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

**FORM 10-KSB**

(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, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transitional period from \_\_\_\_\_ to \_\_\_\_\_

**BIOSPECIFICS TECHNOLOGIES CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction  
Of Incorporation)

**0-19879**

(Commission File Number)

**11-3054851**

(I.R.S. Employer  
Identification No.)

**35 Wilbur Street**

**Lynbrook, NY 11563**

(Address of Principal Executive Office) (Zip Code)

**516.593.7000**

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: Common stock, \$.001 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

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

Yes \_\_\_ No

The issuer's revenues from continuing operations for the year ending December 31, 2006 are **\$1,916,918**.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of September 4, 2007. (See definition of affiliate in Rule 12b-2 of the Exchange Act.): **\$13,763,502**.

The number of shares outstanding of the issuer's common stock as of September 4, 2007 is 5,316,101.

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[Table of Contents](#)**Introductory Comments – Terminology**

Throughout this annual report on Form 10-KSB (this “Report”), the terms “BioSpecifics,” “Company,” “we,” “our,” and “us” refer to BioSpecifics Technologies Corp. and its subsidiaries, Advance Biofactures Corporation (“ABC-NY”), Advance Biofactures of Curacao, N.V. (“ABC-Curacao”), which was sold in 2006, and BioSpecifics Pharma GmbH, which was liquidated in 2005. We also owned two dormant companies, BioSpecifics N.V. and Biota N.V., which were liquidated in January 2007.

**Introductory Comments – Forward-Looking Statements**

This Report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. All statements other than statements of historical facts are “forward looking statements” for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or licensing or collaborative arrangements, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential,” or “continue” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this report are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth below, and for the reasons described elsewhere in this report. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

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## PART I

### Item 1. DESCRIPTION OF BUSINESS.

#### Overview

We are a biopharmaceutical company that has been involved in the development of injectable collagenase for multiple indications. We have a development and license agreement with Auxilium Pharmaceuticals, Inc. ("Auxilium") for injectable collagenase (which Auxilium has named "XIAFLEX™" (formerly known as "AA4500")) for clinical indications in Dupuytren's disease, Peyronie's disease and frozen shoulder (*adhesive capsulitis*), and Auxilium has an option to acquire additional indications that we may pursue, including cellulite and lipomas. Injectable collagenase has completed a pivotal clinical trial for the treatment of Dupuytren's disease. A Phase III clinical trial had been initiated and was put on clinical hold. In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAFLEX for the treatment of Dupuytren's disease.

#### Marketed Product

Prior to the sale of our collagenase topical business to DFB Biotech, Inc. and its affiliates ("DFB") in March 2006, we had been in the business of manufacturing the active pharmaceutical ingredient ("API" or "API Enzyme") for a topical collagenase prescription product. We had developed and achieved Food and Drug Administration ("FDA") approval for the topical collagenase prescription product. This topical collagenase product is an FDA approved biologic product indicated for debridement of chronic dermal ulcers and severely burned areas. Abbott Laboratories, Inc. and its subsidiaries ("Abbott"), under the terms of an exclusive licensing agreement (the "Abbott Agreement"), compounded the API into a topical collagenase ointment utilizing the API Enzyme manufactured by us.

Because sales of this topical collagenase had declined significantly since the peak year of 1999, we decided to sell the collagenase topical business and focus on the clinical indications related to our injectable collagenase business. As part of the sales agreement, DFB assumed ownership and operation of our wholly-owned subsidiary, ABC-Curacao, where the API is manufactured, along with certain other assets, including our FDA manufacturing license and the Abbott Agreement.

#### Development of Injectable Collagenase for Multiple Indications

We are developing an injectable collagenase for multiple indications. The most advanced indications are for the treatment of Dupuytren's disease, Peyronie's disease and frozen shoulder. In June 2004, we entered into a development and licensing agreement with Auxilium, which was amended on May 10, 2005 (the "Auxilium Agreement"). Under the Auxilium Agreement, we have granted Auxilium an exclusive worldwide license to develop products containing our injectable collagenase for the treatment of Dupuytren's disease and Peyronie's disease and the option to develop and license the technology for use in additional indications other than dermal formulations labeled for topical administration. In December of 2005, Auxilium exercised its option to include the clinical indication of frozen shoulder. The Auxilium Agreement and other licensing agreements are discussed more fully in this Item 1, under the section titled "Licensing and Marketing Agreements."

In its current report on Form 8-K filed on June 14, 2007, Auxilium stated:

"We believe that AA4500 has significant commercial potential:

--450,000 potential patients annually in U.S. and EU for Dupuytren's disease & Peyronie's indications -> \$1 Billion opportunity based on market research and analysis

--Potential to replace surgery

--Great fit for Speciality Biopharmaceutical Company

--Worldwide rights offer options to build company or generate cash."

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## Background on Collagenase

Collagenase is the only protease that can hydrolyze the triple helical region of collagen under physiological conditions. The specific substrate collagen comprises approximately one-third of the total protein in mammalian organisms and it is the main constituent of skin, tendon, and cartilage, as well as the organic component of teeth and bone. The body relies on endogenous collagenase production to remove dead tissue and collagenase production is an essential biological mechanism, which regulates matrix remodeling and the normal turnover of tissue. The *Clostridial* collagenase produced by us has a broad specificity towards all types of collagen and is acknowledged as much more efficient than mammalian collagenases. *Clostridial* collagenase cleaves the collagen molecule at multiple sites along the triple helix whereas the mammalian collagenase is only able to cleave the molecule at a single site along the triple helix. Because collagenase does not damage the cell membrane, it is widely used for cell dispersion for tissue disassociation and cell culture. Since the main component of scar tissue is collagen, collagenase has been used in a variety of clinical investigations to remove scar tissue without surgery. Histological and biochemical studies have shown that the tissue responsible for the deformities associated with Dupuytren's disease and Peyronie's disease is primarily composed of collagen. The contracture associated with Dupuytren's disease is an example of a disease that results from excessive collagen formation. Surgical removal of scar tissue has the potential to result in complications including increased scar formation. Due to the highly specific nature of the enzyme, we consider its use to be more desirable than the application of general proteolytic enzymes for the removal of unwanted tissue. Treatment with injectable collagenase for removal of excessive scar tissue represents a first in class non-invasive approach to this unmet medical need. New uses involving the therapeutic application of exogenous collagenase to supplement the body's own natural enzymes are periodically being proposed.

We have developed a proprietary process to produce a purified collagenase product, which is fully characterized and has shown stability for years.

## Collagenase for Treatment of Dupuytren's Disease

Dupuytren's disease is a deforming condition of the hand in which one or more fingers contract toward the palm, often resulting in physical disability. The onset of Dupuytren's disease is characterized by the formation of nodules in the palm that are composed primarily of collagen. As the disease progresses, the collagen nodules begin to form a cord causing the patient's finger(s) to contract, making it impossible to open the hand fully. Patients often complain about inability to wash their hands, wear gloves, or grasp some objects. Dupuytren's disease has a genetic basis and it is most prevalent in individuals of northern European ancestry. Well-known individuals with Dupuytren's disease include President Ronald Reagan and Prime Minister Margaret Thatcher.

The only proven treatment for Dupuytren's disease is surgery. Recurrence rates can range from 26-80%. The post surgical recovery is often associated with significant pain, delayed return to work, and extended periods of post-operative physical therapy. Because many of the individuals with Dupuytren's disease are older than 60 years of age, there is considerable resistance from the patients to undergo the surgical procedure, which also involves the risk of general anesthesia. We anticipate that many of the patients who are now willing to live with the disease, given the current treatment options, would be receptive to an alternative treatment involving an injection into the hand that could be performed in an office setting.

Hand surgeons note that the Dupuytren's disease surgery is tedious, lengthy and poorly reimbursed in the U.S. In a conference on February 8, 2007, Auxilium stated that the average cost of Dupuytren's disease surgery is \$5,000 in the U.S. and \$3,500 in Europe. Auxilium has reported that U.S. based hand surgeons would recommend the use of collagenase injection on 76% of the patients who were candidates for surgery. This figure confirms an earlier survey of U.S. hand surgeons conducted by us, which found that they would recommend the use of collagenase injection on 80% of patients considered eligible for Dupuytren's disease surgery.

### *Phase III Clinical Trials*

Phase III clinical results with injectable collagenase manufactured by us were published in the July-August 2007 issue of the Journal of Hand Surgery. The study was designed and monitored by us in collaboration with Marie Badalamente, PhD and Lawrence Hurst, MD who are clinical investigators from the Department of Orthopaedics, at the State University of New York, Health Science Center Stony Brook, New York. Auxilium issued a press release on July 24, 2007 based on their statistical analysis of the results.

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Thirty-three of 35 patients who entered the double-blind phase of the trial completed the study and 19 of them entered the open label extension. In the double blind phase of the study, 23 patients received injectable collagenase and 12 received placebo. The results show that 21 of 23 patients (91%) treated with up to 3 injections of injectable collagenase achieved clinical success (reduction in joint contracture to within 0° to 5° of normal) in the double-blind phase. 12 of 14 (86%) of metacarpophalangeal ("MP") joints and 9 of 9 (100%) proximal intraphalangeal ("PIP") joints were successfully treated. No patient treated with placebo achieved clinical success.

Of the 19 patients entering the open label phase, 15 had previously received placebo, and 4 had received active drug but required further treatment due to incomplete success or treatment failure or needed treatment for other contractures. 17 of 19 patients (89%) receiving up to 3 injections of injectable collagenase achieved clinical success in at least one treated joint in the open label phase. 14 of 16 (88%) of MP joints and 13 of 19 (68%) PIP joints were successfully treated.

During the double blind and extension phases, the mean number of injections needed to achieve clinical success was 1.5 and 1.4 respectively. Clinical success was achieved in a median of 8 days during the double blind phase. The time to clinical success ranged between 1 and 29 days in the open label extension phase of the study.

An evaluation of the long- term durability of treatment was conducted for patients treated in this Phase III trial and its open label extension. At the 24-month follow up, recurrence of contracture of at least 20° was favorable compared to the long-term results observed post surgery according to the investigators. Of the 54 successfully treated joints, all were followed up for 24 months. Over the 24- month period, 5 joints (9%) had a recurrence. Dr. Badalamente stated that reported recurrence rates post surgery vary widely from 27% to 80%.

The most common adverse events were pain and swelling of the hand at the injection site, and, and post-injection temporary swelling of a modest nature in the lymph node area of the armpit. There were no nerve or arterial injuries. Adverse events were generally mild to moderate in nature and resolved without treatment within 30 days.

In a press release dated July 31, 2007 Auxilium released information related to the latest Phase III clinical trials conducted with injectable collagenase.

Auxilium discussed the results of the suspended clinical trials of XIAFLEX for the treatment of Dupuytren's contracture conducted in the fourth quarter of 2006 after they had reviewed the data to assess key findings prior to the expected initiation of new trials later this year. A total of 30 patients were treated; 22 received XIAFLEX and 8 received placebo injections. Two of the patients who received XIAFLEX received two injections in a primary joint; one patient received one injection in a primary joint and one injection in a secondary joint; and the other 19 patients all received a single injection of XIAFLEX into a primary joint. The data indicate that 14 of the 22 (64%) patients injected with XIAFLEX achieved clinical success, defined as reduction of the contracture to zero to five degrees of normal. None of the patients that received placebo injections achieved clinical success. No serious adverse events related to study drug were reported, and adverse events included injection site pain, contusions and edema.

### *Phase II Trials*

A Phase II clinical study was designed to evaluate the relative safety and efficacy of collagenase compared to placebo injection in improving the degree of flexion deformity, and range of finger motion in patients with Dupuytren's disease. The investigation was carried out as a randomized, double-blind placebo-controlled clinical trial using collagenase or placebo. Thirty-six MP patients and thirteen PIP patients were enrolled in the study. The success rate was determined one month after the first injection of collagenase or placebo. The overall success rate, defined by the primary endpoint of reduction in contracture to 0°-5°, was fourteen out of eighteen patients (78%) for MP joints (p=0.001) and approximately 70% for PIP joints. Adverse events reported during this protocol included pain and swelling of the hand, bruising, and post-injection self-limiting swelling of the lymph nodes. Some patients experienced transient increases in blood pressure on the day of injection, which were attributed to anxiety in anticipation of the treatment. Only one serious adverse event was reported and it was not attributed to the study drug by the clinical investigator.

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This study demonstrated a statistically significant reduction in contracture to within 0°-5° of normal at day 30 and improved range of motion at 7 and 14 days and at day 30 after a single injection of collagenase into the cord affecting the MP joint.

A second Phase II study designed as a double-blind, randomized, parallel group, placebo-controlled, dose response clinical trial was conducted. Fifty-five MP patients and twenty-five PIP patients with a mean baseline fixed flexion deformity of forty-nine degrees were enrolled in the study at two centers. Patients were treated with low (2,500), mid (5,000) or high (10,000) number of units of collagenase or placebo. The overall success rate and primary endpoint was defined as reduction in contracture to within 0°-5° 30 days after the first injection.

Eighteen out of the twenty-three patients (78%) who received the high number of units returned to normal extension (0°-5°) at one month post-treatment as compared to ten out of twenty-two (45%) in the mid number of units group, and nine out of eighteen (50%) in the low number of units group. There was no response to placebo in any patient. For PIP joints, five out of seven (71%) patients who received the high number of units of collagenase returned to normal extension at the one month post-treatment as compared to four out of seven (57%) patients in the mid number of units group, two out of four (50%) in the low number of units group and zero out of seven (0%) in the placebo group. For MP joints, thirteen out of sixteen (81%) patients who received the high number of units group of collagenase returned to normal extension at the one month post-treatment as compared to six out of fifteen (43%) patients in the mid number of units group, seven out of fourteen (50%) in the low number of units group and zero out of ten (0%) in the placebo group.

None of the serious adverse events that occurred were attributed by the investigators to the study drug.

#### *Development Status*

On November 20, 2006, Auxilium announced that they had initiated a Phase III clinical trial for Dupuytren's disease. Auxilium issued a press release dated December 6, 2006 and announced that it had temporarily suspended the dosing of patients in its ongoing Phase III trial for AA4500 for the treatment of Dupuytren's contracture in response to a visual appearance failure of the lyophilized material in some vials of AA4500 for use in the clinical trial. Auxilium said that they were conducting an investigation to determine the cause of this failure and they believe that it is likely related to the higher than expected moisture content within the vial. Based on tests conducted, Auxilium has excluded container closure as a cause and believes that the issue is related to the lyophilization process and/or equipment. The issue was identified as part of routine ongoing stability testing. In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAFLEX for the treatment of Dupuytren's disease.

#### **Collagenase for Treatment of Peyronie's Disease**

Peyronie's disease affects the penis and it is characterized by the presence of a collagen plaque on the shaft of the penis, which can distort an erection and make intercourse difficult or impossible in advanced cases. The plaque is not elastic and it does not stretch during erection. In some mild cases, the plaque can resolve spontaneously without medical intervention. The most common plaque forms on the top of the penis causing the penis to arc upward. In severe cases, the penis can be bent at a 90-degree angle during erection. Significant psychological distress has been noted in patients with Peyronie's disease who are sexually active. Frequent patient complaints include increased pain, painful erections, palpable plaque, penile deformity, and erectile dysfunction. Patients with Peyronie's disease have been reported to have an increased likelihood of having Dupuytren's disease, frozen shoulder, plantar fibromatosis, knuckle pads, hypertension and diabetes. Peyronie's disease typically affects males in the range of 40-70 years. The cause of Peyronie's disease is unknown, although some investigators have proposed that it may be due to trauma or an autoimmune component. A number of researchers have suggested that the incidence of Peyronie's disease has increased due to the use of erectile dysfunction drugs.

Surgery is the only proven treatment for Peyronie's disease and the results are variable. Surgery often results in shortening of the penis. Auxilium has reported that 33% of Peyronie's disease patients who undergo surgery are subsequently dissatisfied with the results and they frequently require a penile implant. Patients with Peyronie's disease strongly desire therapeutic alternatives to surgery. Auxilium has reported that 90% of urologists would use collagenase injection to delay or avoid surgery and this finding is consistent with a survey of urologists performed for us.

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Histological and biochemical studies indicate that the scarring on the penis due to Peyronie's disease is composed primarily of collagen.

An independent investigator carried out a positive Phase I clinical trial in which he treated approximately 180 patients in an open-label trial. In addition, two positive open label clinical trials have been conducted by an independent investigator at Tidewater Urology in Norfolk, Virginia, which is the largest center for treatment of Peyronie's disease in the world.

Auxilium announced on October 25, 2006 the results of two Phase II trials. They stated:

Both studies were open label and up to 12 months in duration. They were conducted to evaluate the efficacy and tolerability of AA4500 in the treatment of Peyronie's disease. Clinical success was defined as change from baseline in deviation angle of at least 25 percent.

In Study A (n=25) [25 patients], 3 injections of AA4500, each administered on a separate day, were given over 7-10 days. Patients received a second series of 3 injections 12 weeks later. Patients were evaluated at three, six, and nine months post-last injection. The mean baseline deviation angle was 52.8 degrees. At months three and six, 58 percent and 53 percent of patients (respectively) achieved clinical success with respect to deviation angle.

The best results were achieved with a three-treatment series of three injections each in Study B (n=10) [10 patients]. In Study B, patients received three injections of AA4500 administered one per day, separated by at least one day each, over a one week timeframe. Patients received two additional series of 3 injections, each spaced 6 weeks apart. The mean baseline deviation angle was 50.2 degrees. At 9 month follow up (post-first injections), 25 percent or greater reduction in deviation angle was achieved in 8/9 patients who completed the study (89 percent, 1 patient had 24 percent reduction in deviation angle). Based on the investigator's global assessment, 67 percent of subjects were very much improved or much improved after treatment with AA4500.

The most common adverse events reported in both studies were local administration site reactions that were mid or moderate in severity, non-serious, and resolved in time without medical attention.

#### *Development Status*

Auxilium reported in its Form 10-Q filed on August 8, 2007 that they will initiate a Phase IIb trial for Peyronie's disease in the first or second quarter of 2008.

#### **Collagenase For Treatment of Frozen Shoulder (*Adhesive Capsulitis*)**

Frozen shoulder is a clinical syndrome of pain and decreased motion in the shoulder joint. It is estimated to affect 2-5% of the general population with a slightly higher incidence in women. It typically occurs between the ages of 40-70. Individuals with insulin dependent diabetes have been reported to have a 36% higher incidence rate and are more likely to have bilateral symptoms.

Results of a Phase II randomized double-blind, placebo controlled, dose response study were presented at the annual meeting of the American Academy of Orthopaedic Surgeons (AAOS) in March 2006. Based on Auxilium's prior review of the data contained in the oral presentation, they elected to exercise their option to develop and commercialize this additional indication for collagenase injection in December 2005.

#### **Other Clinical Indications For Collagenase**

##### *Lipomas*

Lipomas are benign fatty tumors that occur as bulges under the skin. An open label clinical trial has been completed for treatment of lipomas utilizing a single injection of collagenase. Based on observations made during pre-clinical studies that a collagenase injection decreased the size of fat pads in animals, a Phase I open label clinical trial was conducted. Favorable initial results from this study for treatment of lipomas were presented at a meeting of the

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American Society of Plastic Surgeons. We are currently planning the next steps for development of this clinical indication.

### *Cellulite*

Cellulite is a condition characterized by dimpling of the skin and a mattress phenomenon typically affecting the thighs and buttocks. It is due to irregular and discontinuous subcutaneous connective tissue. An open label study has been completed to assess whether injectable collagenase can restore the cellulite-affected areas to a more cosmetically acceptable appearance. An abstract describing the promising results of this study was published in *Plastic and Reconstructive Surgery* on September 15, 2006 (see A. Dagum and M. Badalamente. "Collagenase Injection in the Treatment of Cellulite." *Plastic and Reconstructive Surgery* 118.4 Sept. 2006: 53). We are currently planning the next steps for development of this clinical indication.

