,609
Total current liabilities	3,489,113	3,876,709
LONG-TERM LIABILITIES:		
Long term debt, less current maturities (Note 9)	2,295,216	2,337,874
Net liabilities from discontinued operations (Note 8)	297,705	408,005
Other liabilities	572,415	593,735
Total liabilities	6,654,449	7,216,323
STOCKHOLDERS EQUITY:		
Common stock, $.01 par value; 20,000,000 shares authorized, 6,822,537 and 6,786,335 issued and outstanding at June 30, 2003 and December 31, 2002, respectively	68,225	67,863
Additional paid-in capital	21,825,057	21,811,262

Accumulated deficit		(9,730,930)		(9,252,079)
Loan receivable from Director and former CEO (Note 6)		(1,000,000)		
Total stockholders equity		11,162,352		12,627,046
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$	17,816,801	$	19,843,369

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (478,851)	$ (1,180,759)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	653,020	655,338
(Gain) on disposal of property and equipment	(548)	
Changes in operating assets and liabilities:		
Accounts receivable	(217,506)	518,101
Inventories	442,850	(368,253)
Prepaid expenses and other assets	(18,601)	104,887
Other long-term assets	(70,000)	7,996
Accounts payable	(274,289)	(206,261)
Accrued compensation	9,406	(36,626)
Other accrued expenses	(18,945)	65,645
Deferred revenue	9,178	(37,494)
Other liabilities	(21,320)	22,914
Net cash provided by (used in) operating activities	14,394	(454,512)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for additions to property and equipment	(41,910)	(405,816)
Proceeds from sale of property and equipment	14,000	
Net cash used in investing activities	(27,910)	(405,816)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	14,157	135,227
Repayments of long-term debt	(60,793)	(43,247)
Repayment of Loan by Director and former CEO		525,000
Pledge of restricted cash as security for loan from bank to Director and former CEO		(1,006,760)
Net cash used in financing activities	(46,636)	(389,780)
DECREASE IN CASH AND CASH EQUIVALENTS:	(60,152)	(1,250,108)
Cash used in discontinued operations	(205,149)	(482,866)
Cash and cash equivalents, beginning of year	975,649	2,857,916
Cash and cash equivalents at end of period, excluding restricted cash of $1,006,760 at June 30, 2002	$ 710,348	$ 1,124,942
NON-CASH ACTIVITIES:		
Issuance of 29,155 and 600,000 common shares, respectively, associated with prepaid stock subscriptions	$ 175,000	$ 1,500,000
Conversion of Pledge of Restricted Cash as Security for Loan from Bank to Director to a Loan Receivable from Director and former CEO (Note 6)	$ 1,000,000	

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K filing for the fiscal year ended December 31, 2002 for Boston Biomedica, Inc. and Subsidiaries (the Company or Boston Biomedica) and the Company s Form 10-Q filing for the three months ended March 31, 2003.

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. Statement of Financial Accounting Standards No. 148, Accounting for Stock-based Compensation Transition and Disclosure an amendment of FASB Statement No. 123, (SFAS 148) amends SFAS 123 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 148 amends the disclosure requirements of SFAS 123 to require 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. At June 30, 2003, the Company has six stock-based compensation plans, which are described in further detail in the Company s Annual Report on Form 10-K for the year ended December 31, 2002. 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 (APB 25) 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 (loss) and net (loss) per share would have been adjusted to the pro forma amounts indicated below:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss - as reported	$ (225,304)	$ (293,893)	$ (478,851)	$ (1,180,759)
Deduct: Stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(106,478)	(213,886)	(235,598)	(526,798)
Net loss - pro forma	$ (331,782)	$ (507,779)	$ (714,449)	$ (1,707,557)
	$ (0.03)	$ (0.04)	$ (0.07)	$ (0.18)

Basic and Diluted net loss per share - as reported				
Basic and Diluted net loss per share - pro forma	$ (0.05)	$ (0.08)	$ (0.11)	$ (0.26)

Pro forma information regarding net income (loss) and earnings (loss) 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 SFAS 123. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period.

(2) Recent Accounting Standards

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. 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 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 Note 6 of Notes to Consolidated Financial Statements hereunder for additional information on the Company s limited guaranty and pledge of a $1,000,000 interest bearing deposit, as of December 31, 2002, 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 Chairman and 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. See Note 8 of Notes to 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 have any VIE s.

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 adopted EITF 00-21 as of July 1, 2003 on a prospective basis and does not, at the present time, expect EITF 00-21 to have a material impact on our financial position or results of operations.

(3) Inventories

Inventories, which include component parts used in the manufacture of laboratory instrumentation and PCT products, consisted of the following:

	June 30, 2003	December 31, 2002
Raw materials	$ 2,992,784	$ 3,170,988
Work-in-process	1,901,087	1,988,585
Finished goods	1,757,332	1,934,480
	$ 6,651,203	$ 7,094,053

(4) Segment Reporting and Related Information

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 into segments along business lines and senior management regularly reviews financial results for all business lines, focusing primarily on revenue and operating income.