### *Scarred Tendon*

Traumatic injuries to the hand may result in an inability to return to normal function due to scar formation between flexor tendon and surrounding tissues. Scarring frequently results in the formation of adhesions, which complicates the ability of the tendon to glide further impairing finger movement. Surgical repairs of the flexor tendon are notably difficult because of the post-traumatic accumulation of scar tissue, as such it is considered to be one of the most difficult issues in orthopaedic surgery. An open label clinical investigation has been conducted to determine if collagenase injection can be of help to patients with scarred flexor tendons. We are in the process of closing out the clinical investigation.

### **Total Patient Exposure**

Clinical investigations with our collagenase injection have been conducted in the treatment of herniated disc disease, keloids and hypertrophic scars, as an adjunct to vitrectomy, Peyronie's disease, Dupuytren's disease, glaucoma, frozen shoulder, lipoma, flexor tendon adhesions and cellulite. Over 1300 patients have been treated in these studies and the data suggest a very acceptable safety profile for the product.

## **LICENSING AND MARKETING AGREEMENTS**

### *Topical Collagenase Agreement*

Prior to March 2006, we were a party to the Abbott Agreement, an exclusive license agreement with Knoll Pharmaceutical Company, a subsidiary of Abbott, for the production of the API for topical collagenase.

In March 2006 we sold our topical collagenase business to DFB, including all rights to the exclusive license agreement and we were released of any obligations thereunder.

In addition, DFB acquired all of the issued and outstanding shares of ABC-Curacao, pursuant to an asset purchase agreement between us, DFB and ABC-NY (the "Asset Purchase Agreement"). ABC-Curacao manufactured the API Enzyme, which in its final formulation was marketed by Abbott.

In addition, at the closing of the Asset Purchase Agreement, DFB (i) acquired from us certain inventory and manufacturing equipment used in the topical collagenase business, (ii) was granted a perpetual royalty free license to use, solely in connection with the topical collagenase business, certain intangible assets retained by us and (iii) was granted the right (for a limited period of time) to use, solely in connection with the topical collagenase business, certain tangible assets retained by us. As part of the sale, we transferred to DFB our FDA manufacturing license.

As consideration for the purchased assets we received \$8 million in cash, DFB's assumption of certain liabilities, and the right to receive earn out payments in the future based on sales of certain products. In connection with the closing of the Asset Purchase Agreement, we agreed to provide certain technical assistance and certain transition services to DFB in consideration of fees and costs totaling over \$1.4 million. At the closing, DFB paid to us a partial payment of \$400,000 in respect of the technical assistance to be provided by us. The consulting obligations generally expire during March 2011.

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On January 8, 2007, we entered into an Amendment to the Asset Purchase Agreement with ABC-NY and DFB (the "Amendment") in order to clarify the intent of the parties with respect to certain provisions of the Asset Purchase Agreement and the parties are discussing further clarifications to address certain concerns raised by Auxilium.

*Auxilium Agreement*

In June 2004, we entered into the Auxilium Agreement, which was amended in May 2005. Under the Auxilium Agreement, we granted to Auxilium exclusive worldwide rights to develop, market and sell certain products containing our injectable collagenase. Auxilium's licensed rights concern the development of products, other than dermal formulations labeled for topical administration, and currently its licensed rights cover the indications of Dupuytren's and Peyronie's diseases and frozen shoulder, for which Auxilium exercised its option in December 2005. Auxilium may further expand the Auxilium Agreement, at its option, to cover other indications as they are developed by us.

The Auxilium Agreement extends, on a country-by-country and product-by-product basis, for the longer of the patent life, the expiration of any regulatory exclusivity period or 12 years. Auxilium may terminate the Auxilium Agreement upon 90 days prior written notice.

Auxilium is responsible, at its own cost and expense (excluding the third party costs for the development of the lyophilization of the injection formulation, which are shared equally by the parties), for developing the formulation and finished dosage form of products and arranging for the clinical supply of products. Auxilium is responsible for all clinical development and regulatory costs for Peyronie's disease, Dupuytren's disease, frozen shoulder and all additional indications for which they exercise their options.

We have the option, exercisable no later than six months after FDA approval of the first New Drug Application ("NDA") or Biologics License Application ("BLA") with respect to a product, to assume the right and obligation to supply, or arrange for the supply from a third party other than a back-up supplier qualified by Auxilium, of a specified portion of Auxilium's commercial product requirements. The Auxilium Agreement provides that Auxilium may withhold a specified amount of a milestone payment until (i) we execute an agreement, containing certain milestones, with a third party for the commercial manufacture of the product, (ii) we commence construction of a facility, compliant with Current Good Manufacturing Practices ("cGMP"), for the commercial supply of the product or (iii) 30 days after we notify Auxilium in writing that we will not exercise the supply option. If we exercise the supply option, commencing on a specified date from the date of regulatory approval, we will be responsible for supplying either ourselves or through a third party other than a back-up supplier qualified by Auxilium, a specified portion of the commercial supply of the product. If we do not exercise the supply option, then Auxilium will be responsible for arranging for the entire commercial product supply. In the event that we do exercise the supply option, then we and Auxilium are required to use commercially reasonable efforts to enter into a commercial supply agreement on customary and reasonable terms and conditions which are not worse than those with back-up suppliers qualified by Auxilium.

Auxilium must pay us on a country-by-country and product-by-product basis a specified percentage of net sales for products covered by the Auxilium Agreement. Such percentage may vary depending on whether we exercise the supply option. In addition, the percentage may be reduced if (i) we fail to supply commercial product supply in accordance with the terms of the Auxilium Agreement; (ii) market share of a competing product exceeds a specified threshold; or (iii) Auxilium is required to obtain a license from a third party in order to practice our patents without infringing such third party's patent rights. In addition, if Auxilium out-licenses to a third party, then we receive a certain specified percentage of all non royalty payments made to Auxilium in consideration of such out-licenses.

In addition to the payments set forth above, Auxilium must pay to us an amount equal to a specified mark-up of the cost of goods sold for products sold by Auxilium that are not manufactured by or on behalf of us, provided that, in the event that we exercise the supply option, no payment will be due for so long as we fail to supply the commercial supply of the product in accordance with the terms of the Auxilium Agreement.

Finally, Auxilium will be obligated to make contingent milestone payments upon the filing of regulatory applications and receipt of regulatory approval. Through December 31, 2006, Auxilium paid us both up-front and milestone payments under the Auxilium Agreement of \$8.5 million. Auxilium could make in excess of \$5 million of additional contingent milestone payments for listed indications under the Auxilium Agreement if all existing conditions are met.

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Additional milestone obligations will be due if Auxilium exercises an option to develop and license XIAFLEX for additional medical indications.  
*In-Licensing and Royalty Agreements*

We have entered into several in-licensing and royalty agreements with various investigators, universities and other entities throughout the years.

*Dupuytren's Disease*

On November 21, 2006, we entered into a license agreement (the "Dupuytren's License Agreement") with The Research Foundation of the State University of New York at Stony Brook (the "Research Foundation"), pursuant to which the Research Foundation granted to us and our affiliates an exclusive worldwide license, with the right to sublicense to certain third parties, to know-how owned by the Research Foundation related to the development, manufacture, use or sale of (i) the collagenase enzyme obtained by a fermentation and purification process (the "Enzyme"), and (ii) all pharmaceutical products containing the Enzyme or injectable collagenase, in each case to the extent it pertains to the treatment and prevention of Dupuytren's disease.

In consideration of the license granted under the Dupuytren's License Agreement, we agreed to pay to the Research Foundation certain royalties on net sales (if any) of pharmaceutical products containing the Enzyme or injectable collagenase for the treatment and prevention of Dupuytren's disease (each a "Dupuytren's Licensed Product").

Our obligation to pay royalties to the Research Foundation with respect to sales by the Company, its affiliates or any sublicensee of any Dupuytren's Licensed Product in any country (including the U.S.) arises only upon the first commercial sale of such Dupuytren's Licensed Product. Our obligation to pay royalties to the Research Foundation will continue until the later of (i) the expiration of the last valid claim of a patent pertaining to the Dupuytren's Licensed Product; (ii) the expiration of the regulatory exclusivity period conveyed by the FDA's Orphan Product Division with respect to the Licensed Product or (iii) June 3, 2016.

Unless terminated earlier in accordance with its termination provisions, the Dupuytren's License Agreement and licenses granted thereunder will continue in effect until the termination of our royalty obligations. Thereafter, all licenses granted to us under the Dupuytren's License Agreement will become fully paid, irrevocable exclusive licenses.

*Peyronie's Disease*

In October 1993, we entered into a royalty agreement with Martin K. Gelbard, M.D., pursuant to which we are obligated to pay certain royalties on net sales.

*Frozen Shoulder*

On November 21, 2006, we also entered into a license agreement (the "Frozen Shoulder License Agreement") with the Research Foundation, pursuant to which the Research Foundation granted to us and our affiliates an exclusive worldwide license, with the right to sublicense to certain third parties, to know-how owned by the Research Foundation related to the development, manufacture, use or sale of (i) the Enzyme and (ii) all pharmaceutical products containing the Enzyme or injectable collagenase, in each case to the extent it pertains to the treatment and prevention of frozen shoulder. Additionally, the Research Foundation granted to us an exclusive license to the patent applications in respect of frozen shoulder. The license granted to us under the Frozen Shoulder License Agreement is subject to the non-exclusive license (with right to sublicense) granted to the U.S. government by the Research Foundation in connection with the U.S. government's funding of the initial research.

In consideration of the license granted under the Frozen Shoulder License Agreement, we agreed to pay to the Research Foundation certain royalties on net sales (if any) of pharmaceutical products containing the Enzyme or injectable collagenase for the treatment and prevention of frozen shoulder (each a "Frozen Shoulder Licensed Product"). In addition, we and the Research Foundation will share in any milestone payments and sublicense income received by us in respect of the rights licensed under the Frozen Shoulder License Agreement.

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Our obligation to pay royalties to the Research Foundation with respect to sales by us, our affiliates or any sublicensee of any Frozen Shoulder Licensed Product in any country (including the U.S.) arises only upon the first commercial sale of a Frozen Shoulder Licensed Product. Our obligation to pay royalties to the Research Foundation will continue until, the later of (i) the expiration of the last valid claim of a patent pertaining to a Frozen Shoulder Licensed Product; or (ii) June 3, 2016.

Unless terminated earlier in accordance with its termination provisions, the Frozen Shoulder License Agreement and licenses granted thereunder will continue in effect until the termination of our royalty obligations. Thereafter, all licenses granted to us under the Frozen Shoulder License Agreement will become fully paid, irrevocable exclusive licenses.

In connection with the execution of the Dupuytren's License Agreement and the Frozen Shoulder License Agreement, certain up-front payments were made by us to the Research Foundation and the clinical investigators working on the Dupuytren's disease and frozen shoulder indications for the Enzyme.

*Other Indications*

We have entered into certain other license and royalty agreements with respect to certain other indications that we may elect to pursue.

**COMPETITION**

We face worldwide competition from larger pharmaceutical companies, specialty pharmaceutical companies and biotechnology firms, universities and other research institutions and government agencies that are developing and commercializing pharmaceutical products. Many of our competitors have substantially greater financial, technical and human resources than we have and may subsequently develop products that are more effective, safer or less costly than any that have been or are being developed by us or that are generics. Our success will depend on our ability to acquire, develop and commercialize products and our ability to establish and maintain markets for our products for which we receive marketing approval.

**RESEARCH AND DEVELOPMENT***Cost of Research and Development Activities*

In 2006, the Company invested \$1,217,306 in research and development activities.

*Dupuytren's Disease*

Following an end-of-Phase II meeting between the FDA and us, we supplied requisite study drug, initiated and monitored a pivotal clinical trial. Auxilium presented the results of this trial in their press release on February 20, 2007, as stated in this Item 1, under the section titled "Collagenase for Treatment of Dupuytren's Disease."

*Peyronie's Disease*

Based on clinical trial protocols submitted to the FDA, we supplied requisite study drug, initiated and monitored clinical investigations, which were described by Auxilium in their press release dated October 25, 2006. An excerpt of this press release appears in this Item 1, under the section titled "Collagenase for Treatment of Peyronie's Disease."

*Frozen Shoulder*

We have supplied requisite study drug, initiated and monitored a Phase II clinical trial using the injectable enzyme in the treatment of frozen shoulder. Three different doses of the enzyme were compared to placebo in this double-blind, randomized trial in 60 patients. The results from this trial suggest that local injection of the enzyme are encouraging and may be effective in patients suffering from frozen shoulder. Additional studies are needed to assess the optimal dose and dosing regimen of injectable collagenase in this indication. In its press release dated December 20, 2005, concurrent with its exercise of its option with respect to frozen shoulder, Auxilium reported: "AA4500 is a very

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important product candidate for Auxilium, and we believe the addition of a third indication for this development program enhances the commercial potential of AA4500.” In their current report on Form 8-K filed on June 14, 2007, Auxilium stated that an estimated 3% of people develop frozen shoulder over their lifetime.

*Additional Clinical Indications**Lipomas*

As described in this Item 1, under the section titled “Other Clinical Indications for Collagenase,” we have supplied requisite study drug, initiated and monitored a positive open label clinical study for treatment of lipomas with injectable collagenase. These results suggest the possibility of chemical liposuction. We are in the process of analyzing the results of the study and evaluating the possibility of conducting a Phase II study for the treatment of lipomas with injectable collagenase.

*Cellulite*

As described in this Item 1, under the section titled “Other Clinical Indications for Collagenase,” we have referenced the promising open label clinical trial results for treatment of cellulite with injectable collagenase. We are currently planning for a Phase II study for the treatment of cellulite with injectable collagenase, subject to the availability of suitable clinical material.

*Scarred Tendon*

Traumatic injuries to the hand may result in an inability to return to normal function due to scar formation between flexor tendon and surrounding tissues. Scarring frequently results in the formation of adhesions, which complicates the ability of the tendon to glide further impairing finger movement. Surgical repairs of the flexor tendon are notably difficult because of the post-traumatic accumulation of scar tissue, as such it is considered to be one of the most difficult issues in orthopaedic surgery. We have supplied requisite study drug and we monitor an open-label clinical investigation with collagenase for the treatment of scarred tendons in the hand. An open label clinical investigation has been conducted by independent investigators to determine if collagenase injection can be of help to patients with scarred flexor tendons. We are in the process of closing out the clinical investigation.

*New Products*

We continue to selectively review new technologies and products in the areas of wound healing and tissue remodeling for possible acquisition or in-licensing.

**GOVERNMENT REGULATION**

All of our products labeled for use in humans require regulatory approval by government agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical and clinical trials to demonstrate safety and efficacy and other approval procedures of the FDA and similar regulatory authorities in foreign countries. Various federal, state, local, and foreign statutes and regulations also govern testing, manufacturing, labeling, distribution, storage and record-keeping related to such products and their promotion and marketing. The process of obtaining these approvals and the compliance with federal, state, local, and foreign statutes and regulations require the expenditure of substantial time and financial resources. In addition, the current political environment and the current regulatory environment at the FDA could lead to increased testing and data requirements which could impact regulatory timelines and costs.

Clinical trials involve the administration of the investigational product candidate or approved products to human subjects under the supervision of qualified investigators. Clinical trials are conducted under protocols detailing, among other things, the objectives of the study, the parameters to be used in assessing the safety and the effectiveness of the drug. Typically, clinical evaluation involves a time-consuming and costly three-phase sequential process, but the phases may overlap. Each trial must be reviewed, approved and conducted under the auspices of an independent institutional review board, and each trial must include the patient’s informed consent.

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Clinical testing may not be completed successfully within any specified time period, if at all. The FDA monitors the progress of each of the first phases of clinical trials that are conducted in the U.S. and may, at its discretion, reevaluate, alter, suspend or terminate the testing based upon the data accumulated to that point and the FDA's assessment of the risk/benefit ratio to the patient. The FDA can also provide specific guidance on the acceptability of protocol design for clinical trials. The FDA or we may suspend or terminate clinical trials at any time for various reasons, including a finding that the subjects or patients are being exposed to an unacceptable health risk. The FDA can also request that additional clinical trials be conducted as a condition to product approval. During all clinical trials, physicians monitor the patients to determine effectiveness and/or to observe and report any reactions or other safety risks that may result from use of the drug candidate.

Assuming successful completion of the required clinical trial, drug developers submit the results of preclinical studies and clinical trials, together with other detailed information including information on the chemistry, manufacture and control of the product, to the FDA, in the form of a NDA or BLA, requesting approval to market the product for one or more indications. In most cases, the NDA/BLA must be accompanied by a substantial user fee. The FDA reviews an NDA/BLA to determine, among other things, whether a product is safe and effective for its intended use.

Before approving an application, the FDA will inspect the facility or facilities where the product is manufactured. The FDA will not approve the application unless cGMP compliance is satisfactory. The FDA will issue an approval letter if it determines that the application, manufacturing process and manufacturing facilities are acceptable. If the FDA determines that the application, manufacturing process or manufacturing facilities are not acceptable, it will outline the deficiencies in the submission and will often request additional testing or information. Notwithstanding the submission of any requested additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval and refuse to approve the application by issuing a "not approvable" letter.

The testing and approval process requires substantial time, effort and financial resources, which may take several years to complete. The FDA may not grant approval on a timely basis, or at all. We may encounter difficulties or unanticipated costs in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing our products. Furthermore, the FDA may prevent a drug developer from marketing a product under a label for its desired indications or place other conditions, including restrictive labeling, on distribution as a condition of any approvals, which may impair commercialization of the product. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further FDA review and approval.

If the FDA approves the NDA or BLA, the drug can be marketed to physicians to prescribe in the U.S. After approval, the drug developer must comply with a number of post-approval requirements, including delivering periodic reports to the FDA (i.e., annual reports), submitting descriptions of any adverse reactions reported, biological product deviation reporting, and complying with drug sampling and distribution requirements. The holder of an approved NDA/BLA is required to provide updated safety and efficacy information and to comply with requirements concerning advertising and promotional labeling. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval. Drug manufacturers and their subcontractors are required to register their facilities and are subject to periodic unannounced inspections by the FDA to assess compliance with cGMP which imposes procedural and documentation requirements relating to manufacturing, quality assurance and quality control. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance. The FDA may require post-market testing and surveillance to monitor the product's safety or efficacy, including additional studies to evaluate long-term effects.

In addition to studies requested by the FDA after approval, a drug developer may conduct other trials and studies to explore use of the approved drug for treatment of new indications, which require submission of a supplemental or new NDA and FDA approval of the new labeling claims. The purpose of these trials and studies is to broaden the application and use of the drug and its acceptance in the medical community.

We use, and will continue to use, third-party manufacturers to produce our products in clinical quantities. Future FDA inspections may identify compliance issues at our facilities or at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of problems with a product or the failure to comply with requirements may result in restrictions on a product, manufacturer or holder of an approved NDA/BLA, including withdrawal or recall of the product from the market or other voluntary or FDA-

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initiated action that could delay further marketing. Newly discovered or developed safety or effectiveness data may require changes to a product's approved labeling, including the addition of new warnings and contraindications. Also, new government requirements may be established that could delay or prevent regulatory approval of our products under development.

## INTELLECTUAL PROPERTY AND RIGHTS

### PATENT PROTECTION

#### *Patents*

We are the assignee or licensee of six U.S. patents, four of which have received patent protection in various foreign countries. In addition, we have licenses to another patent under application. There can be no assurances when, if ever, such patent will be issued, or that such patent, if issued, will be of any value to us.

The scope of the intellectual property rights held by pharmaceutical firms involves complex legal, scientific and factual questions and consequently is generally uncertain. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued. Consequently, we do not know whether any of our current patent applications, or the products or product candidates we develop, acquire or license will result in the issuance of patents or, if any patents are issued, whether they will provide significant proprietary protection or will be challenged, circumvented or invalidated. Because patent applications in the U.S. and some other jurisdictions are sometimes maintained in secrecy until patents issue, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain of the priority of inventions covered by pending patent applications. Moreover, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office (the "USPTO"), or a foreign patent office to determine priority of invention, or in opposition proceedings in a foreign patent office, either of which could result in substantial cost to us, even if the eventual outcome is favorable to us. There can be no assurance that the patents, if issued and challenged, in a court of competent jurisdiction would be found valid or enforceable. An adverse outcome could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using such technology.

Although we believe these patent applications, if they issue as patents, will provide a competitive advantage, the patent positions of pharmaceutical and biotechnology companies are highly uncertain and involve complex legal and factual questions. We may not be able to develop patentable products or processes and may not be able to obtain patents from pending applications. Even if patent claims are allowed, the claims may not issue, or in the event of issuance, may not be sufficient to protect our technology. In addition, any patents or patent rights we obtain may be circumvented, challenged or invalidated by our competitors.

While we attempt to ensure that our product candidates and the methods we employ to manufacture them do not infringe other parties' patents and proprietary rights, competitors or other parties may assert that we infringe on their proprietary rights. Additionally, because patent prosecution can proceed in secret prior to issuance of a patent, third parties may obtain other patents without our knowledge prior to the issuance of patents relating to our product candidates which they could attempt to assert against us.

Although we believe that our product candidates, production methods and other activities do not currently infringe the intellectual property rights of third parties, we cannot be certain that a third party will not challenge our position in the future. If a third party alleges that we are infringing its intellectual property rights, we may need to obtain a license from that third party, but there can be no assurance that any such license will be available on acceptable terms or at all. Any infringement claim that results in litigation could result in substantial cost to us and the diversion of management's attention away from our core business. To enforce patents issued to us or to determine the scope and validity of other parties' proprietary rights, we may also become involved in litigation or in interference proceedings declared by the USPTO, which could result in substantial costs to us or an adverse decision as to the priority of our inventions. We may be involved in interference and/or opposition proceedings in the future. We believe there will continue to be litigation in our industry regarding patent and other intellectual property rights.

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We also rely on trade secret protection for our confidential and proprietary information. No assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose such technology or that we can meaningfully protect our trade secrets.

It is our policy to require certain employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees, the agreements provide that all inventions conceived by the individual shall be our exclusive property. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for our trade secrets in the event of unauthorized use or disclosure of such information.

Our success will depend in part on our ability to protect our existing products and the products we acquire or in-license by obtaining and maintaining a strong proprietary position both in the U.S. and in other countries. To develop and maintain such a position, we intend to continue relying upon patent protection, trade secrets, know-how, continuing technological innovations and licensing opportunities. In addition, we intend to seek patent protection whenever available for any products or product candidates and related technology we develop or acquire in the future.

We licensed to Auxilium our injectable collagenase for the treatment of Dupuytren's and Peyronie's diseases as well as frozen shoulder. In addition to the marketing exclusivity which comes with its orphan drug status as a treatment for Dupuytren's and Peyronie's diseases, the enzyme underlying this product candidate is covered by two use patents in the U.S., one for the treatment of Dupuytren's disease and one for the treatment of Peyronie's disease. The Dupuytren's patent expires in 2014, and the Peyronie's patent expires in 2019. The patent relating to Dupuytren's disease has been the subject of a reissue application in the USPTO for, among other things, the purpose of submitting prior art that was not previously submitted during the prosecution of the Dupuytren's patent. The USPTO issued a Notice of Allowance for this patent in May 2007. Both the Dupuytren's and Peyronie's patents are limited to the use of the enzyme for the treatment of Dupuytren's and Peyronie's diseases within certain dose ranges. Foreign patents also cover these products in certain countries.

#### *Orphan Drug Designations*

The FDA's Office of Orphan Products Development ("OOPD") administers the major provisions of the Orphan Drug Act (the "Act"), an innovative program that provides incentives for sponsors to develop products for rare diseases. The incentives for products that qualify under the Act include seven-year exclusive marketing rights post FDA approval, tax credits for expenses associated with clinical trials including a 20 year tax carry-forward, availability of FDA grants, and advice on design of the clinical development plan.

The orphan drug provisions of the Federal Food, Drug, and Cosmetic Act also provide incentives to drug and biologics suppliers to develop and supply drugs for the treatment of rare diseases, currently defined as diseases that affect fewer than 200,000 individuals in the U.S. or, for a disease that affects more than 200,000 individuals in the U.S. and for which there is no reasonable expectation that the cost of developing and making available in the U.S. a drug for such disease or condition will be recovered from its sales in the U.S. Under these provisions, a supplier of a designated orphan product can seek tax benefits, and the holder of the first FDA approval of a designated orphan product will be granted a seven-year period of marketing exclusivity for that product for the orphan indication. It would not prevent other drugs from being approved for the same indication.

Two indications, Dupuytren's disease and Peyronie's disease, have received Orphan Drug status from the OOPD.

In the European Union ("E.U."), incentives for suppliers to develop medicinal products for the treatment of rare diseases are provided pursuant to the Orphan Medicinal Products Regulation. Orphan medicinal products are those products designed to diagnose, treat or prevent a condition which occurs so infrequently that the cost of developing and bringing the product to the market would not be recovered by the expected sale of the product. In the E.U., the criterion for designation is a prevalence of the relevant condition in no more than 5 per 10,000 of the population. The incentives include, among others, a reduction in the fees payable in respect of the marketing authorization application,

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protocol assistance for clinical trials in support of the application, and marketing exclusivity once the authorization is granted.

## EMPLOYEES

Following the sale of the collagenase topical business to DFB in March, 2006, the total number of our employees decreased to six and with the death of Edwin H. Wegman on February 16, 2007, and the termination of Lawrence Dobroff on May 7, 2007 we now have four employees. All of our employees are full time employees.

## CORPORATE INFORMATION

BioSpecifics Technologies Corp. was incorporated in Delaware in 1990. ABC-NY was incorporated in New York in 1957. ABC-Curaçao was incorporated in Curaçao, Netherlands Antilles in 1976. Our corporate headquarters are located at 35 Wilbur St., Lynbrook, NY 11563. Our telephone number is 516-593-7000. Until March 2006, our manufacturing operations were located in Lynbrook, NY and Brievengat Curacao, Netherlands Antilles.

## RISK FACTORS

In addition to the other information included in this Report, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position or results of operations. If one or more of these or other risks or uncertainties materialize or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we projected. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also impair our business or financial position.

### *Risks Related to Our Limited Sources of Revenue*

**Our future revenue is primarily dependent upon option, milestone and contingent royalty payments from Auxilium and, as part of our sale of our topical collagenase business to DFB, technical assistance payments and contingent earn out payments from DFB.**

Following our sale of our topical business to DFB, our primary sources of revenues are from (i) option, milestone and contingent royalty payments from Auxilium under the Auxilium Agreement, (ii) payments from DFB for technical assistance we provide and contingent earn out payments from DFB and (iii) the sale of small amounts of collagenase for laboratory research.

Under the Auxilium Agreement, in exchange for the right to receive royalties and other rights, we granted to Auxilium the right to develop, manufacture, market and sell worldwide products (other than dermal formulations for topical administration) that contain collagenase for the treatment of Dupuytren's and Peyronie's diseases and frozen shoulder, which Auxilium exercised in December 2005, subject to certain reversionary rights. However, we may not receive any royalty payments from Auxilium because we have no control over Auxilium's decision to pursue commercialization, or its ability to successfully manufacture, market and sell candidate products for the treatment of Dupuytren's and Peyronie's diseases, and frozen shoulder. Subject to certain conditions, we have retained an option to manufacture a portion of the developed product licensed to Auxilium after it has been marketed for several years. We have received in the past, and are entitled to receive in the future, certain milestone payments from Auxilium in respect of its efforts to commercialize such candidate products. However, we have no control over Auxilium's ability to achieve the milestones.

We have also retained the right to pursue other clinical indications for injectable collagenase, and have granted Auxilium an option to expand its license and development rights to one or more additional indications ("Additional Indications") for injectable collagenase not currently licensed to Auxilium, including lipomas and cellulite. The option is exercisable as to any such Additional Indications for which we have submitted a Phase II clinical trial report to Auxilium and which meet other criteria provided in the Auxilium Agreement. Upon Auxilium's exercise of the option with respect to any Additional Indication, it must pay to us a one-time license fee for the rights to such new indication. In addition, we are also entitled to receive milestone payments and, subject to commercialization of any Additional Indications, royalty payments with respect to any such Additional Indications. If Auxilium does not exercise its

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option as to any Additional Indication, we have the right to offer it to any third party, provided that we first offer the same terms to Auxilium, or to develop the product ourselves. Auxilium has no obligation to exercise its option with respect to any such Additional Indication, and its decision to do so is in its complete discretion. Clinical trials can be expensive and the results are subject to different interpretations, therefore, there is no assurance that after conducting Phase II clinical trials on any Additional Indication, and incurring the associated expenses, Auxilium will exercise its option or we will receive any revenue from it.

On December 6, 2006 Auxilium announced the suspension of its Phase III clinical trial for Dupuytren's disease. In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAFLEX for the treatment of Dupuytren's disease. The failure of Auxilium to adhere to its schedule regarding its Phase III clinical trial will have an effect on the timing of our receipt of milestone and royalty payments from Auxilium.

As part of the sale of our topical collagenase business to DFB, we are entitled to receive earn out payments in respect of sales of certain products developed and manufactured by DFB that contain collagenase for topical administration. However, our right to receive earn out payments from DFB is dependent upon DFB's decision to pursue, and its ability to succeed in, the manufacture and commercialization of such products, and achieve certain sales thresholds at which its obligations to pay earn out payments to us would commence. We are aware that DFB has certain competitive products that may adversely affect the volume of sales of those topical collagenase products for which we are entitled to the earn out.

We also agreed to provide technical assistance to DFB's affiliate, DPT Lakewood, for a fixed period of time in consideration for certain payments and we are required to maintain certain scientific resources and records in order to provide such assistance and be entitled to receive such payments.

**Our dependence upon revenue from Auxilium and DFB make us subject to the commercialization and other risk factors affecting those two companies over which we have limited or no control.**

Auxilium has disclosed in its securities filings a number of risk factors to consider when evaluating its business and future prospects. Given our dependence upon revenue from Auxilium, Auxilium's operating success or failure has a significant impact on our potential royalty stream and other payment rights. As such, we refer you to the full text of Auxilium's disclosed risk factors in its securities filings, which were most recently included on Form S-3 filed on August 27, 2007.

DFB is not a publicly traded company and therefore we have little information about its business and future prospects. Although we cannot be certain, we presume that many of the risk factors affecting Auxilium's business may have some bearing in evaluating DFB's ability to meet its payment obligations to us for technical assistance or to generate sufficient sales of topical collagenase products for us to be entitled to receive any of the earn out.

***Risks Related to Limited Supply of Clinical Materials***

**The FDA's action in December 2005 to place on hold a clinical trial related to hypertrophic scarring being conducted on our behalf by an independent investigator, because of questions regarding certain of our clinical materials, may limit our ability to conduct other clinical trials and to obtain the associated option, milestone and contingent royalty payments under our agreement with Auxilium.**

One of the independent investigators who has performed a clinical trial on hypertrophic scarring was notified by the FDA that a clinical hold has been placed on an investigational new drug (an "IND") application for that indication. Prior to commencing clinical trials in U.S. interstate commerce, there must be an effective IND for each of our product candidates. As a result of the clinical hold, the independent investigators are not permitted to conduct a clinical trial for that indication under the IND until the FDA releases the hold. Although we believe that the clinical hold only applies to the use of our clinical materials in connection with the indication specified in the clinical hold notification, it is possible that the FDA might broaden the scope of the clinical hold to cover use of our clinical materials in clinical trials for other indications that we may want to pursue. If the FDA's hold also limits our ability to conduct clinical trials on other indications, it may make it difficult for us to conduct clinical trials on Additional Indications under the Auxilium Agreement. Consequently, it may limit our ability to obtain the option, milestone and contingent royalty payments under the Auxilium Agreement.

[Table of Contents](#)**We have a limited supply of clinical material, which may limit our ability to conduct other clinical trials and to obtain the associated option, milestone and contingent royalty payments under our agreement with Auxilium.**

Although we currently have our own clinical material, which may be sufficient to conduct clinical trials contemplated for cellulite and lipoma, if this clinical material is damaged or otherwise becomes unusable, then we may have insufficient clinical material to conduct other clinical trials. Although Auxilium has agreed to provide us with additional clinical material, there is no guaranty that Auxilium will do so in a timely manner, if at all. Consequently, the lack of availability of clinical material may limit our ability to obtain the option, milestone and contingent royalty payments under the Auxilium Agreement.

***Risks Related to our Agreements with Auxilium and DFB*****Our ability to conduct clinical trials and develop products for dermal formulations for topical or injectable administration of collagenase is limited by the agreements we have signed with Auxilium and DFB.**

Under our agreements with Auxilium and DFB, we have sold, licensed, or granted options to certain of our rights to conduct clinical trials and develop products for dermal formulations for topical or injectable administration of collagenase. Under the terms of the Auxilium Agreement and our agreement with DFB, we have agreed to certain non-competition provisions, which limit our clinical development activities.

***Risks Related to our Limited Financial and Employee Resources*****Our limited financial and employee resources following our sale of the topical collagenase business to DFB limit our ability to develop other indications or products.**

Following the sale of our topical business to DFB, we retained only six employees (and with the death of Edwin H. Wegman and termination of Lawrence Dobroff, we now have only four employees) and the sources of revenue described above. Because we have limited internal research capabilities, we are dependent upon independent investigators, pharmaceutical and biotechnology companies and other researchers to conduct clinical trials, sell or license products or technologies to us.

To end our reliance on Auxilium and DFB for the majority of our revenues, we would need to in-license, acquire, develop and market other products and product candidates. However, we may not be able to successfully identify any commercial products or product candidates to in-license, acquire or internally develop given our limited financial and employee resources. Moreover, negotiating and implementing an economically viable in-licensing arrangement or acquisition is a lengthy and complex process. Other companies, including those with substantially greater financial, marketing and sales resources, may, if we decide to follow this strategy, compete with us for the in-licensing or acquisition of product candidates and approved products. We may not be able to acquire or in-license the rights to additional product candidates and approved products on terms that we find acceptable, or at all. If we are unable to in-license or acquire additional commercial products or product candidates our ability to grow our business or increase our profits could be severely limited.

**Our revenues are difficult to forecast.**

Forecasting our revenues is complicated by the difficult task of predicting the level of success that Auxilium and DFB will have in meeting milestones, manufacturing, marketing and selling products or candidate products for which we would receive milestone, earn out or royalty payments.

**If we are unable to obtain option payments, milestone and contingent royalty payments from Auxilium or DFB or meet our needs for additional funding from other sources, we may be required to limit, scale back or cease our operations.**

Our negative cash flows from operations are expected to continue for at least the foreseeable future. Our business strategy contains elements that we will not be able to execute if we do not receive the anticipated option, milestone, royalty or earn out payments from Auxilium or DFB, or secure additional funding from other sources. Specifically, we may need to raise additional capital to:

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- acquire or in-license approved products or product candidates or technologies for development;
- fund our product development, including clinical trials relating to in-licensed technology and the remaining indications; and
- commercialize any resulting product candidates for which we receive regulatory approval.

We believe that our existing cash resources and interest on these funds will be sufficient to meet our anticipated operating requirements until at least the third quarter of 2008. Our future funding requirements will depend on many factors, including:

- DFB's ability to meet its payment obligations and to manufacture and commercialize topical collagenase products for which we would receive earn out payments;
- Auxilium's ability to manufacture and commercialize injectable product for which we would receive milestone and royalty payments;
- the scope, rate of progress, cost and results of our clinical trials on remaining Additional Indications, including lipomas and cellulite, and whether Auxilium exercises its option to acquire rights to them;
- the ability of the estate of our former chairman ("Chairman") and chief executive officer ("CEO") to repay his personal loans owed to the Company;
- the terms and timing of any future collaborative, licensing, co-promotion and other arrangements that we may establish; and
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights or defending against any other litigation.

These factors could result in variations from our currently projected operating requirements. If our existing resources are insufficient to satisfy our operating requirements, we may need to limit, scale back or cease operations or, in the alternative, borrow money. Given our operations and history, and the fact that we are not current in our SEC filings, we may not be able to borrow money on commercially reasonable terms, if at all. If we issue any equity or debt securities, the terms of such issuance may not be acceptable to us and would likely result in substantial dilution of our stockholders' investment. If we do not receive revenues from Auxilium or DFB, and are unable to secure additional financing, we may be required to cease operations.

**In order to finance and to secure the rights to conduct clinical trials for products we have licensed to Auxilium, we have granted to third-parties significant rights to share in royalty payments received by us, which are in the process of being clarified.**

To finance and secure the rights to conduct clinical trials for products we have licensed to Auxilium, we have granted to third parties certain rights to share in royalty payments received by us from Auxilium under the Auxilium Agreement. Consequently, we will be required to share a significant portion of the payments due from Auxilium under the Auxilium Agreement. We are in the process of clarifying the terms of certain of these agreements relating to Peyronie's disease and other indications.

***Risks Related to the Recent Death of our Former Chairman and CEO and the Age and Qualifications of the Members of Our Board of Directors***

**The recent death of our founder, Chairman and CEO on February 16, 2007 may limit our future growth and will cause us to continue to incur significant expenses for outside consulting services. His death may affect our ability to collect the personal debt owed to us by his estate and may thus create a financial hardship for us. His death may also affect the control of the Company.**

As a result of the illness and recent death of our founder, former Chairman and CEO, we have and will continue to incur significant expenses for outside consulting services to assist in business planning and execution of transactions.

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As of December 31, 2006 our former Chairman and CEO owed to us an aggregate amount of \$1,016,595. We entered into an amended and restated promissory note for this amount with our former Chairman and CEO, which is secured by a pledge of 100% of the shares of The S.J. Wegman Company. At December 31, 2006 the total number of shares pledged, 1,843,327, have a current market value of \$3.80 per share. His death has resulted in the immediate obligation of his estate to repay the loan. However, it is uncertain whether his estate will be able to repay the loan and, if so, on what terms. His death has also resulted in the dissolution of The S.J. Wegman Company, which triggered a default under the pledge agreement, giving our board of directors (the "Board" or "Board of Directors") the right to vote the pledged shares. However, it is unclear as a practical matter whether the Company will be able to foreclose on the pledge. Our inability to collect this debt may create a financial hardship for us. Given his beneficial ownership and/or control of a significant portion of the Company's stock, the death of our former Chairman and CEO may affect the control of the Company and the ability of the Company to obtain majority stockholder consent for certain actions. Thus, the death of our Chairman and CEO may adversely affect our stock price.

**Because of the age of some of our independent Board members, we may have to find replacements shortly, and due to our financial condition and Securities and Exchange Commission ("SEC") compliance history this may be difficult, which could impact our ability to be re-listed on another securities exchange. None of the independent Board members, who are also the members of the Audit Committee is a financial expert, as required by certain exchanges. With the election of Toby and Mark Wegman to the Board of Directors on June 25, 2007, we no longer have a majority of independent directors, as required by certain exchanges.**

The three independent members of our Board, who are also members of our audit committee (the "Audit Committee"), are sixty-six, sixty-six and eighty-six years old, respectively, as of December 31, 2006. Upon the retirement, incapacity or death of one or more of our independent Board members, we would have to find replacements in a short period of time. In addition, none of the members of the Audit Committee is a financial expert, which is required by certain exchanges. With the election of Toby and Mark Wegman to the Board of Directors on June 25, 2007, we no longer have a majority of independent Board directors, as required by certain exchanges. As of the date hereof, we are not current in our SEC filings. In light of our financial condition and SEC compliance history, it may be difficult to find any replacements for our independent Board members. If we fail to find replacements in a timely manner, or fail to recruit a financial expert for the Audit Committee or fail to recruit another independent Board member, it could negatively impact our ability to list on certain exchanges and our stock price.

***Risks Related to Regulatory Requirements***

**We are subject to numerous complex regulatory requirements and failure to comply with these regulations, or the cost of compliance with these regulations, may harm our business.**

Conducting clinical trials, and the testing, development and manufacturing and distribution of any product candidates are subject to regulation by numerous governmental authorities in the U.S. and other jurisdictions, if we desire to export the resulting products to such other jurisdictions. These regulations govern or affect the testing, manufacture, safety, labeling, storage, record-keeping, approval, distribution, advertising and promotion of any product candidates, as well as safe working conditions. Noncompliance with any applicable regulatory requirements can result in suspension or termination of any ongoing clinical trials of a product candidate or refusal of the government to approve product candidate for commercialization, criminal prosecution and fines, recall or seizure of products, total or partial suspension of production, prohibitions or limitations on the commercial sale of products or refusal to allow the entering into of federal and state supply contracts. The FDA and comparable governmental authorities have the authority to suspend or terminate any ongoing clinical trials of a product candidate or withdraw product approvals that have been previously granted. Currently, there is a substantial amount of congressional and administrative review of the FDA and the regulatory approval process for drug candidates in the U.S. As a result, there may be significant changes made to the regulatory approval process in the U.S. In addition, the regulatory requirements relating to the development, manufacturing, testing, promotion, marketing and distribution of products candidates may change in the U.S. Such changes may increase our costs and adversely affect our operations.