The Company had four operating segments as of June 30, 2003. 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 is a research and development center providing support for the other BBI business units, as well as contract research, molecular and cell biology services, and repository services for the government and life sciences industry. 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 extraction and pathogen inactivation. The Company announced the availability for commercial sale of its PCT products in late September 2002. PCT revenue to date consists primarily of both private and public (National Institutes of Health) funding of segment research and, commencing in late 2002, the sale of PCT products. Most of the expenditures incurred by this segment are for research and development expenses, general management expenses and patent costs. See also Note 8 of Notes to Consolidated Financial Statements with respect to discontinued operations, which are no longer classified as an operating segment of the Company.

The Company s underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. 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.

Operating segment revenue was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Segment revenue:	**2003**	**2002**	**2003**	**2002**
Diagnostics	$ 3,037,000	$ 3,300,000	$ 5,906,000	$ 5,977,000
Biotech	2,591,000	2,235,000	4,878,000	4,326,000
Laboratory Instrumentation	440,000	572,000	954,000	1,354,000
PCT	155,000	251,000	408,000	381,000
Eliminations	(200,000)	(502,000)	(480,000)	(1,229,000)
Total Revenue	$ 6,023,000	$ 5,856,000	$ 11,666,000	$ 10,809,000

Operating segment income (loss) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Segment operating income (loss):	**2003**	**2002**	**2003**	**2002**
Diagnostics	$ 402,000	$ 549,000	$ 859,000	$ 687,000
Biotech	(12,000)	(243,000)	(45,000)	(376,000)
Laboratory Instrumentation	(269,000)	(106,000)	(477,000)	(155,000)
PCT	(301,000)	(447,000)	(683,000)	(1,239,000)
Operating loss	$ (156,000)	$ (247,000)	$ (346,000)	$ (1,083,000)

Identifiable corporate and operating segment assets are all located in the United States as follows:

Identifiable corporate and segment assets:	**June 30, 2003**	**December 31, 2002**
Corporate	$ 1,010,000	$ 2,141,000
Diagnostics	9,789,000	10,281,000
Biotech	4,699,000	4,844,000
Laboratory Instrumentation	1,267,000	1,359,000
PCT	1,052,000	1,218,000
Total assets	$ 17,817,000	$ 19,843,000

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

(5) Computation of Net Income (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if potentially dilutive common shares had been issued. For the purposes of this calculation, stock options are considered common stock equivalents in periods in which they have a dilutive effect. Stock options that are antidilutive are excluded from the calculation. Potentially dilutive securities having a net effect of 28,778 and 4 common shares for the three and six months ended June 30, 2003 and 336,682 and 250,354 common shares for the three and six months ended June 30, 2002 were not included in the computation of diluted earnings (loss) per share because to do so would have been antidilutive.

The net loss per share computation for the first six months of 2003 and 2002 reflects the issuance of 7,047 and 4,654 additional shares of common stock, respectively, purchased by employees through their participation in the Company s employee stock purchase plan. 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 (before expenses). These shares were issued in the first quarter of 2002.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Weighted Average Shares Outstanding, basic	6,801,157	6,770,103	6,795,262	6,535,061
Net effect of dilutive common stock equivalents-based on treasury stock method using average market price				
Weighted Average Shares Outstanding, diluted	6,801,157	6,770,103	6,795,262	6,535,061
Net loss	$ (225,304)	$ (293,893)	$ (478,851)	$ (1,180,759)
Net loss per share, basic & diluted	$ (0.03)	$ (0.04)	$ (0.07)	$ (0.18)

(6) 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 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%. 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 by the financial institution 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 the collateral pledged by Mr. Schumacher to the financial institution. 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 through June 30, 2003 has recorded a $1,000,000 loan receivable on its balance sheet as a reduction of stockholders equity.

At the end of each fiscal quarter, the Company reevaluates the recoverability of the loan receivable from Mr. Schumacher. The Company s review included an evaluation of the adequacy of the collateral associated with the loan. As described above, the collateral consists of certain real estate holdings and common stock of the Company and the Company s security interest in the collateral is a junior interest subordinated to the financial institution that provided the loan to the entity controlled by Mr. Schumacher. In evaluating the adequacy of the collateral, the Company considered the outstanding balance of the financial institution s loan to the entity controlled by Mr. Schumacher and the fact that the Company has a junior position in the collateral, as well as the liquidity and net realizable value of the assets underlying the collateral. The Company s analysis assumes transaction costs to sell the properties, and applies a liquidity discount to the trading value of the common stock.

The ultimate value that may be recovered by the Company is dependent 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 Mr. Schumacher. 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 Mr. Schumacher as 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 subsequent to December 31, 2002, which comprises a major element of the collateral, are indicators of impairment. The Company reevaluated the adequacy of the value of the collateral as of June 30, 2003 and through July 21, 2003. The value of the collateral as of July 21, 2003 approximates the amount of the Company s recorded loan (including interest) as of June 30, 2003; the value of the collateral is based primarily on the changing market value of the Company s common stock which is pledged as collateral. Accordingly, the Company has not recorded any permanent impairment of loan value in the first half of 2003. If actual market conditions are less favorable or other factors arise in the future that are significantly different than those anticipated by management, the establishment of a valuation reserve against this asset might be required. Mr. Schumacher has notified the Company of a payment to the financial institution against the loan during the second quarter of 2003 utilizing personal assets that were not pledged as collateral, thereby increasing the collateral to loan ratio.