Additionally, failure to comply with or changes to the regulatory requirements that are applicable, or may become applicable, to us or any product candidates we may develop or obtain, may result in a variety of consequences, including the following:

- restrictions on our products or manufacturing processes;

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- warning letters;
- withdrawal of a product candidate from the market;
- voluntary or mandatory recall of a product candidate;
- fines against us;
- suspension or withdrawal of regulatory approvals for a product candidate;
- refusal to permit the import or export of our products;
- refusal to approve pending applications or supplements to approved applications that we submit;
- denial of permission to file an application or supplement in a jurisdiction;
- product seizure; and
- injunctions or the imposition of civil or criminal penalties against us.

**Our corporate compliance program cannot guarantee that we are in compliance with all potentially applicable laws and regulations and we have and will continue to incur costs relating to compliance with applicable laws and regulations.**

We are a relatively small company and we rely heavily on third parties and outside consultants to conduct many important functions. As a biopharmaceutical company, we are subject to a large body of legal and regulatory requirements. In addition, as a publicly traded company we are subject to significant regulations, including the Sarbanes-Oxley Act of 2002 (“SOX”), some of which have either only recently been adopted or are currently proposals subject to change. We cannot assure you that we are or will be in compliance with all potentially applicable laws and regulations. Failure to comply with all potentially applicable laws and regulations could lead to the imposition of fines, cause the value of our common stock to decline, impede our ability to raise capital or list our securities on certain securities exchanges. Although we are not required to issue an evaluation of our internal control over financial reporting under Section 404 of SOX until December 31, 2007 at the earliest, preparations for the issuance of this report will result in increased costs to us. If we are not able to issue an evaluation of our internal control over financial reporting as required or we or our independent registered public accounting firm determine that our internal control over financial reporting is not effective, this shortcoming could have an adverse effect on our business and financial results and the price of our common stock could be negatively affected. The new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees and as executive officers. We cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs to comply with these rules and regulations.

**We have, and will continue to incur, significant costs to bring the company current in its SEC filings and to list our stock on certain securities exchanges. In addition, there can be no assurance that we will be successful in such listing.**

We are not current in our SEC filings and we have incurred, and will continue to incur, significant costs to become current and to list our stock on certain securities exchanges. There are no assurances that we will be successful in bringing the company current or listing our stock. Continued failure to comply with SEC filing requirements could expose us to SEC enforcement action and makes it difficult to comply with the requirements relating to the solicitation of proxies from our stockholders.

#### *Risks Related to Growth and Employees*

**Our failure to successfully in-license or acquire additional technologies, product candidates or approved**

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We may decide to pursue other opportunities to in-license, acquire, develop and market additional products and product candidates so that we are not solely reliant on Auxilium and DFB sales for our revenues. Because we have limited internal research capabilities, we are dependent upon pharmaceutical and biotechnology companies and other researchers and independent investigators to sell or license products or technologies to us. The success of this strategy depends upon our ability to identify, select and acquire the right pharmaceutical product candidates, products and technologies.

We may not be able to successfully identify any commercial products or product candidates to in-license, acquire or internally develop. Moreover, negotiating and implementing an economically viable in-licensing arrangement or acquisition is a lengthy and complex process. Other companies, including those with substantially greater financial, marketing and sales resources, may compete with us for the in-licensing or acquisition of product candidates and approved products. We may not be able to acquire or in-license the rights to additional product candidates and approved products on terms that we find acceptable, or at all. If we are unable to in-license or acquire additional commercial products or product candidates we may be reliant solely on Auxilium and DFB sales for revenues. As a result, our ability to grow our business or increase our revenues could be severely limited.

**If we are able to develop any product candidates for Additional Indications of injectable collagenase, we may not be able to obtain option, milestone or royalty payments under the Auxilium Agreement, which could impair our ability to grow and could cause a decline in the price of our stock.**

The process of conducting clinical trials and developing product candidates involves a high degree of risk and may take several years. Product candidates that appear promising in the early phases of development may fail to reach the market for several reasons, including:

- clinical trials may show product candidates to be ineffective or not as effective as anticipated or to have harmful side effects or any unforeseen result;
- product candidates may fail to receive regulatory approvals required to bring the products to market;
- manufacturing costs, the inability to scale up to produce supplies for clinical trials or other factors may make our product candidates uneconomical; and
- the proprietary rights of others and their competing products and technologies may prevent product candidates from being effectively commercialized or to obtain exclusivity.

Success in preclinical and early clinical trials does not ensure that large-scale clinical trials will be successful. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. The length of time necessary to complete clinical trials and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly and may be difficult to predict. Currently, there is substantial congressional and administration review of the regulatory approval process for drug candidates in the U.S. Any changes to the U.S. regulatory approval process could significantly increase the timing or cost of regulatory approval for a product candidates making further development uneconomical or impossible. In addition, once Auxilium exercises its option with respect to any product candidate for any Additional Indications, further clinical trials, development, manufacturing, marketing and selling of such product is out of our control. Our interest is limited to receiving option, milestone and royalty payment, and the option in certain circumstances to manufacture according to particular specifications set by Auxilium.

Any product acquisition or development efforts also could result in large and immediate write-offs, incurrence of debt and contingent liabilities or amortization of expenses related to intangible assets, any of which could negatively impact our financial results.

**Adverse events or lack of efficacy in clinical trials may force us and/or our partners whom we are wholly dependent upon to stop development of our product candidates or prevent regulatory approval of our product candidates, which could materially harm our business.**

If we decide to proceed with conducting clinical trials with respect to any Additional Indications, adverse events or lack of efficacy may force us to stop development of our product candidates or prevent regulatory approval of our

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product candidates, which could materially harm our business. In addition, any adverse events or lack of efficacy may force Auxilium to stop development of the products we have licensed to them or prevent regulatory approval of such products, which could materially impair all or a material part of the future revenue we hope to receive from Auxilium.

**We face competition in our product development efforts from pharmaceutical and biotechnology companies, universities and other not-for-profit institutions.**

We face competition in our product development from entities that have substantially greater research and product development capabilities and greater financial, scientific, marketing and human resources. These entities include pharmaceutical and biotechnology companies, as well as universities and not-for-profit institutions. Our competitors may succeed in developing products or intellectual property earlier than we do, entering into successful collaborations before us, obtaining approvals from the FDA or other regulatory agencies for such products before us, or developing products that are more effective than those we could develop. The success of any one competitor in these or other respects will have a material adverse effect on our business, our ability to receive option payments from Auxilium or ability to generate revenues from third party arrangements with respect to the Additional Indications (to the extent that Auxilium does not exercise its option with respect to an Additional Indication).

**Because of the specialized nature of our business, the termination of relationships with key management, consulting and scientific personnel or the inability to recruit and retain additional personnel could prevent us from developing our technologies, conducting clinical trials and obtaining financing.**

The competition for qualified personnel in the biotechnology field is intense, and we rely heavily on our ability to attract and contract with qualified independent scientific and medical investigators, technical and managerial personnel. We face intense competition for qualified individuals from numerous pharmaceutical, biopharmaceutical and biotechnology companies, as well as academic and other research institutions. To the extent we are unable to attract and retain any of these individuals on favorable terms our business may be adversely affected.

**If product liability lawsuits are brought against us, we may incur substantial liabilities.**

We continue to have product liability exposure for topical product sold by us prior to the sale of our topical business to DFB. In addition, under the Auxilium Agreement, we are obligated to indemnify Auxilium and its affiliates for any harm or losses they suffered relating to any personal injury and other product liability resulting from our development, manufacture or commercialization of any injectable collagenase product. In addition, the clinical testing and, if approved, commercialization of our product candidates involves significant exposure to product liability claims. We have clinical trial and product liability insurance in the aggregate amount of \$3 million dollars that covers us and the clinical trials of our other product candidates that we believe is adequate in both scope and amount and has been placed with what we believe are reputable insurers. Our current and future coverage may, however, not be adequate to protect us from all the liabilities that we may incur. If losses from product liability claims exceed our insurance coverage, we may incur substantial liabilities that exceed our financial resources. Whether or not we were ultimately successful in product liability litigation, such litigation could consume substantial amounts of our financial and managerial resources, and might result in adverse publicity, all of which would impair our business. We may not be able to maintain our clinical trial and product liability insurance at an acceptable cost, if at all, and this insurance may not provide adequate coverage against potential claims or losses. If we are required to pay a product liability claim, we may not have sufficient financial resources and our business and results of operations may be harmed.

***Risks Related to Intellectual Property Rights***

**If we breach any of the agreements under which we license rights to products or technology from others, we could lose license rights that are critical to our business and our business could be harmed.**

We are a party to a number of license agreements by which we have acquired rights to use the intellectual property of third parties that are necessary for us to operate our business. If any of the parties terminate their agreements, whether by their terms or due to a breach by us, our right to use their intellectual property may negatively affect our licenses to Auxilium or DFB and, in turn, their obligation to make option, milestone, contingent royalty or other payments to us.

**We may have to engage in costly litigation to enforce our contractual rights or to enforce, or protect, our proprietary technology, or to defend challenges to our proprietary technology by our competitors, which may harm our business, results of operations, financial condition and cash flow.**

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In connection with the sale of our topical collagenase business to DFB, Auxilium has raised certain concerns regarding certain provisions of the Asset Purchase Agreement. We believe that these concerns have been or will be adequately addressed in amendments to the Asset Purchase Agreement entered into between us, ABC-NY and DFB, discussed above in the section titled “Licensing and Marketing Agreements—Topical Collagenase Agreement,” although we cannot be certain that Auxilium will agree.

In connection with the execution of our license agreements with the Research Foundation, Auxilium has raised certain concerns that the parties are discussing.

If we are unable to resolve our current or future issues with Auxilium or DFB then we could be sued by either or both parties. This litigation could be costly and materially adversely affect our business.

In addition, the pharmaceutical field is characterized by a large number of patent filings involving complex legal and factual questions, and, therefore, we cannot predict with certainty whether our patents will be enforceable. Competitors may have filed applications for or have been issued patents and may obtain additional patents and proprietary rights related to products or processes that compete with or are similar to our collagenase enzyme. We may not be aware of all of the patents potentially adverse to our interests that may have been issued to others. Litigation may be necessary to protect our proprietary rights, and we cannot be certain that we will have the required resources to pursue litigation or otherwise to protect our proprietary rights. If patent laws or the interpretation of patent laws change, our competitors may be able to develop and commercialize our discoveries.

Under the agreements executed with Auxilium and DFB, we are obligated to maintain and defend in all relevant jurisdictions, any patents or other intellectual property to which we granted a license to those parties. The cost of maintaining and defending such intellectual property could require significant capital, consume a substantial portion of our resources, and adversely affect our ability to continue to operate.

Competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement or unauthorized use, we may need to file infringement lawsuits, which are expensive and time-consuming.

**Our ability and the ability of our licensors, licensees and collaborators to develop and license products based on our patents may be impaired by the intellectual property of third parties.**

Auxilium’s, DFB’s and our commercial success in developing and manufacturing collagenase products based on our patents is dependent on these products not infringing the patents or proprietary rights of third parties. While we currently believe we, our licensees, licensors and collaborators have freedom to operate in the collagenase market, others may challenge that position in the future. There has been, and we believe that there will continue to be, significant litigation in the pharmaceutical industry regarding patent and other intellectual property rights.

Third parties could bring legal actions against us, our licensees, licensors or collaborators claiming damages and seeking to enjoin clinical testing, manufacturing and marketing of the affected product or products. A third party might request a court to rule that the patents we in-licensed or licensed to others, or those we may in-license in the future, are invalid or unenforceable. In such a case, even if the validity or enforceability of those patents were upheld, a court might hold that the third party’s actions do not infringe the patent we in-license or license to others thereby, in effect, limiting the scope of our patent rights and those of our licensees, licensors or collaborators. We are obligated by our agreements with Auxilium and DFB to indemnify them against any claims for infringement based on the use of our technology. If we become involved in any litigation, it could consume a substantial portion of our resources, regardless of the outcome of the litigation. If Auxilium or DFB becomes involved in such litigation, it could also consume a substantial portion of their resources, regardless of the outcome of the litigation, thereby jeopardizing their ability to commercialize candidate products and/or their ability to make option, milestone or royalty payments to us. If any of these actions are successful, in addition to any potential liability for damages, we could be required to obtain a license to permit ourselves, our licensees, licensors or our collaborators to conduct clinical trials, manufacture or market the affected product, in which case we may be required to pay substantial royalties or grant cross-licenses to our patents. However, there can be no assurance that any such license will be available on acceptable terms or at all. Ultimately, we, our licensees, licensors or collaborators could be prevented from commercializing a product, or forced to cease some aspect of their or our business, as a result of patent infringement claims, which could harm our business or right to receive option, milestone and contingent royalty payments.

[Table of Contents](#)***Risks Related to our Common Stock*****If securities analysts do not publish research or reports about our business or if they downgrade us or our or our sector, the price of our common stock could decline.**

The trading market for our common stock will depend in part on research and reports that industry or financial analysts publish about us or our business. We are not currently covered by any research analysts. Furthermore, if the analysts who cover us in the future downgrade us or the industry in which we operate or the stock of any of our competitors, the price of our common stock will probably decline.

**Future sales of our common stock could negatively affect our stock price.**

If our common stockholders sell substantial amounts of common stock in the public market, or the market perceives that such sales may occur, the market price of our common stock could decline. In addition, we may need to raise additional capital in the future to fund our operations. If we raise additional funds by issuing equity securities, our stock price may decline and our existing stockholders may experience dilution of their interests. Because we historically have not declared dividends, stockholders must rely on an increase in the stock price for any return on their investment in us.

**Our stock price is likely to be volatile, and the market price of our common stock may drop below the current price.**

Our stock price has, at times, been volatile. Currently, our stock is quoted on the Pink Sheets and is thinly traded.

Market prices for securities of pharmaceutical, biotechnology and specialty pharmaceutical companies have been particularly volatile. Some of the factors that may cause the market price of our common stock to fluctuate include:

- listing of our stock on a securities exchange or market;
- our failure to be current in our SEC filings;
- results of our clinical trials;
- failure of any product candidates we have licensed to Auxilium or sold to DFB to achieve commercial success;
- regulatory developments in the U.S. and foreign countries;
- developments or disputes concerning patents or other proprietary rights;
- litigation involving us or our general industry, or both;
- future sales of our common stock by the estate of our former Chairman and CEO or others;
- changes in the structure of healthcare payment systems, including developments in price control legislation;
- departure of key personnel;
- announcements of material events by those companies that are our competitors or perceived to be similar to us;
- changes in estimates of our financial results;
- investors' general perception of us; and
- general economic, industry and market conditions.

If any of these risks occurs, or continues to occur, it could cause our stock price to fall and may expose us to class

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action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

**We cannot assure you that our common stock will become listed on a securities exchange.**

We plan to seek listing of our common stock on the OTC Bulletin Board or the OTCQX as soon as reasonably practicable. We do not currently meet the listing standards of any other stock exchanges and cannot assure you when or if we will meeting such listing standards, or that we will be able to maintain a listing of our common stock if we do meet such listing standards.

**Our common stock may be considered “penny stock.”**

The SEC has adopted regulations that generally define “penny stock” to be an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. If the market price of our common stock is less than \$5.00 per share, then it will be considered “penny stock.” Brokers and dealers effecting transactions in “penny stock” must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase those types of securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect your ability to sell shares.

**We have no current plan to pay dividends on our common stock and investors may lose the entire amount of their investment.**

We have no current plans to pay dividends on our common stock. Therefore, investors will not receive any funds absent a sale of their shares. We cannot assure investors of a positive return on their investment when they sell their shares nor can we assure that investors will not lose the entire amount of their investment.

**Our outstanding stock options could have a possible dilutive effect.**

As of December 31, 2006, stock options to purchase 1,281,125 shares of common stock were outstanding. In addition, as of December 31, 2006 a total of 896,199 stock options were available for grant under our stock option plans. The issuance of common stock upon the exercise of these options could adversely affect the market price of the common stock or result in substantial dilution to our existing stockholders. Until the Company becomes current in its SEC filings, however, we will not be able to issue any freely tradable stock upon the exercise of these options. As a result of this, we may choose to extend the exercise period for certain expiring options, which could result in an unfavorable accounting charge.

**Provisions in our certificate of incorporation, bylaws and stockholder rights agreement may prevent or frustrate a change in control.**

Provisions of our certificate of incorporation, bylaws (as amended) and stockholder rights agreement may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions:

- provide for a classified board of directors;
- give our Board the ability to designate the terms of and issue new series of preferred stock without stockholder approval, commonly referred to as “blank check” preferred stock, with rights senior to those of our common stock;
- limit the ability of the stockholders to call special meetings; and
- impose advance notice requirements on stockholders concerning the election of directors and other proposals to be presented at stockholder meetings.

In addition, during May 2002, the Board implemented a rights agreement (commonly known as a “Poison Pill”) which effectively discourages or prevents acquisitions of more than 15% of our common stock in transactions (mergers, consolidations, tender offer, etc.) that have not been approved by our Board.

These provisions could make it more difficult for common stockholders to replace members of the Board. Because our Board is responsible for appointing the members of our management team, these provisions could in turn affect any

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attempt to replace the current management team.

**If our principal stockholders, executive officers and directors choose to act together, they may be able to control our operations, acting in their own best interests and not necessarily those of other stockholders.**

As of June 30, 2007, our executive officers, directors and their affiliates, in the aggregate, beneficially own shares representing approximately 50.7% of our common stock, although the death of Edwin H. Wegman, our former Chairman and CEO, may result in a change of control of certain of these shares. Beneficial ownership includes shares over which an individual or entity has investment or voting power and includes shares that could be issued upon the exercise of options within 60 days. As a result, if these stockholders were to choose to act together, they may be able to control all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these individuals, if they chose to act together, could control the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control or impeding a merger or consolidation, takeover or other business combination that could be favorable to other stockholders.

This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders.

**Changes in the expensing of stock-based compensation will result in unfavorable accounting charges and may require us to change our compensation practices. Any change in our compensation practices may adversely affect our ability to attract and retain qualified scientific, technical and business personnel.**

In the past, we have relied on stock options to compensate existing directors, employees and attract new employees. The Financial Accounting Standards Board ("FASB") has announced new rules for recording expense for the fair value of stock options. As a result of these new rules, commencing on January 1, 2006, we will expense the fair value of stock options, thereby increasing our operating expenses and reported losses. Although we may continue to include various forms of equity in our compensation plans, if the extent to which we use forms of equity in our plans is reduced due to the negative effects on earnings, it may be difficult for us to attract and retain qualified scientific, technical and business personnel.

#### **SUBSEQUENT EVENTS**

On February 16, 2007, our Chairman and CEO, Edwin H. Wegman, died. Upon the death of Edwin H. Wegman his notes became the obligation of his estate. As of December 31, 2006, the aggregate principal amount of \$724,027, including compounded interest of \$596,965, owed to us by Edwin H. Wegman and the Wilbur Street Corporation ("WSC") were \$1,016,595 and \$304,397, respectively. We entered into an amended and restated promissory note for these amounts with our former Chairman and CEO, which is secured by a pledge of 100% of the shares of The S.J. Wegman Company. His death has resulted in the immediate obligation of his estate to repay the loans. However, it is uncertain whether his estate will be able to repay the loans and, if so, on what terms. His death has also resulted in the dissolution of The S.J. Wegman Company, which triggered a default under the pledge agreement, giving our Board the right to vote the pledged shares. However, it is unclear as a practical matter whether the Company will be able to foreclose on the pledge.

In March 2007, in full repayment of the \$304,397 loan owed to the Company by WSC, WSC offset \$304,397 in back rent due from the Company in repayment of the loan.

On May 7, 2007, Lawrence Dobroff, our Chief Financial Officer, was terminated and Tom Wegman assumed the role of the "Principal Accounting Officer" for purposes of making the certifications required by the Sarbanes-Oxley Act of 2002.

On June, 18, 2007, we entered into change of control agreements with our Directors and President providing certain benefits in the event of a change of control of the Company.

On June 25, 2007, we elected Toby and Mark Wegman to the Board of Directors of the Company.

In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAPFLEX for the treatment of Dupuytren's disease.

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In addition to the foregoing subsequent events, there have been a number of additional events that are described in the Form 8-Ks that have been filed by the Company since December 31, 2006 that are listed in Item 13, "Exhibits—Reports on Form 8-K."

**Item 2. DESCRIPTION OF PROPERTY.**

As of December 31, 2006 we leased one facility in Lynbrook, New York. The New York facility is our administrative headquarters and contains approximately 3,500 square feet of office space and 11,500 square feet of laboratory, production, and storage facilities. As part of the agreement with DFB, DFB has agreed to sublease a part of the New York facility for a period of one year, expiring on March 2, 2007 for an all inclusive monthly payment of \$15,500. DFB has extended its sublease of the New York facility until March 2, 2008 but may terminate the lease upon 90 days notice, which notice cannot be given prior to March 3, 2007. DFB will pay a monthly payment of \$16,500 during this extended lease period. We lease this facility from WSC, which, until the death of Edwin H. Wegman, our former Chairman and CEO, was an affiliate of Edwin H. Wegman. Edwin H. Wegman was the president of WSC. At the present time, we do not know who will own or control the shares of WSC.

Prior to the sale of the topical product to DFB, we also leased a building in Brievengat, Curacao, Netherlands Antilles from an unrelated company, wholly-owned by the Insular Territory of Curacao. The lease for the Curacao facility was transferred to DFB as part of the sale of the topical product.

**Item 3. LEGAL PROCEEDINGS.**

None.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

**PART II****Item 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS.*****Market Information***

Our common stock currently trades under the stock symbol BSTC:PK. The table below sets forth the high and low closing sale prices for our common stock for each of the quarterly periods in 2006 and 2005 as reported by and as quoted in the Over-The-Counter Pink Sheets,:

| <b>2006</b>    | <b><u>HIGH</u></b> | <b><u>LOW</u></b> |
|----------------|--------------------|-------------------|
| Fourth Quarter | \$4.55             | \$1.15            |
| Third Quarter  | \$1.42             | \$0.72            |
| Second Quarter | \$1.75             | \$0.80            |
| First Quarter  | \$1.65             | \$0.75            |
| <b>2005</b>    | <b><u>HIGH</u></b> | <b><u>LOW</u></b> |
| Fourth Quarter | \$1.65             | \$0.80            |
| Third Quarter  | \$2.00             | \$1.01            |
| Second Quarter | \$1.37             | \$1.00            |
| First Quarter  | \$1.60             | \$1.00            |

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

[Table of Contents](#)**Holdings**

As of July 31, 2007, to the best of our knowledge, there were approximately 750 beneficial stockholders of our common stock.

**Dividends**

It is our current policy to retain earnings to finance the growth and development of our business and not pay dividends. Any payment of cash dividends in the future will depend upon our financial condition, capital requirements and earnings as well as such other factors as the Board may deem relevant.

**Transfer Agent**

Our common shares are issued in registered form. The registrar and transfer agent for our common shares is OTC Corporate Transfer Service Co., 52 Maple Run Drive, Jericho, NY 11753 (Telephone: 516-932-2080; Facsimile: 516-932-2078; Website [www.otccorporatetransferservice.com](http://www.otccorporatetransferservice.com)). We have no other exchangeable securities.

**Equity Compensation Plan Information.**

The following table provides information as of December 31, 2006 with respect to the shares of our common stock that may be issued under our existing equity compensation plans:

| <b>Plan category</b>  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights<br/>(a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights<br/>(b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br/>(c)</b> |
|---|--|--|--|
| Equity compensation plans approved by security holders <sup>(1)</sup> | 1,291,125  | \$1.19   | 896,199  |

(1) Please see Note 12, "Stockholders' Equity," of the notes to the consolidated financial statements for a description of the material features of each of our plans.

**Recent Sales of Unregistered Securities**

The Company engaged in multiple issuances of unregistered securities, as described below.

**Treasury Shares Issued**

We issued 127,419 shares of treasury stock to our employees in January 2006 of which 4,400 were subsequently cancelled. These securities were incorrectly issued without an appropriate restrictive legend.

In March 2006, in connection with the sale of our topical collagenase business to DFB, we repurchased all of the outstanding shares of ABC-NY and ABC-Curacao held by minority shareholders in exchange for a combination of approximately \$83,000 in cash and 102,574 restricted shares of our treasury stock.

**Stock Issued in Lieu of Services**

In May 2006, the Company issued 7,500 shares to an individual performing services for the former Chairman and CEO in addition to the Company at a total fair market value of \$7,875 at the date of issuance.

[Table of Contents](#)**Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

This annual report on Form 10-KSB (the "Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or licensing or collaborative arrangements, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue" or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained in this report are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth above, and for the reasons described elsewhere in this report. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

**Overview**

We are a biopharmaceutical company that has been involved in the development of injectable collagenase for multiple indications. We have a development and license agreement with Auxilium Pharmaceuticals, Inc. ("Auxilium") for injectable collagenase (which Auxilium has named "XIAFLEX<sup>TM</sup>" (formerly known as "AA4500")) for clinical indications in Dupuytren's disease, Peyronie's disease and frozen shoulder (*adhesive capsulitis*), and Auxilium has an option to acquire additional indications that we may pursue, including cellulite and lipomas. As a result of our research and development efforts we have also developed an injectable collagenase for treatment of various diseases or indications. Injectable collagenase has completed a pivotal clinical trial for the treatment of Dupuytren's disease. A Phase III clinical trial had been initiated and was put on clinical hold. In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAFLEX for the treatment of Dupuytren's disease.

Prior to March 2006, we were a party to an exclusive license agreement with Abbott Laboratories, Inc. and its subsidiaries ("Abbott") for the production of the API for topical collagenase. In March 2006 we sold our topical collagenase business to DFB Biotech, Inc. and its affiliates ("DFB"), including all rights to the exclusive license agreement and we were released of any obligations thereunder.

In addition, DFB acquired all of the issued and outstanding shares of ABC-Curacao, pursuant to an asset purchase agreement between us, DFB and ABC-NY (the "Asset Purchase Agreement"). ABC-Curacao manufactured the API Enzyme, which in its final formulation was marketed by Abbott. The operating results of ABC-Curacao and certain operations of ABC-NY have been classified as discontinued operations in the Consolidated Financial Statements for all periods presented.

At the closing of the Asset Purchase Agreement, DFB (i) acquired from us certain inventory and manufacturing equipment used in the topical collagenase business, (ii) was granted a perpetual royalty free license to use, solely in connection with the topical collagenase business, certain intangible assets retained by us and (iii) was granted the right (for a limited period of time) to use, solely in connection with the topical collagenase business, certain tangible assets retained by us. As part of the sale, we transferred to DFB our FDA manufacturing license.

As consideration for the purchased assets including our API inventory we received \$8 million in cash, DFB's assumption of certain liabilities, and the right to receive earn out payments in the future based on sales of certain products. In connection with the closing of the Asset Purchase Agreement, we agreed to provide certain technical assistance and certain transition services to DFB in consideration of fees and costs totaling over \$1.4 million. At the closing, DFB paid to us a partial payment of \$400,000 in respect of the technical assistance to be provided by us. The consulting obligations generally expire during March 2011.

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On January 8, 2007, we entered into an Amendment to the Asset Purchase Agreement with ABC-NY and DFB (the "Amendment") in order to clarify the intent of the parties with respect to certain provisions of the Asset Purchase Agreement and the parties are discussing further clarifications to address certain concerns raised by Auxilium.

**Outlook**

We foresee the potential to generate income from limited sources in the next several years. Under the terms of our agreement with DFB, we are scheduled to receive certain contractual anniversary payments and, if DFB exceeds a certain sales target, we would be entitled to an earn out on sales. Under the terms of our agreement with Auxilium, we may receive milestone payments upon their achieving certain regulatory progress and if Auxilium elects to pursue additional indications for injectable collagenase ("Additional Indications"). In addition, as a result of our transaction with DFB in the first quarter of 2006, our costs have been significantly reduced due mainly to the reduction in our workforce. Based on our current business model, we expect to have adequate cash reserves until the third quarter of 2008. In the longer term, a significant portion of our revenues are tied directly to the success of Auxilium in commercializing XIAFLEX.

**Significant Risks**

In recent history we have had operating losses and may not achieve sustained profitability. As of December 31, 2006, we had an accumulated deficit from continuing operations of \$5,350,238.

We are dependent to a significant extent on third parties, and our principal licensee, Auxilium, may not be able to successfully develop products, obtain required regulatory approvals, manufacture products at an acceptable cost, in a timely manner and with appropriate quality, or successfully market products or maintain desired margins for products sold, and as a result we may not achieve sustained profitable operations.

**Critical Accounting Policies, Estimates and Assumptions**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates. While our significant accounting policies are described in more detail in the notes to our consolidated financial statements, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue Recognition.** We recognize revenues from product sales when there is persuasive evidence that an arrangement exists, title passes, the price is fixed and determinable, and payment is reasonably assured. We currently recognize revenues resulting from the licensing and use of our technology and from services we sometimes perform in connection with the licensed technology.

We enter into product development licenses, and collaboration agreements that may contain multiple elements, such as upfront license fees, and milestones related to the achievement of particular stages in product development and royalties. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple-element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the aggregate contract value should be allocated among the deliverable elements and when to recognize revenue for each element.

We recognize revenue for delivered elements only when the fair values of undelivered elements are known, when the associated earnings process is complete and, to the extent the milestone amount relates to our performance obligation, when our licensee confirms that we have met the requirements under the terms of the agreement, and when payment is reasonably assured. Changes in the allocation of the contract value between various deliverable elements might impact the timing of revenue recognition, but in any event, would not change the total revenue recognized on the contract. For example, nonrefundable upfront product license fees, for product candidates where we are providing continuing services related to product development, are deferred and recognized as revenue over the development period.

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Milestones, in the form of additional license fees, typically represent nonrefundable payments to be received in conjunction with the achievement of a specific event identified in the contract, such as completion of specified clinical development activities and/or regulatory submissions and/or approvals. We believe that a milestone represents the culmination of a distinct earnings process when it is not associated with ongoing research, development or other performance on our part. We recognize such milestones as revenue when they become due and payment is reasonably assured. When a milestone does not represent the culmination of a distinct earnings process, we recognize revenue in a manner similar to that of an upfront product license fee.

***Consulting and Technical Assistance Services***

We recognize revenues from a consulting and technical assistance contract primarily as a result of our agreement with DFB. Consulting revenues are recognized ratably over the term of the contract. The consulting obligations to DFB generally expire during March 2011.

***Inventory and Warranty Provisions.*** Our inventories are stated at the lower of cost or realizable market value. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements and compare that with the current inventory levels. In March 2006 we sold our topical collagenase business to DFB, including certain product inventory. As of a result of this sale our product inventory as of December 31, 2006 is zero.

***Stock Based Compensation.*** On January 1, 2006, we began accounting for employee stock-based compensation in accordance with SFAS 123(R). Under the provisions of SFAS 123(R), we estimate the fair value of our employee stock awards at the date of grant using the Black-Scholes option-pricing model, which requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates of the expected volatility of the market price of our stock and the expected term of the award. When establishing an estimate of the expected term of an award, we consider the vesting period for the award, our recent historical experience of employee stock option exercises (including forfeitures) and the expected volatility. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, our valuation assumptions used to value employee stock-based awards granted in future periods may change.

Further, SFAS 123(R) requires that employee stock-based compensation costs to be recognized over the requisite service period, or the vesting period, in a manner similar to all other forms of compensation paid to employees. Accordingly, in 2006 we recognized employee stock-based compensation as part of our operating expenses and allocated \$73,182 to research and development expenses and \$403,913 to general and administrative expenses.

We account for stock options granted to persons other than employees or directors at fair value using the Black-Scholes option-pricing model in accordance with EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Stock options granted to such persons and stock options that are modified and continue to vest when an employee has a change in employment status are subject to periodic revaluation over their vesting terms. We recognize the resulting stock-based compensation expense during the service period over which the non-employee provides services to us. The stock-based compensation expense related to non-employees for the year ended December 31, 2006 was \$43,290.

**RESULTS OF OPERATIONS****YEAR ENDED DECEMBER 31, 2006 COMPARED WITH YEAR ENDED DECEMBER 31, 2005*****Product Revenues, net***

Product revenues include the sales of the API Enzyme recognized at the time it is shipped to customers. From continuing operations, we had a small amount of revenue from the sale of collagenase for laboratory use. For the calendar years ended 2006 and 2005 product revenues were \$26,469 and \$95,546, respectively. This decrease of \$69,077 or 72% was primarily related to the amount of material required to perform testing by our customers.

***Licensing and Milestone Revenues***

We recognized as licensing and milestone revenue \$1,657,116 and \$1,266,641 in calendar years 2006 and 2005, respectively. This increase of \$390,475 or 31% was primarily due to a milestone payment received and recognized in 2006 partially offset by an extension of the development period in connection with the Auxilium Agreement.

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Under current accounting guidance, nonrefundable upfront license fees for product candidates where we are providing continuing services related to product development, are deferred and recognized as revenue over the development period. The remaining balance will be recognized over the respective development periods or when we determine that we have no ongoing performance obligations.

*Consulting Services*

We recognize revenues from a consulting and technical assistance contract primarily as a result of the Asset Purchase Agreement. Consulting revenues are recognized ratably over the term of the contract. The consulting obligations under the Asset Purchase Agreement generally expire during March 2011. For the calendar years 2006 and 2005 consulting revenue recognized was \$233,333 and none, respectively. This increase in consulting revenues was primarily the result of the timing of the Asset Purchase Agreement.

*Research and Development Activities*

Research and development expenses were \$1,217,306 and \$376,912 respectively, for the calendar years 2006 and 2005, an increase in calendar year 2006 of \$840,394 or 223%. The increase in research and development expenses was primarily due to research and development license expense, external development work and employee stock-based compensation expense, which were partially offset by a decrease in research and development personnel costs.

*General and Administrative Expenses*

General and administrative expenses were \$4,002,519 and \$2,429,732 for the calendar years 2006 and 2005, respectively, which was an increase of \$1,572,787 or 65%. The increase in general and administrative expenses was primarily due to employee stock-based compensation expense, legal and patent expenses and consulting expenses.

*Asset Impairment Charges*

Total asset impairment charges for the year ended December 31, 2006 were \$144,963 compared to zero in 2005. In connection with the DFB agreement, which was signed in March 2006, we determined that indicators existed that suggested our research and development equipment assets could be impaired. As such, we tested these assets for recoverability under SFAS 144, and the total of the estimated future cash flows directly related to the development of future product sales was less than the carrying value of the asset as of December 31, 2006. Therefore, we determined that the carrying value of our research and development equipment assets was impaired, and we used a present value technique to calculate the fair market value of the asset. As a result, we recognized an impairment charge totaling approximately \$144,963, which represented the difference between the carrying value of the asset and the present value of estimated future cash flows as of December 31, 2006. After recognizing the impairment charge, the book value of these assets as of December 31, 2006 was zero.

*Other Income and expense, net*

Other income, net, for the calendar year 2006 was \$87,076 compared to other expense, net of \$177,877 for the 2005 period. Other income, net during for the 2006 period was primarily due to interest earned on our investments partially offset by accrued penalties and interest associated with out delinquent tax filings and . Other expense, net for the 2005 period was primarily due to interest expense related to the amortization of the 12% senior secured convertible note borrowed in June 2003 ("2003 Convertible Note"), which had been outstanding during six months of 2005, a \$100,000 promissory note, bearing interest at 8%, to a individual lender and the interest associated the remaining balance of a loan from Korpodeko.

*Income Taxes*

The expense for income taxes was \$147,480 and \$6,118 for the calendar years 2006 and 2005, respectively. In addition, we accrued estimated federal and state tax penalties and interest of \$70,399 and \$60,409, respectively, due to our delinquent tax filings.

[Table of Contents](#)**Liquidity and Capital Resources**

To date, we have financed our operations primarily through product sales, debt instruments and licensing revenues under agreements with third parties. At December 31, 2006 and 2005 we had cash and cash equivalents in the aggregate of \$4,367,178 and \$539,380, respectively.

*Continuing Operations*

Net cash used in operating activities in the 2006 period was \$3,884,463 as compared to net cash provided by operating activities in the 2005 period of \$927,126. In the 2006 period, net cash used in operating activities was primarily due to increases in costs related to our general and administrative operations, research and development expenses, and a decrease in deferred revenue related to the recognition of licensing fees for payments received in prior annual periods under the Auxilium Agreement partially offset by non-cash stock compensation expense. In 2005, the changes in net cash provided by operating activities were primary due to lower general and administrative and research and development expenses and the timing of payments received under the Auxilium Agreement as compared to 2006.

Net cash provided by investing activities in the 2006 was \$11,933 as compared to net cash used in investing activities of \$17,959 in 2005 period. Net cash provided by investing activities in the 2006 was the result of the sale of specific research equipment. Net cash used in investing activities in the 2005 period was primarily the result of capital expenditures.

Net cash used in financing activities in the 2006 was \$153,300 as compared to the 2005 period of \$1,604,365. Net cash used in the 2006 period was primarily related to a cash payment for shares we purchased from our minority shareholders to affect the DFB transaction and the repayment of certain third party short-term loans. In the 2005 period net cash used in financing activities was primarily due to the repayment of \$1,575,000 in connection with the 2003 Convertible Note and a \$100,000 promissory note from an individual lender, which was partially offset by deferred loan costs associated with the 2003 Convertible Note.

*Discontinued Operations*

Cash flow changes from discontinued operations are primarily due to the operating results of ABC-Curacao and certain operations of ABC-NY, which have been classified as discontinued operations.

Net cash provided by operating activities from discontinued operations in the 2006 period was \$1,806,879 as compared to net cash used in operating activities from discontinued operations in the 2005 period of \$361,863.

Net cash provided by investing activities from discontinued operations in the 2006 and 2005 periods were \$6,046,749 and \$432,591, respectively.

Net cash used in financing activities from discontinued operations in the 2006 and 2005 periods were zero and \$182,000.

**Item 7. FINANCIAL STATEMENTS.**

For the discussion of Item 7, "Financial Statements" please see the Consolidated Financial Statements, beginning on page F-1 of this Report.

**Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Our Audit Committee engaged Tabriztchi & Co., CPA, P.C. (formerly Bloom & Co., LLP) ("Tabriztchi & Co.") on January 6, 2005 as our Independent Registered Public Accounting Firm to audit our financial statements after BDO Seidman, LLP ("BDO") was dismissed on January 6, 2005 as our Independent Registered Public Accounting Firm.

During the years ended December 31, 2006 and December 31, 2005, neither we nor anyone on our behalf consulted with Tabriztchi & Co. regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements,

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nor has Tabriztchi & Co. provided to us a written report or oral advice regarding such principles or audit opinion or any matter that was the subject of a disagreement or reportable events set forth in Item 304(a)(iv) and (v), respectively, of Regulation S-K with our former accountant.

**Item 8A. CONTROLS AND PROCEDURES.**

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that (i) our controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure, and (ii) our controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in this Report has been recorded, processed, summarized and reported as of the end of the period covered by this Report.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during the fiscal period that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

A material weakness is a control deficiency, or combination of control deficiencies (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 2), that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. Management has not identified any material weaknesses in our internal control over financial reporting as of December 31, 2006. Management has, however, identified the following non-material weakness: the Company has not filed either its federal or state corporate tax returns since the calendar year 2002 but has paid the estimated tax due New York state. However, due to the existence of net operating loss and tax credit carry forwards, the Company believes that no tax is due for those years. The Company plans to file these returns and to pay any associated fines therewith.