(7) Stockholders Equity

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.

(8) 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 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 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 s estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business is $505,000 as of June 30, 2003. The major component of this accrual is estimated lease exit and facility related costs ($400,000), 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 remaining accrual may be subject to future adjustments as the Company completes the process of exiting this business and permanently closing the facility.

(9) Debt

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 $2,342,000 remains outstanding as of June 30, 2003. 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 in the first quarter of 2003 the financial institution waived this default and 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 twenty 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 approximately $1,977,000 as of June 30, 2003.

(10) Subsequent Event

On July 9, 2003, the Company announced Mr. Richard T. Schumacher, the Company s former Chairman and Chief Executive Officer, agreed to accept an engagement with the Company as an Executive Consultant to advise the Company with respect to the strategic direction of the Company s PCT and BBI Source Scientific activities and the Company s ownership interest in Panacos Pharmaceuticals, Inc. BBI Source Scientific is the Company s California-based instrument subsidiary, which developed and manufactures the PCT Barocycler instrument. As part of this engagement, Mr. Schumacher is expected to reevaluate the ongoing business prospects for both the Laboratory Instrumentation segment and PCT activities prior to the end of year 2003.

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

RECENT DEVELOPMENTS

On February 14, 2003, the Company announced that the Company s Board of Directors had terminated Mr. 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 Oversight Committee of the Board of Directors was appointed for the purpose of overseeing the management of the affairs of the Company until such time as a new Chief Executive Officer is employed.

On July 9, 2003, the Company announced Mr. Richard T. Schumacher, the Company s former Chairman and Chief Executive Officer, agreed to accept an engagement with the Company as an Executive Consultant to advise the Company with respect to the strategic direction of the Company s PCT and BBI Source Scientific activities and the Company s ownership interest in Panacos Pharmaceuticals, Inc. BBI Source Scientific is the Company s California-based instrument subsidiary which developed and manufactures the PCT Barocycler instrument. As part of this engagement, Mr. Schumacher is expected to reevaluate the ongoing business prospects for both the Laboratory Instrumentation segment and PCT activities prior to the end of year 2003.

CRITICAL ACCOUNTING POLICIES

The critical accounting policies utilized by the Company in the preparation of the accompanying financial statements are set forth in Part I, Item 7 of the Company s Form 10-K for the year ended December 31, 2002, under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations . There have been no material changes to these policies since December 31, 2002.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 AND 2002

Revenue

Total revenue increased 2.9%, or $167,000, to $6,023,000 in the second quarter of 2003 from $5,856,000 in the second quarter of 2002. The increase in revenue was the result of an increase in service revenue of 16.8% or $381,000 to $2,649,000 in the second quarter of 2003 from $2,268,000 in the second quarter of 2002, partially offset by a decline in product revenue of 6.0% or $214,000 to $3,374,000 in the second quarter of 2003 as compared to product revenue of $3,588,000 in the second quarter of 2002.

Product Revenue. The decrease in product revenue at the Diagnostics segment was due primarily to a lower level of diagnostic component product sales, partially offset by an increase in sales associated with newly released AccuRun products and custom (OEM) panels, which included one large order from an international distributor. In addition, the Laboratory Instrumentation segment experienced a lower level of contract manufacturing orders.

Service Revenue. The increase in service revenue was primarily related to increased contract service work associated with government and commercial repository activities performed at the Biotech segment.

Gross Profit

Overall gross profit decreased 9.8%, or $232,000, to $2,146,000 in the second quarter of 2003 from $2,378,000 in the second quarter of 2002. Product gross profit decreased 18.1%, or $326,000, to $1,478,000 in the second quarter of 2003 from $1,804,000 in the second quarter of 2002; product gross margin decreased to 43.8% in the second quarter of 2003 from 50.3% in the second quarter of 2002. Services gross profit increased $94,000 or 16.4% to $668,000 in the second quarter of 2003 from $574,000 in the second quarter of 2002; service gross margin was relatively unchanged at 25.2% in the second quarter of 2003 as compared to 25.3% in the second quarter of 2002.

Product Gross Margin. The decline in product gross margin was associated with an unfavorable mix shift to lower margin products and increased manufacturing processing costs at the Diagnostics segment coupled with a lower product sales volume at both the BioTech and Laboratory Instrumentation segments, both of which have a relatively fixed cost structure. This decrease was partially offset by a large high margin product order to an international distributor in the second quarter of 2003.

Service Gross Margin. Service gross margin was relatively unchanged; increases in wages, facilities and freight costs were offset by an increased level of billable hours associated with government contract reimbursable work at the BioTech segment.

Research and Development

Research and development expenditures declined 33.4%,