Our management, with oversight from our Audit Committee, has dedicated additional resources and engaged external consultants to support management in its efforts to improve our control environment. We have replaced both internal staff and external consultants with experienced external consultants. As we have only four employees as of the date of this filing, we will be utilizing external consultants unless and until the business model allows for full time accounting staff to support these functions. These ongoing efforts are focused on implementing process changes to strengthen our internal control and monitoring activities.

Notwithstanding the above mentioned weakness, we believe that the consolidated financial statements included in this Report fairly present our consolidated financial position as of, and the consolidated results of operations for the years ended December 31, 2006 and 2005.

**PART III****Item 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

Information required by Item 9 of Part III is included in our Proxy Statement relating to our 2007 Annual Meeting of Stockholders, and is incorporated herein by reference.

**Item 10. EXECUTIVE COMPENSATION.**

Information required by Item 10 of Part III is included in our Proxy Statement relating to our 2007 Annual Meeting of Stockholders, and is incorporated herein by reference.

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**Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information required by Item 11 of Part III is included in our Proxy Statement relating to our 2007 Annual Meeting of Stockholders, and is incorporated herein by reference.

**Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Information required by Item 12 of Part III is included in our Proxy Statement relating to our 2007 Annual Meeting of Stockholders, and is incorporated herein by reference.

**Item 13. EXHIBITS.**

**(A) EXHIBITS**

Exhibits are listed in the Exhibit Index.

**(B) REPORTS ON FORM 8-K:**

March 9, 2006  
July 28, 2006  
September 12, 2006  
September 19, 2006  
November 28, 2006  
December 8, 2006  
January 12, 2007  
January 24, 2007  
January 25, 2007  
February 7, 2007  
February 26, 2007  
March 7, 2007  
May 11, 2007  
June 22, 2007  
June 26, 2007

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

During March 2007, the Audit Committee reappointed Tabriztchi & Co. as its principal independent registered accountants for calendar year 2006. During May 2005 Tabriztchi & Co. was reappointed for calendar year 2005.

***Audit Fees***

The aggregate audit fees billed for professional services rendered by our principal accountants for the audit of our annual consolidated financial statements included in this Report and review of our quarterly consolidated financial statements included in our Reports on Form 10-QSB were \$60,651 and \$58,601, for the calendar years ended December 31, 2006 and December 31, 2005, respectively.

***Audit Related Fees***

For the calendar years ended December 31, 2006 and December 31, 2005 there were no aggregate fees billed for assurance and related services by Tabriztchi & Co. relating to the performance of the audit of our consolidated financial statements, which are not reported under the caption "Audit Fees" above.

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***Tax Fees***

For the calendar years ended December 31, 2006 and December 31, 2005 there were no aggregate fees billed for professional services rendered by our principal accountants for tax compliance, tax advice and tax planning.

***All Other Fees***

We have not incurred any fees for services rendered by our principal accounting firm, other than the fees described above.

***Pre-Approval Policies and Procedures***

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by the Company's independent registered public accounting firm. This policy generally provides that the Company will not engage its independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to the Company by its independent registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

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ENDED DECEMBER 31, 2006**

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AICPARegistered with  
PCAOB**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors  
And Stockholders of  
BioSpecifics Technologies Corp.

We have audited the accompanying consolidated balance sheet of BioSpecifics Technologies Corp. as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial statements of BioSpecifics Technologies Corp. as of December 31, 2006, and the consolidated results of operations, changes in stockholders' equity and cash flows for each of the two years in the period then ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ Tabriztchi & Co., CPA, P.C.

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Tabriztchi & Co., CPA, P.C.  
Garden City, NY  
September 21, 2007

7 Twelfth Street Garden City, NY 11530 • Tel: 516-746-4200 • Fax: 516-746-7900  
Email:Info@Tabrizcpa.com • www.Tabrizcpa.com

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**BioSpecifics Technologies Corp. and Subsidiaries**  
**Consolidated Balance Sheets**  
**Years Ended December 31,**

|  | <b>2006</b>         |
|--|---------------------|
| <b>Assets</b>  |                     |
| <b>Current assets:</b>   |                     |
| Cash and cash equivalents  | \$ 4,367,178        |
| Accounts receivable, net   | 46,823              |
| Prepaid expenses and other current assets  | 48,714              |
| <b>Total current assets</b>  | <b>4,462,715</b>    |
| Property, plant and equipment, net   | 67,823              |
| <b>Total assets</b>  | <b>4,530,538</b>    |
| <b>Liabilities and Stockholders' Equity</b>  |                     |
| Current liabilities:   |                     |
| Accounts payable and accrued expenses  | 2,019,296           |
| Deferred revenue   | 1,323,784           |
| Accrued tax and other accrued liabilities of discontinued operations   | 399,176             |
| <b>Total current liabilities</b>   | <b>3,742,256</b>    |
| Deferred revenue - license fees  | 4,057,081           |
| <b>Stockholders' equity (deficit):</b>   |                     |
| Series A Preferred stock, \$.50 par value, 700,000 shares authorized; none outstanding   | -                   |
| Common stock, \$.001 par value; 10,000,000 shares authorized; 5,365,816 and 5,362,716 shares issued and outstanding at December 31, 2006 and 2005 respectively | 5,366               |
| Additional paid-in capital   | 3,772,345           |
| Retained earnings (deficit)  | (5,628,526)         |
| Treasury stock, 131,267 shares at cost as of December 31, 2006 and 346,561 shares at cost as of December 31, 2005  | (693,957)           |
| Notes receivable from former Chairman and CEO and other related party  | (724,027)           |
| <b>Total stockholders' equity (deficit)</b>  | <b>(3,268,799)</b>  |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 4,530,538</b> |

See accompanying notes to consolidated financial statements

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**BioSpecifics Technologies Corp. and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended December 31,**

|  | <u>2006</u>                | <u>2005</u>                  |
|--|----------------------------|------------------------------|
| <b>Revenues:</b>   |                            |                              |
| Net sales  | \$ 26,469                  | \$ 95,546                    |
| Licensing fees   | 1,657,116                  | 1,266,641                    |
| Consulting fees  | 233,333                    | -                            |
|  | <u>1,916,918</u>           | <u>1,362,187</u>             |
| <b>Costs and expenses:</b>   |                            |                              |
| Research and development   | 1,217,306                  | 376,912                      |
| General and administrative   | 4,002,519                  | 2,429,732                    |
|  | <u>5,219,825</u>           | <u>2,806,644</u>             |
| <b>Operating loss from continuing operations</b>                         | <b><u>(3,302,907)</u></b>  | <b><u>(1,444,457)</u></b>    |
| <b>Other income (expense):</b>   |                            |                              |
| Interest income  | 220,608                    | 2,406                        |
| Interest expense   | (63,133)                   | (177,764)                    |
| Other expense  | (70,399)                   | (2,519)                      |
|  | <u>87,076</u>              | <u>(177,877)</u>             |
| Loss from continuing operations before benefit (expense) for income tax  | (3,215,831)                | (1,622,334)                  |
| Income tax benefit (expense)   | (147,480)                  | (6,118)                      |
| <b>Net loss from continuing operations</b>                               | <b><u>(3,363,311)</u></b>  | <b><u>(1,628,452)</u></b>    |
| <b>Discontinued Operations:</b>  |                            |                              |
| Net gain (loss) from discontinued operations                             | (988,696)                  | 331,706                      |
| Net gain on the sale of assets   | 3,601,071                  | -                            |
|  | <u>2,612,375</u>           | <u>331,706</u>               |
| <b>Net loss</b>  | <b><u>\$ (750,936)</u></b> | <b><u>\$ (1,296,746)</u></b> |
| <b>Basic net income (loss) per share:</b>                                |                            |                              |
| From continuing operations   | \$ (0.64)                  | \$ (0.33)                    |
| From discontinued operations   | <u>\$ 0.50</u>             | <u>\$ 0.07</u>               |
| <b>Basic net loss per share</b>  | <b><u>\$ (0.14)</u></b>    | <b><u>\$ (0.26)</u></b>      |
| <b>Diluted net income (loss) per share:</b>                              |                            |                              |
| From continuing operations   | \$ (0.64)                  | \$ (0.33)                    |
| From discontinued operations   | <u>\$ 0.50</u>             | <u>\$ 0.07</u>               |
| <b>Diluted net loss per share:</b>                                       | <b><u>\$ (0.14)</u></b>    | <b><u>\$ (0.26)</u></b>      |
| <b>Shares used in computation of basic net income (loss) per share</b>   | <b><u>5,219,908</u></b>    | <b><u>4,989,538</u></b>      |
| <b>Shares used in computation of diluted net income (loss) per share</b> | <b><u>5,219,908</u></b>    | <b><u>4,989,878</u></b>      |

See accompanying notes to consolidated financial statements

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**BioSpecifics Technologies Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31,**

|   | <b>2006</b>        | <b>2005</b>        |
|---|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>  |                    |                    |
| Net loss  | \$ (3,363,311)     | \$ (1,628,452)     |
| Adjustments to reconcile net loss to net cash provided by operating activities:       |                    |                    |
| Depreciation and amortization   | 249,745            | 126,298            |
| Amortization of loan discount   | -                  | 70,137             |
| Issuance of treasury stock as employee bonus  | -                  | 22,969             |
| Issuance of restricted stock for services   | 7,875              | 16,125             |
| Stock-based compensation expense  | 520,386            | -                  |
| Changes in operating assets and liabilities:  |                    |                    |
| Accounts receivable   | (26,566)           | (10,477)           |
| Prepaid expenses and other current assets   | 54,506             | (809)              |
| Accounts payable and accrued expenses   | 144,951            | (70,874)           |
| Deferred revenue  | (1,465,449)        | 2,233,359          |
| Employee stock bonus liability  | (6,600)            | 168,900            |
| <b>Net cash provided by (used in) operating activities from continuing operations</b> | <b>(3,884,463)</b> | <b>927,176</b>     |
| <b>Net cash provided by (used in) discontinued operations</b>                         | <b>1,806,879</b>   | <b>(361,863)</b>   |
| <b>Cash flows from investing activities:</b>  |                    |                    |
| Sale of property, plant and equipment   | 11,933             | -                  |
| Expenditures for property, plant and equipment  | -                  | (17,959)           |
| <b>Net cash provided by (used in) investing activities from continuing operations</b> | <b>11,933</b>      | <b>(17,959)</b>    |
| <b>Net cash provided by investing activities from discontinued operations</b>         | <b>6,046,749</b>   | <b>432,591</b>     |
| <b>Cash flows from financing activities:</b>  |                    |                    |
| Interest accrued on notes payable to related parties                                  | -                  | 2,055              |
| Decrease in short-term debt   | (69,894)           | (100,000)          |
| Increase (decrease) in senior secured convertible debt                                | -                  | (1,575,000)        |
| Payment to minority shareholders  | (83,406)           | -                  |
| Proceeds from issuance of common stock  | -                  | 13,763             |
| Deferred loan costs, net  | -                  | 54,817             |
| <b>Net cash used in financing activities from continuing operations</b>               | <b>(153,300)</b>   | <b>(1,604,365)</b> |
| <b>Net cash used in financing activities from discontinued operations</b>             | <b>-</b>           | <b>(182,000)</b>   |
| Increase (decrease) in cash and cash equivalents                                      | 3,827,798          | (806,420)          |
| Cash and cash equivalents at beginning of year  | 539,380            | 1,345,800          |
| Cash and cash equivalents at end of year  | <b>4,367,178</b>   | <b>539,380</b>     |
| <b>Supplemental disclosures of cash flow information:</b>                             |                    |                    |
| Cash paid during the year for:  |                    |                    |
| Interest  | \$ 12,608          | \$ 138,484         |

**Supplemental disclosures of non-cash transactions:**

For the year ended December 31, 2006, the Company reduced its liability to the employee under the stock bonus plan by issuing \$162,300 of common stock. The remaining balance of \$6,600 was cancelled.

In March 2006, we sold our topical collagenase business to DFB. In order to help effectuate the transaction with DFB, we repurchased all of the outstanding shares of ABC-NY and ABC-Curacao held by minority shareholders in exchange for a combination of approximately \$83,000 in cash and 102,574 restricted shares of our treasury stock.

See accompanying notes to consolidated financial statements

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**BioSpecifics Technologies Corp. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**

|  | Shares           | Amount          | Additional<br>Paid in<br>Capital | Retained<br>Earnings  |
|--|------------------|-----------------|----------------------------------|-----------------------|
| <b>Balances - December 31, 2004</b>                  | <b>5,333,841</b> | <b>\$ 5,334</b> | <b>\$ 4,250,508</b>              | <b>\$ (3,580,844)</b> |
| Shares for services                                  | 15,000           | 15              | 16,110                           | -                     |
| Exercise of stock options                            | 13,875           | 14              | 13,749                           | -                     |
| Issuance of treasury shares to employees             | -                | -               | (55,404)                         | -                     |
| Net loss   | -                | -               | -                                | (1,296,746)           |
| <b>Balances - December 31, 2005</b>                  | <b>5,362,716</b> | <b>\$ 5,363</b> | <b>\$ 4,224,963</b>              | <b>\$ (4,877,590)</b> |
| Shares for services                                  | 7,500            | 7               | 7,868                            | -                     |
| Cancellation of treasury shares                      | (4,400)          | (4)             | (6,596)                          | -                     |
| Stock compensation expense                           | -                | -               | 520,386                          | -                     |
| Issuance of treasury shares to minority shareholders | -                | -               | (546,887)                        | -                     |
| Issuance of treasury shares to employees             | -                | -               | (427,389)                        | -                     |
| Net loss   | -                | -               | -                                | (472,648)             |
| <b>Balances - December 31, 2006</b>                  | <b>5,365,816</b> | <b>\$ 5,366</b> | <b>\$ 3,772,345</b>              | <b>\$ (5,350,238)</b> |

|  | Treasury<br>Stock  | Due from<br>former<br>Chairman<br>and CEO | Shareholder<br>Equity<br>Total |
|--|--------------------|---|--------------------------------|
| <b>Balances - December 31, 2004</b>                  | <b>(1,911,237)</b> | <b>\$ (724,027)</b>                       | <b>\$ (1,960,265)</b>          |
| Shares for services                                  | -                  | -   | 16,125                         |
| Exercise of options                                  | -                  | -   | 13,763                         |
| Issuance of treasury shares to employees             | 78,373             | -   | 22,969                         |
| Net loss   | -                  | -   | (1,296,746)                    |
| <b>Balances - December 31, 2005</b>                  | <b>(1,832,864)</b> | <b>\$ (724,027)</b>                       | <b>\$ (3,204,154)</b>          |
| Shares for services                                  | -                  | -   | 7,875                          |
| Cancellation of treasury shares                      | -                  | -   | (6,600)                        |
| Stock compensation expense                           | -                  | -   | 520,386                        |
| Issuance of treasury shares to minority shareholders | 542,617            | -   | (4,270)                        |
| Issuance of treasury shares to employees             | 596,289            | -   | 168,900                        |
| Net loss   | -                  | -   | (472,648)                      |
| <b>Balances - December 31, 2006</b>                  | <b>(693,958)</b>   | <b>\$ (724,027)</b>                       | <b>\$ (2,990,511)</b>          |

See accompanying notes to consolidated financial statements

[Index to Financial Statements](#)**BIOSPECIFICS TECHNOLOGIES CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements  
December 31, 2006 and 2005****1. ORGANIZATION AND DESCRIPTION OF BUSINESS**

We are a biopharmaceutical company that has been involved in the development of injectable collagenase for multiple indications. We have a development and license agreement with Auxilium Pharmaceuticals, Inc. ("Auxilium") for injectable collagenase (which Auxilium has named "XIAFLEX<sup>TM</sup>" (formerly known as "AA4500")) for clinical indications in Dupuytren's disease, Peyronie's disease and frozen shoulder (*adhesive capsulitis*), and Auxilium has an option to acquire additional indications that we may pursue, including cellulite and lipomas. A Phase III clinical trial had been initiated and was put on clinical hold. In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAFLEX for the treatment of Dupuytren's disease.

**DISCONTINUED OPERATIONS**

Prior to March 2006, we were a party to an exclusive license agreement with Abbott Laboratories, Inc. and its subsidiaries ("Abbott"), for the production of the active pharmaceutical ingredient ("API" or "API Enzyme") for topical collagenase. In March 2006 we sold our topical collagenase business to DFB Biotech, Inc. and its affiliates ("DFB"), including all rights to the exclusive license agreement and we were released of any obligations thereunder.

In addition, DFB acquired all of the issued and outstanding shares of Advance Biofactures of Curacao, N.V. ("ABC-Curacao"), pursuant to the Asset Purchase Agreement between us, DFB and Advance Biofactures Corp., ("ABC-NY"). ABC-Curacao manufactured the API Enzyme, which in its final formulation was marketed by Abbott. The operating results of ABC-Curacao and certain operations of ABC-NY have been classified as discontinued operations in the Consolidated Financial Statements for all periods presented.

At the closing of the Asset Purchase Agreement, DFB (i) acquired from us certain inventory and manufacturing equipment used in the topical collagenase business, (ii) was granted a perpetual royalty free license to use, solely in connection with the topical collagenase business, certain intangible assets retained by us and (iii) was granted the right (for a limited period of time) to use, solely in connection with the topical collagenase business, certain tangible assets retained by us. As part of the sale, we transferred to DFB our FDA manufacturing license.

As consideration for the purchased assets including our API inventory we received \$8 million in cash, DFB's assumption of certain liabilities, and the right to receive earn out payments in the future based on sales of certain products. In connection with the closing of the Asset Purchase Agreement, we agreed to provide certain technical assistance and certain transition services to DFB in consideration of fees and costs totaling over \$1.4 million. At the closing, DFB paid to us a partial payment of \$400,000 in respect of the technical assistance to be provided by us. The consulting obligations generally expire during March 2011.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Principles of Consolidation**

The audited consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries, ABC-NY, ABC-Curacao, which was sold in March 2006, BioSpecifics of Curacao N.V. and Biota N.V. and its wholly-owned subsidiary, which were both liquidated in January 2007, and BioSpecifics Pharma GmbH ("Bio Pharma") of Germany, which was liquidated during December 2005, after elimination of inter-company accounts and transactions. Due to the sale of ABC-Curacao in March 2006 to DFB all accounts of this former subsidiary and certain operations of ABC-NY are classified as discontinued operations in all periods presented.

**Management Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires the use of management's estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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### **Cash Equivalents, Restricted Cash, Marketable Securities and Concentration of Credit Risk**

We consider all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. We place our cash, cash equivalents, marketable securities and investments with high-credit-quality financial institutions and in securities of the U.S. government, U.S. government agencies and U.S. corporations and, limit the amount of credit exposure in any one financial instrument.

### **Financial instruments and Concentration of Credit Risk**

The Company's financial instruments consist of cash and cash equivalents, account receivable, other receivables, and accounts payable. Unless otherwise stated the fair value of the financial instruments approximates their carrying value. The Company has not entered into any foreign exchange derivative contracts.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, accounts receivables and the other receivables. The company maintains its deposits principally in two banks. The amount of deposits subject to FDIC insurance is \$200,000.

### **Revenue Recognition**

We currently recognize revenues resulting from product sales, from licensing and use of our technology, and from other services we sometimes perform in connection with the licensed technology under the guidance of Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition."

If we determine that separate elements exist in a revenue arrangement under Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21), we recognize revenue for delivered elements only when the fair values of undelivered elements are known, when the associated earnings process is complete, when payment is reasonably assured and, to the extent the milestone amount relates to our performance obligation, when our customer confirms that we have met the requirements under the terms of the agreement.

Revenues, and their respective treatment for financial reporting purposes, are as follows:

#### ***Product Sales***

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, title passes, the price is fixed or determinable and collectibility is reasonably assured. No right of return exists for our products except in the case of damaged goods. To date, we have not experienced any significant returns of our products.

Net sales include the sales of the API Enzyme that are recognized at the time the product is shipped to customers for laboratory use.

#### ***License Fees***

We include revenue recognized from upfront licensing and milestone payments in "License Fees" in our consolidated statements of operations in this Report.

#### ***Upfront License Fees***

We generally recognize revenue from upfront fees when the agreement is signed, we have completed the earnings process and we have no ongoing performance obligation with respect to the arrangement. Nonrefundable upfront technology license fees for product candidates for which we are providing continuing services related to product development are deferred and recognized as revenue over the development period.

#### ***Milestones***

Milestones, in the form of additional license fees, typically represent nonrefundable payments to be received in conjunction with the achievement of a specific event identified in the contract, such as completion of specified development activities and/or regulatory submissions and/or approvals. We believe that a milestone represents the

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culmination of a distinct earnings process when it is not associated with ongoing research, development or other performance on our part. We recognize such milestones as revenue when they become due and collection is reasonably assured. When a milestone does not represent the culmination of a distinct earnings process, we recognize revenue in a manner similar to that of an upfront license fee.

The timing and amount of revenue that we recognize from licenses of technology, either from upfront fees or milestones where we are providing continuing services related to product development, is primarily dependent upon our estimates of the development period. We define the development period as the point from which research

activities commence up to regulatory approval of either our, or our partners' submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of our control. Should the FDA or other regulatory agencies require additional data or information, we would adjust our development period estimates accordingly. The impact on revenue of changes in our estimates and the timing thereof is recognized prospectively over the remaining estimated product development period.

**Allowance for Doubtful Accounts**

The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses which when realized have been within the range of management's expectations. Our policy is to write off bad debts as uncollectible when it is determined that they cannot be collected.

**Research and Development Expenses**

Our research and development ("R&D") costs are expensed as incurred. R&D includes, but is not limited to, internal costs, such as salaries and benefits, costs of materials, lab expense, facility costs and overhead. R&D also consists of third party costs, such as medical professional fees, contract manufacturing costs for material used in clinical trials, consulting fees and costs associated with clinical study R&D arrangements. We fund R&D at medical research institutions under agreements that are generally cancelable. All of these costs are charged to R&D as incurred, which may be measured by percentage of completion, contract milestones, patient enrollment, or the passage of time.

**Clinical Trial Expenses**

Our cost accruals for clinical trials are based on estimates of the services received and efforts expended pursuant to contracts with various clinical trial centers and clinical research organizations. In the normal course of business we contract with third parties to perform various clinical trial activities in the ongoing development of potential drugs. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrollment of patients, the completion of portions of the clinical trial, or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual cost of services received and efforts expended. As such, expenses related to each patient enrolled in a clinical trial are recognized ratably beginning upon entry into the trial and over the course of the patient's continued participation in the trial. In the event of early termination of a clinical trial, we accrue an amount based on our estimate of the remaining non-cancelable obligations associated with the winding down of the clinical trial. Our estimates and assumptions could differ significantly from the amounts that may actually be incurred.

**Stock Based Compensation**

The Company has three stock-based employee compensation plans in effect which are described more fully in Note 12. Effective January 1, 2006, we adopted SFAS No. 123, "Share-Based Payment (Revised 2004)" (SFAS 123(R)), which supersedes our previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations. SFAS 123(R) requires the recognition of compensation expense, using a fair-value based method, for costs related to all share-based awards including stock options and stock issued to our employees and directors under our stock plans. It requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service periods in our Consolidated Statements of Operations.

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We account for stock options granted to persons other than employees or directors at fair value using the Black-Scholes option-pricing model in accordance with EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Stock options granted to such persons and stock options that are modified and continue to vest when an employee has a change in employment status are subject to periodic revaluation over their vesting terms. We recognize the resulting stock-based compensation expense during the service period over which the non-employee provides services to us. The stock-based compensation expense related to non-employees for the years ended December 31, 2006 and 2005 was \$43,290 and zero, respectively.

The fair value for each option granted was estimated at the date of grant using the Black-Scholes option-pricing model, one of the allowable valuation methods under SFAS 123, as amended by SFAS 148 with the following assumptions:

| <u>Year Ended</u>                | <u>December 31,</u><br><u>2006</u> |
|----------------------------------|------------------------------------|
| Average risk free interest rates | 5.00%                              |
| Average expected life (in years) | 5.00                               |
| Volatility                       | 128%                               |

*Prior to the Adoption of SFAS 123(R)*

Prior to the adoption of SFAS 123(R), we accounted for stock-based awards under the intrinsic value method, which followed the recognition and measurement principles of APB 25 and related interpretations. Accordingly, we did not recognize compensation expense in our Consolidated Statements of Operations with respect to options awarded to our employees and directors with exercise prices greater than or equal to the fair value of the underlying common stock on the date of grant. However, we did recognize compensation expense in our Consolidated Statements of Operations with respect to the modification of certain employee stock option awards and the issuance of stock options to certain consultants.

The table below illustrates the effect on continuing operations net loss and continuing operations net loss per share if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosures," to our stock-based compensation plans prior to the adoption of SFAS 123(R). For purposes of this pro forma disclosure, the value of the options was estimated using the Black-Scholes option-pricing model. Disclosures for the year ended December 31, 2006 are not presented in the table below because stock-based compensation to employees and directors were accounted for under SFAS 123(R) effective January 1, 2006 and recognized in our Consolidated Statements of Operations.

| <u>Year Ended</u>   | <u>December 31, 2005</u> |
|---|--------------------------|
| Continuing operations net loss as reported  | \$ (1,628,452)           |
| Deduct: Total stock-based employee compensation expenses determined under fair value based method for all awards, net effect of minority interest | (105,587)                |
| Pro forma net loss  | \$ (1,734,039)           |
| Basic and diluted net loss per share:   |                          |
| As reported   |                          |
| Basic and diluted   | \$ (0.26)                |
| Pro forma   |                          |
| Basic and diluted   | \$ (0.35)                |

The fair value for each option granted was estimated at the date of grant using the Black-Scholes option-pricing model, one of the allowable valuation methods under SFAS 123, as amended by SFAS 148 with the following assumptions:

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| <u>Year Ended</u>                | <u>December 31,</u><br><u>2005</u> |
|----------------------------------|------------------------------------|
| Average risk free interest rates | 6.00%                              |
| Average expected life (in years) | 5.00                               |
| Volatility                       | 87%                                |

The weighted-average fair value of the options granted during the calendar years 2005 were estimated to be \$1.43 for options granted at market value.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation. Machinery and equipment, furniture and fixtures, and autos are depreciated on the straight-line basis over their estimated useful lives of 5 to 10 years. Leasehold improvements are being amortized over the lesser of their estimated useful lives or the life of the lease, which is approximately 8 to 10 years.

**Income Taxes**

The Company uses the liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes, when required, are provided on the basis of the difference between the financial reporting and income tax bases of assets and liabilities at the statutory rates enacted for future periods.

The expense for income taxes was \$147,480 for the calendar year 2006. In addition, we accrued estimated federal and state tax penalties and interest of \$70,399 and \$60,409, respectively, due to our delinquent tax filings.

**Recent Accounting Pronouncements**

In July 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which is effective for fiscal years beginning after December 15, 2006. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition. We will adopt the Interpretation on January 1, 2007. We are in the process of determining the impact of the Interpretation on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides a framework for measuring fair value in accordance with GAAP, and expands disclosures regarding fair value measurements and the effect on earnings. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are in the process of evaluating the impact SFAS No. 157 will have on our financial position and results of operations.

In September 2006, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB No. 108"), which provides interpretive guidance on the SEC's views regarding the process of quantifying the materiality of financial statement misstatements. SAB No. 108 is effective for years ending after November 15, 2006. The application of SAB No. 108 is not expected to have a material effect on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). SFAS 159 provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users' understanding of a reporting entity's choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities for which the reporting entity has chosen to measure at fair value. SFAS 159 is effective as of the beginning

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of a reporting entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. We are currently evaluating the effect, if any, the adoption of SFAS 159 will have on our financial condition, results of operations and cash flow.

#### 4. NET LOSS PER SHARE

In accordance with FASB Statement No. 128, "Earnings Per Share," basic net loss per share amount is computed using the weighted-average number of shares of common stock outstanding during the periods presented, while diluted net loss per share is computed using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of diluted earnings per share result from the assumed exercise of stock options and restricted stock, using the treasury stock method. For all periods presented, we incurred a net loss, and as such, we did not include the effect of outstanding stock options and outstanding restricted stock, or in the diluted net loss per share calculations, as their effect would be anti-dilutive.

|               | <b>December 31,</b> |                    |
|---------------|---------------------|--------------------|
|               | <b><u>2006</u></b>  | <b><u>2005</u></b> |
| Stock options | 1,281,125           | 963,887            |
| Warrants      | 10,000              | 10,000             |
| Total         | <u>1,291,125</u>    | <u>973,887</u>     |

In March 2003, the Company granted to an individual lender in consideration of a loan, warrants to purchase up to 10,000 common shares of the Company at \$1.18 per share, until March 11, 2008. We repaid the total outstanding balance in March 2005.

#### 5. MARKETABLE SECURITIES

In 2006, we did not have any marketable securities. We sold all marketable securities during 2005 realizing a loss of \$2,519 for the year ended December 31, 2005.

#### 6. INVENTORIES, NET

None.

#### 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment from continuing operations consist of:

|  | <b>December 31,</b> |                    |
|--|---------------------|--------------------|
|  | <b><u>2006</u></b>  | <b><u>2005</u></b> |
| Machinery and equipment                        | \$ 575,069          | \$ 666,286         |
| Furniture and fixtures                         | 91,928              | 91,928             |
| Leasehold improvements                         | <u>1,185,059</u>    | <u>1,185,059</u>   |
|  | 1,852,056           | 1,943,273          |
| Less accumulated depreciation and amortization | <u>(1,784,233)</u>  | <u>(1,534,488)</u> |
|  | <u>\$ 67,823</u>    | <u>\$ 408,785</u>  |

Total depreciation and amortization expense amounted to \$329,027 and \$126,298 for calendar years 2006 and 2005, respectively. Depreciation expense from continuing operations was \$249,745 for calendar year 2006.

[Index to Financial Statements](#)*Asset Impairment Charges*

Total asset impairment charges included in our general and administrative operating expenses for the year ended December 31, 2006 were \$144,963 compared to zero in 2005. In connection with the DFB agreement, which was signed in March 2006, we determined that indicators existed that suggested our research and development equipment assets could be impaired. As such, we tested these assets for recoverability under SFAS 144, and the total of the estimated future cash flows directly related to the development of future product sales was less than the carrying value of the asset as of December 31, 2006. Therefore, we determined that the carrying value of our research and development equipment assets was impaired, and we used a present value technique to calculate the fair market value of the asset. As a result, we recognized an impairment charge totaling approximately \$144,963, which represented the difference between the carrying value of the asset and the present value of estimated future cash flows as of December 31, 2006. After recognizing the impairment charge, the book value of these asset as of December 31, 2006 was zero.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of the following:

|   | <b>December 31,</b> |                     |
|---|---------------------|---------------------|
|   | <b>2006</b>         | <b>2005</b>         |
| Trade accounts payable and accrued expenses | \$ 1,751,014        | \$ 1,382,824        |
| Accrued legal and other professional fees   | 120,030             | 124,984             |
| Accrued payroll and related costs           | 148,252             | 366,537             |
|   | <u>\$ 2,019,296</u> | <u>\$ 1,874,345</u> |

**9. INCOME TAXES**

The expense for income taxes consist of the following:

| <b>Year ended</b> | <b>December 31,</b> |                   |
|-------------------|---------------------|-------------------|
|                   | <b>2006</b>         | <b>2005</b>       |
| <u>Current:</u>   |                     |                   |
| Federal           | \$ --               | \$ --             |
| State             | 147,480             | 6,118             |
|                   | <u>\$ 147,480</u>   | <u>\$ 6,118</u>   |
| <u>Deferred:</u>  |                     |                   |
| Federal           | --                  | --                |
| State             | --                  | --                |
|                   | <u>          </u>   | <u>          </u> |
| Total             | <u>\$ 147,480</u>   | <u>\$ 6,118</u>   |

The effective income tax rate of the Company differs from the federal statutory tax rate of 35% in calendar years 2006 and 2005 as a result of the effect of the following items:

| <b>Year ended</b>                                | <b>December 31,</b> |                 |
|--|---------------------|-----------------|
|  | <b>2006</b>         | <b>2005</b>     |
| State income taxes, net of federal tax benefit   | \$ 95,862           | \$ 3,971        |
| Computed tax expense (benefit) at statutory rate | (277,846)           | (453,861)       |
| Tax effect of foreign sourced income (loss)      | 142,043             | 150,495         |
| Non-deductible expenses                          | 317,698             | 9,191           |
| Inventory allowance                              | 37,007              | --              |
| Capital loss carry forward                       | 68,178              | --              |
| Orphan drug and other tax credits                | (82,895)            | (554,498)       |
| Loss carry back                                  | 225,528             | --              |
| Increase (decrease) in valuation allowance       | (429,713)           | 848,673         |
|  | <u>\$ 95,862</u>    | <u>\$ 3,971</u> |

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The components of the Company's deferred tax assets, pursuant to SFAS No. 109, are summarized as follows:

|  | <u>December 31,</u> |                    |
|--|---------------------|--------------------|
|  | <u>2006</u>         | <u>2005</u>        |
| Tax Credit carryforward                            | \$ 723,299          | \$ 640,404         |
| Deferred revenues                                  | 1,981,670           | 2,533,136          |
| Inventory  |                     | 37,007             |
| Accrued expenses                                   | 72,452              | 68,727             |
| Depreciation and amortization                      | 12,820              | 17,170             |
| Capital loss carryforward                          | --                  | 68,178             |
| Net operating loss carryforward                    | <u>144,668</u>      | <u>--</u>          |
| Net deferred tax assets before valuation allowance | 2,934,909           | 3,364,622          |
| Valuation allowance                                | <u>(2,934,909)</u>  | <u>(3,364,622)</u> |
| Net deferred tax asset                             | <u>\$ -</u>         | <u>\$ -</u>        |

SFAS No. 109 requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. The Company decreased the valuation allowance by \$429,713 and \$844,702 during the years ended December 31, 2006 and 2005, respectively. The net deferred tax asset has been fully reserved due to the uncertainty of the Company's ability to generate taxable income under the more likely than not criteria of FAS 109.

The Company adopted FIN 48, in the year ended December 31, 2006. The previously recognized benefit from a tax position that no longer met the more-likely-than-not recognition threshold was derecognized by increasing the income tax liability or reducing the deferred tax asset in the 2006, the period in which it becomes more likely than not that the tax position would not be sustained.

At December 31, 2006 and 2005, the Company had net operating loss carryforwards ("NOL") of approximately \$391,000 and \$ 0. The NOL will expire at 2026 through 2026. As of December 31, 2006, the Company has approximately \$723,299 in tax credits, which expire at various dates from 2018 through 2026.

## 10. CREDIT FACILITIES

In November 2001, ABC-Curacao borrowed a non-amortizing loan of \$455,000 at 6.5% interest due in November 2003 from Korpodeko. In September 2003, Korpodeko agreed to modify the terms of the loan. In return, we agreed to an interest rate increase from 6.5% to 7.5% from November 2003 to the new maturity in November 2004. We repaid \$91,000 of the loan in December 2003. In November 2004 we repaid \$182,000 and Korpodeko agreed to extend the payment, with no additional consideration, of the balance for up to an additional twelve months. We repaid the remaining outstanding balance in full in June 2005.

In March 2003, the Company borrowed \$100,000 from an individual lender, evidenced by a one-year promissory note, bearing interest of 8% per annum, which was due March 11, 2004. In March 2004, the holder of the note extended the note for one year at which time the loan was repaid in full. The Company granted to the lender warrants to purchase up to 10,000 common shares of the Company at \$1.18 per share, until March 11, 2008.

On June 19, 2003, the Company entered into a financing transaction with Bio Partners, pursuant to which the Company sold to Bio Partners in a private placement (i) the \$1.575 million 2003 Convertible Note issued at face value, and (ii) 295,312 shares of Company common stock, issued at par value, or \$.001 per share. The net proceeds to the Company were approximately \$890,000, after the payment of expenses and repayment of \$500,000 previously advanced to the Company by a principal of Bio Partners.

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The 2003 Convertible Note matured on June 19, 2005 and bore interest at a rate of 12% per annum. Interest-only payments under the 2003 Convertible Note were payable monthly in arrears and the entire principal amount was payable at maturity. We repaid the loan in full on the maturity date. At the time the agreement was made, up to \$1,141,875 aggregate principal amount of the 2003 Convertible Note was convertible into the Company's common stock at any time, at a conversion price of \$2.50 per share, subject to customary adjustments. None of the 2003 Convertible Note was converted into the Company's common stock. The loan discount of approximately \$281,000 and loan costs of approximately \$258,000 on the 2003 Convertible Note were amortized over two years, the life of the 2003 Convertible Note.

## 11. FOREIGN OPERATIONS

The Company had a manufacturing facility located in Curacao, Netherlands Antilles through March 6, 2006. The local currency is tied to the U.S. dollar; as a result no material gain or loss is incurred on foreign currency transactions.

## 12. STOCKHOLDERS' EQUITY

### Stock Option Plans

In July 1994, the Company's stockholders approved a stock option plan for eligible key employees, directors, independent agents, and consultants who make a significant contribution toward the Company's success and development and to attract and retain qualified employees (the "1993 Plan"), which expired in July 2004. Under the 1993 Plan, qualified incentive stock options and non-qualified stock options may be granted to purchase up to an aggregate of 200,000 shares of the Company's common stock, subject to certain anti-dilution provisions. The exercise price per share of common stock may not be less than 100% (110% for qualified incentive stock options granted to stockholders owning at least 10% of common shares) of the fair market value of the Company's common stock on the date of grant. In general, the options vest and become exercisable in four equal annual installments following the date of grant, although the Board, at its discretion, may provide for different vesting schedules. The options expire ten years (five years for qualified incentive stock options granted to stockholders owning at least 10% of common shares) after such date. In accordance with terms of the 1993 Plan, no option shall be granted ten years after the effective date of the 1993 Plan, or July 2004.

In July 1997, the Company's stockholders approved a stock option plan (the "1997 Plan") with terms identical to the 1993 Plan. The 1997 Plan authorizes the granting of awards of up to an aggregate of 500,000 shares of the Company's common stock, subject to certain anti-dilution provisions. The 1997 Plan expires in July 2007.

In August 2001, the Company's stockholders approved a stock option plan (the "2001 Plan"), with terms similar to the 1997 Plan. The 2001 Plan authorizes the granting of awards of up to an aggregate of 750,000 shares of the Company's common stock, subject to certain anti-dilution provisions. On December 16, 2003, stockholders approved an amendment to the 2001 Plan, which increased the number of shares authorized for grant from 750,000 shares to 1,750,000 shares, an increase of 1,000,000 shares. A total of 1,750,000 shares of common stock are now authorized for issuance under the amended 2001 Plan. The 2001 Plan, as amended expires in August 2011. The Company never filed an S-8 for the 2001 Plan but plans to do so as soon as it becomes current in its SEC filings so that the shares issued under the 2001 Plan will be registered securities.

As of December 31, 2006 there were a total of 896,199 shares available for grant from the 1997 and 2001 Plans.

The summary of the stock options activity is as follows for year ended:

|                                  | <b>December 31,</b> |  |               |  |
|----------------------------------|---------------------|--|---------------|--|
|                                  | <u>2006</u>         |  |               | <u>2005</u>  |
|                                  | <u>Shares</u>       | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> | <u>Shares</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> |
| Outstanding at beginning of year | 963,887             | \$1.63   | 1,056,358     | \$1.63   |
| Options granted                  | 884,413             | 0.93   | 37,054        | 1.44   |

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|                                   |           |        |           |        |
|-----------------------------------|-----------|--------|-----------|--------|
| Options exercised                 | -         | -      | (13,875)  | 1.00   |
| Options canceled or expired       | (567,175) | 1.10   | (115,650) | 2.36   |
| Outstanding at end of year        | 1,281,125 | \$1.17 | 963,887   | \$1.63 |
| Options exercisable at year end   | 1,147,376 | \$1.34 | 918,887   | \$1.44 |
| Shares available for future grant | 896,199   | --     | 1,242,263 | --     |

During calendar year 2006, the Company granted 884,413 options to employees and consultants of which 150,000 options granted to certain consultants were cancelled in 2006. Of the 884,413 options granted in 2006, 45,000 options granted to our BOD members vest over one year and 100,000 options granted to our President, Tom Wegman, are contingent upon the achievement of certain milestones. All other options granted to employees and consultants in 2006 vested immediately. During calendar year 2005, the Company granted 37,054 options to employees and a consultant of which 20,000 options granted to the consultant were cancelled in 2006. All employee options granted in 2005 vested immediately. The options granted in 2006 and 2005 were granted at exercise prices ranging from \$0.80 to \$4.50 per share.

The following table summarizes information relating to stock options by exercise price at December 31, 2006:

| Option Exercise Price | Shares       | Outstanding                   |                                 | Exercisable                     |                               |
|-----------------------|--------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------|
|                       |              | Weighted Average Life (years) | Weighted Average Exercise Price | Weighted Average Exercise Price | Weighted Average Option Price |
| \$0.80-1.49           | 1,074,469    | 7.94                          | \$0.95                          | 940,720                         | \$0.99                        |
| 1.50-1.99             | 127,881      | 5.30                          | 1.71                            | 127,881                         | 1.71                          |
| 2.00-2.99             | 34,265       | 3.78                          | 2.65                            | 34,265                          | 2.65                          |
| 3.00-3.99             | 24,000       | 2.13                          | 3.15                            | 24,000                          | 3.15                          |
| 4.00-4.99             | 18,010       | 1.73                          | 4.23                            | 18,010                          | 4.23                          |
| 5.00-6.05             | <u>2,500</u> | <u>1.26</u>                   | <u>\$5.81</u>                   | <u>2,500</u>                    | <u>\$5.81</u>                 |
|                       | 1,281,125    | 7.36                          | \$1.17                          | 1,147,376                       | \$1.34                        |

#### 14. COMMITMENTS AND CONTINGENCIES

##### Lease Agreements

The Company's operations are principally conducted on leased premises. Future minimum annual rental payments required under non-cancelable operating leases are approximated as follows:

Year ending December 31,

|            |           |
|------------|-----------|
| 2007       | \$158,000 |
| 2008       | 154,000   |
| 2009       | 152,000   |
| 2010       | 75,000    |
| thereafter | -0-       |

Rent expense under all operating leases amounted to approximately \$151,000 and 156,000 for calendar years 2006 and 2005, respectively. Wilbur Street Corporation ("WSC") owns and has leased to ABC-NY a building serving as a manufacturing facility and headquarters in Lynbrook, New York for over 30 years. The building also serves as the Company's administrative headquarters. Edwin H. Wegman, the Company's former Chairman and CEO, was the President of WSC. His death on February 16, 2007 had no effect on the legal existence of WSC. At the present time, we do not know who will own or control the shares of WSC.

In January 1998, WSC and the Company entered into a triple net lease agreement that provides for an annual rent starting at \$125,000, which can increase annually by the amount of the annual increase in the consumer price index for the greater New York metropolitan region. The lease term was 7 years and expired on January 31, 2005. The Company paid and accrued approximately \$206,000 and \$204,000 representing rent, real estate taxes and insurance to

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WSC in 2006 and 2005, respectively. Without Board approval, the lease was renewed (a related party transaction) in July 2005 for an additional 5 years, expiring on June 30, 2010. The extension of the lease may thus not be valid. The annual base rent, exclusive of taxes and related insurance, is \$150,000 (\$10 per square foot) per annum commencing in February 2006. Our rent can increase annually by the amount of the annual increase in the consumer price index for the greater New York metropolitan region.

ABC-Curacao leases a building in Brievengat, Curacao, Netherlands Antilles from an unrelated company wholly-owned by the Insular Territory of Curacao. The lease term, which originally commenced on January 1, 1977, is automatically renewed upon the same terms every five years, unless either party gives three months notice prior to the expiration of the five-year period. The lessor is entitled to revalue the rent for each successive five-year period. The lease has been renewed through March 1, 2011 and was assumed by DFB effective March 6, 2006.

In March 2006, we sold our topical collagenase business to DFB. In order to help effectuate the transaction with DFB, we repurchased all of the outstanding shares of ABC-NY and ABC-Curacao held by minority shareholders in exchange for a combination of approximately \$83,000 in cash and 102,574 restricted shares of our treasury stock.

In July 2006, we entered into a settlement agreement and specific release with Edwin H. Wegman, Thomas L. Wegman, Bio Partners, (whose sole general partner, Bio Management, Inc., a New York corporation, is wholly-owned by Jeffrey K. Vogel), and Jeffrey K. Vogel to settle a dispute regarding certain loan commitment fees purportedly due from us to Bio Partners under a letter agreement, dated January 3, 2006, between Bio Partners and us and to provide for the termination of certain loan and investor related documents that were previously filed as material agreements.

In November 2006, we signed license agreements with respect to Dupuytren's disease (the "Dupuytren's Disease License Agreement") and frozen shoulder (the "Frozen Shoulder License Agreement"). In the Dupuytren's Disease and Frozen Shoulder License Agreements the Research Foundation granted to us and our affiliates an exclusive worldwide license, with the right to sublicense to certain third parties, to know-how owned by the Research Foundation related to the development, manufacture, use or sale of (i) the collagenase enzyme obtained by a fermentation and purification process (the "Enzyme"), and (ii) all pharmaceutical products containing the Enzyme or injectable collagenase, in each case to the extent it pertains to the treatment and prevention of Dupuytren's disease and frozen shoulder. Additionally, the Research Foundation granted to us an exclusive license to the patent applications in respect of frozen shoulder. The license granted to us under the Frozen Shoulder License Agreement is subject to the non-exclusive license (with right to sublicense) granted to the U.S. government by the Research Foundation in connection with the U.S. government's funding of the initial research.

### **Receivables and Deferred Revenue**

Under our agreement with DFB, we agreed to provide certain technical assistance and transitional services in consideration of fees and costs totaling over \$1.4 million. At the closing, DFB paid to us a partial payment of \$400,000 in respect to the technical assistance to be provided by us. The consulting obligations generally expire during March 2011. As of December 31, 2006 the remaining accounts receivable balance due was \$975,000 for future services and was offset by the associated deferred revenues to be recognized in future periods of \$975,000.

### **Potential Product Liability**

The sale of our topical collagenase product, as well as the development and marketing of any potential products of the Company, exposes us to potential product liability claims both directly from patients using the product or products in development, as well as from our agreement to indemnify certain distributors of the product for claims made by others. We have product liability insurance, which covers the use of our licensed topical collagenase product and clinical experiments of potential products in the U.S. No known claims are pending against us at the current time. Our insurance policy has a limit of \$3 million and is renewed annually during the month of February.

### **FDA Observation**

Following an inspection by the FDA in 1999, the Company was informed that its license to manufacture the API Enzyme and topical collagenase would be revoked unless the Company could immediately provide satisfactory assurance of its compliance with the applicable cGMP regulations (the "1999 FDA Letter"). The Company submitted such a plan to the FDA later in 1999.

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On July 28, 2003 the Company received a letter notification from the FDA approving our supplement to our biologics license to manufacture topical collagenase. Regardless of this FDA approval, the 1999 FDA Letter will remain in effect until the Company demonstrates compliance with the applicable federal standards and regulations discussed above. During the quarter ended June 30, 2004, the FDA completed an inspection of the Company's Lynbrook facility. In May 2004, the FDA inspected the facility of Abbott, the Company's subcontractor. No action was taken by the FDA in regards to either of these inspections. In January 2005 the FDA completed an inspection of our Curacao facility. We have responded to various observations made by the FDA as a result of this inspection. The FDA letter was still in effect when BioSpecifics sold the topical collagenase business to DFB in March of 2006.

As a result of the sale of the Curacao facility to DFB, the FDA has transferred all rights under our license related to the manufacturing of topical collagenase to DFB. We were only required to report any adverse events for the topical collagenase product that occurred prior to the date of sale.

## 15. RELATED PARTY TRANSACTIONS

WSC owns and has leased to ABC-NY a building serving as a manufacturing facility and headquarters in Lynbrook, New York for over 30 years. The building also serves as the Company's administrative headquarters. Edwin H. Wegman, the Company's former Chairman and CEO, was the President of WSC. His death on February 16, 2007 had no effect on the legal existence of WSC. At the present time, we do not know who will own or control the shares of WSC.

Edwin H. Wegman, the Company's former Chairman and CEO, was also the sole general partner of The S.J. Wegman Company, a limited partnership which owns over 10% of the issued and outstanding capital stock of the Company. Upon his death on February 16, 2007, The S.J. Wegman Company was legally dissolved. At the present time, we do not know who will own or control the shares of the Company owned by The S.J. Wegman Company. These shares are subject to a pledge agreement, under which the dissolution of The S.J. Wegman Company constitutes an event of default, giving the Board the right to vote the pledged shares.

In January 1998, WSC and the Company entered into a triple net lease agreement that provides for an annual rent starting at \$125,000, which was to increase annually by the amount of annual increase in the consumer price index for the greater New York metropolitan region. The lease term was 7 years and expired on January 31, 2005. Without Board approval, the lease was renewed (a related party transaction) in July 2005 for an additional 5 years, expiring on June 30, 2010. The extension of the lease may thus not be valid. The annual rent, effective February 2006, is \$150,000 (\$10 per square foot) per annum.

The Company has an outstanding loan to the Company's former Chairman and CEO. The loan, whose principal balance at December 31, 2006 was \$625,774 with accrued interest of \$390,821 for an aggregate amount of \$1,016,595, is a demand promissory note, bears interest at 9% per annum. The Company also had two loans with WSC, an affiliate of our former Chairman and CEO. One loan is in the amount of \$82,606 and bears interest at 9% per annum; the other is for advances to WSC in the amount of \$15,647 and bears no interest for an aggregate amount of \$304,397 including interest of \$206,144. During calendar years 2006 and 2005, the former Chairman and CEO did not repay any net principal amounts on these loans. In March 2007, in full repayment of the loan made by the Company to WSC, WSC offset \$304,397 in back rent due from the Company in repayment of the loan. For financial statement purposes, all these loans, which aggregate \$724,027 of principal, are classified as components of stockholders' equity in the balance sheet and appear as "Notes due from former Chairman and CEO and other related party."

In January 2007, we entered into amended and restated demand promissory notes with Edwin H. Wegman and WSC reflecting the prior outstanding principal amounts of the loans and compounded interest (collectively, the "Notes"). Upon the death of Edwin H. Wegman on February 16, 2007, his note became the obligation of his estate. As of December 31, 2006, the aggregate principal amounts, including compounded interest, owed to us by Edwin H. Wegman and WSC were \$1,016,595 and \$304,397, respectively (subsequent events in March 2007 noted above resulted in the full repayment of the \$304,397 loan). Under the Notes, the respective principal amounts remaining unpaid at any time shall each bear interest at the rate of nine percent (9%) per annum compounded annually. The loans are secured by a pledge of 100% of the shares owned by The S.J. Wegman Company. At December 31, 2006

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the total number of shares pledged, 1,843,327, have a current market value of \$3.80 per share. Notwithstanding the dissolution of The S.J. Wegman Company upon the death of Edwin H. Wegman, the Notes continue to be secured by The S.J. Wegman Company pledge. There is no assurance that the Company will be able to collect on these notes. Interest income accrued for these loans, but not recognized for financial statement purposes, aggregated approximately \$102,000 and \$95,000, for the calendar years 2006 and 2005, respectively.

In July 2006, we entered into a settlement agreement and release with Edwin H. Wegman, Thomas L. Wegman, Bio Partners, (whose sole general partner, Bio Management, Inc., a New York corporation, is wholly-owned by Jeffrey K. Vogel), and Jeffrey K. Vogel to settle a dispute regarding certain loan commitment fees purportedly due from us to Bio Partners under a letter agreement, dated January 3, 2006, with Bio Partners. This settlement agreement provided for the termination of certain loan and investor related documents that were previously filed as material agreements.

During March of 2005, the former Chairman and CEO received an advance, which could be considered a loan, in the amount of \$6,000, which was subsequently repaid within two weeks. No interest was accrued.

ABC-NY had notes payable to a former director of the Company and to a partner of The S.J. Wegman Company, an affiliate, amounting to \$24,894 at December 31, 2005. The notes, which bore interest at nine percent (9%) per annum, were payable on demand. The loan was subsequently repaid in December 2006.

During April 2004, we received a \$45,000 loan from the wife of the former Chairman and CEO. The loan was subsequently repaid in December 2006.

## 16. EMPLOYEE BENEFIT PLANS

ABC-NY has a 401(k) Profit Sharing Plan for employees who meet minimum age and service requirements. Contributions to the plan by ABC-NY are discretionary and subject to certain vesting provisions. The Company made no contributions to this plan for calendar years 2006 or 2005.

## 17. SUBSEQUENT EVENTS

On February 16, 2007, our Chairman and CEO, Edwin H. Wegman, died. Upon the death of Edwin H. Wegman his notes became the obligation of his estate. As of December 31, 2006, the aggregate principal amount of \$724,027, including compounded interest of \$596,965, owed to us by Edwin H. Wegman and the Wilbur Street Corporation ("WSC") were \$1,016,595 and \$304,397, respectively. We entered into an amended and restated promissory notes for these amounts with our former Chairman and CEO, which is secured by a pledge of 100% of the shares of The S.J. Wegman Company. At December 31, 2006 the total number of shares pledged, 1,843,327, have a current market value of \$3.80 per share. His death has resulted in the immediate obligation of his estate to repay the loans. However, it is uncertain whether his estate will be able to repay the loans and, if so, on what terms. His death has also resulted in the dissolution of The S.J. Wegman Company, which triggered a default under the pledge agreement, giving our Board the right to vote the pledged shares. However, it is unclear as a practical matter whether the Company will be able to foreclose on the pledge. (For a more detailed description see Note 15 of our consolidated financial statements).

In March 2007, in full repayment of the \$304,397 loan owed to the Company by WSC, WSC offset \$304,397 in back rent due from the Company in repayment of the loan.

On May 7, 2007, Lawrence Dobroff, our Chief Financial Officer, was terminated and Tom Wegman assumed the role of the "Principal Accounting Officer" for purposes of making the certifications required by the Sarbanes-Oxley Act of 2002.

On June, 18, 2007, we entered into change of control agreements with our Directors and President providing certain benefits in the event of a change of control of the Company.

On June 25, 2007, we elected Toby and Mark Wegman to the Board of Directors of the Company.

In a press release dated September 10, 2007, Auxilium announced that it has restarted its Phase III clinical trials for XIAPLEX for the treatment of Dupuytren's disease.

[Index to Financial Statements](#)

In addition to the foregoing subsequent events, there have been a number of additional events that are described in the Form 8-Ks that have been filed by the Company since December 31, 2005 that are listed in Item 13, "Exhibits—Reports on Form 8-K."

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The documents listed below are being filed or have previously been filed on behalf of the Company and are incorporated herein by reference from the documents indicated and made a part hereof. Exhibits not identified as previously filed are filed herewith:

| <i>Exhibit Number</i> | <i>Description</i>   |
|-----------------------|--|
| 3.1                   | Registrant's Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)  |
| 3.2                   | Registrant's Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)  |
| 10.1                  | Copy of Promissory Note, dated January 1, 2007, executed by Edwin H. Wegman in favor of the Company (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)                               |
| 10.2                  | Copy of Promissory Note, dated January 1, 2007, executed by Wilbur Street Corporation in favor of the Company (incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)                     |
| 10.3                  | Copy of Pledge Agreement, dated January 1, 2007, executed by The S.J. Wegman Company in favor of the Company (incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)                      |
| 10.4                  | Copy of Lease, dated January 30, 1998, between the Company and the Wilbur Street Corporation (incorporated by reference to Exhibit 10.14 of the Registrant's Form 10-KSB filed with the Commission on May 7, 1998)                                       |
| 10.5                  | Copy of Extension and Modification Agreement, dated July 1, 2005, between the Company and the Wilbur Street Corporation (incorporated by reference to Exhibit 10.5 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)           |
| 10.6                  | Development and License Agreement between the Company and Auxilium Pharmaceuticals, Inc. dated June 3, 2004 (incorporated by reference to Exhibit 24 of the Registrant's Form 10-KSB filed with the Commission on November 22, 2004)                     |
| 10.7                  | Amendment No. 1 to the Development and License Agreement between the Company and Auxilium Pharmaceuticals, Inc. dated May 5, 2005 (incorporated by reference to Exhibit 10.7 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007) |
| 10.8                  | Asset Purchase Agreement between the Company, ABC-NY and DFB dated March 3, 2006 (incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K filed with the Commission on March 9, 2006)  |
| 10.9                  | Amendment to Asset Agreement between the Company, ABC-NY and DFB dated January 8, 2007 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Commission on January 12, 2007)  |
| 10.10                 | Dupuytren's License Agreement dated November 21, 2006 between the Company and the Research Foundation (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Commission on November 28, 2006)                            |
| 10.11                 | Frozen Shoulder License Agreement dated November 21, 2006 between the Company and the Research Foundation (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the Commission on November 28, 2006)                        |
| 10.12                 | License Agreement dated October 1, 1993 between the Company and Martin K. Gelbard, M.D. (incorporated by reference to Exhibit 10.12 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)  |
| 10.13                 | Form of 1993 Stock Option Plan of Registrant (incorporated by reference as Exhibit 10.2 of the Registrant's Form S-8 filed with the Commission on July 27, 1995)   |
| 10.14                 | Form of 1997 Stock Option Plan of Registrant (incorporated by reference as Exhibit 4.1 of the Registrant's Form S-8 filed with the Commission on September 26, 1997)   |

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|-------|---|
| 10.15 | Form of 2001 Stock Option Plan of Registrant (incorporated by reference as Exhibit 10.15 of the Registrant's Form 10-KSB filed with the Commission on May 17, 2001)   |
| 10.16 | Amendment to 2001 Stock Option Plan of Registrant (incorporated by reference to the Registrant's Form 14A filed with the Commission on November 12, 2003)   |
| 10.17 | Warrant to purchase common stock of the Company dated March 12, 2003 between the Company and David Geller (incorporated by reference to Exhibit 10.17 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007) |
| 10.18 | Rights Agreement dated as of May 14, 2002 (incorporated by reference as Exhibit 1 to the Registrant's Form 8-A filed with the Commission on May 30, 2002)   |
| 10.19 | Amendment No.1 to Rights Agreement, dated June 19, 2003 (incorporated by reference to Exhibit 10.19 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)   |
| 10.20 | Change of Control Agreement, dated June 18, 2007 between the Company and Thomas L. Wegman (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the Commission on June 22, 2007)                     |
| 10.21 | <a href="#">Change of Control Agreement, dated June 18, 2007 between the Company and Henry Morgan*</a>  |
| 10.22 | <a href="#">Change of Control Agreement, dated June 18, 2007 between the Company and Michael Schamroth*</a>   |
| 10.23 | <a href="#">Change of Control Agreement, dated June 18, 2007 between the Company and Paul Gitman*</a>   |
| 14.1  | Amended and Restated Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)   |
| 16.1  | Letter from BDO Seidman, LLP dated January 11, 2005 (incorporated by reference as Exhibit 16.1 of the Registrant's Form 8-K filed with the Commission on January 13, 2005)  |
| 21.1  | Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of the Registrant's Form 10-KSB filed with the Commission on March 2, 2007)   |
| 23.1  | <a href="#">Consent of Tabriztchi &amp; Co. LLP*</a>  |
| 31.1  | <a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</a>   |
| 32.1  | <a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</a>   |

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\* filed herewith

[Table of Contents](#)**SIGNATURES**

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report on Form 10-KSB to be signed on its behalf by the undersigned, thereto duly authorized individual.

Date: September 26, 2007

**BIOSPECIFICS TECHNOLOGIES CORP.**

By: /s/ Thomas L. Wegman

Thomas L. Wegman  
President

In accordance with 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.

| <b>SIGNATURE</b>  | <b>TITLE</b>  |
|---|---|
| <u>/s/ Thomas L. Wegman</u><br>Name: Thomas L. Wegman   | President<br>(Principal Executive Officer and Principal Accounting Officer)<br>Director |
| <u>/s/ Henry Morgan</u><br>Name: Henry Morgan           | Director  |
| <u>/s/ Michael Schamroth</u><br>Name: Michael Schamroth | Director  |
| <u>/s/ Mark Wegman</u><br>Name: Mark Wegman             | Director  |

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