

FREESTONE RESOURCES, INC.
Form 10-K
September 28, 2011

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2011

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

FREESTONE RESOURCES, INC.
(Exact name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation)	000-28753 (Commission File Number)	33-0880427 (IRS Employer Identification No.)
Republic Center, Suite 1350 325 N. St. Paul St. Dallas, TX (Address of Principal Executive Offices)		75201 (Zip Code)

Registrant's telephone number, including area code: 214-880-4870

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par value \$0.001

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by a check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Securities Exchange Act. Yes No

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) (2) has been subject to such filing requirement for the past 90 days. Yes No

Indicate by check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter)

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is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer	<input type="radio"/>	Accelerated Filer	<input type="radio"/>
Non-Accelerated Filer	<input type="radio"/>	Smaller Reporting Company	<input checked="" type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

Aggregate market value of the voting stock held by non-affiliates of the registrant as of September 26, 2011: \$12,680,157

Indicate the number of Shares of outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: As of September 26, 2011, the Registrant had 52,612,760 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995 or by the U.S. Securities and Exchange Commission in its rules, regulations and releases, regarding, among other things, all statements other than statements of historical facts contained in this report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “could,” “target,” “likely,” “will,” “expect” and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. In addition, our past results of operations do not necessarily indicate our future results.

Other sections of this report may include additional factors which could adversely affect our business and financial performance. New risk factors emerge from time to time and it is not possible for us to anticipate all the relevant risks to our business, and we cannot assess the impact of all such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. Those factors include, among others, those matters disclosed in this Annual Report on Form 10-K.

Except as otherwise required by applicable laws and regulations, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this report, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report. Neither the Private Securities Litigation Reform Act of 1995 nor Section 27A of the Securities Act of 1933 provides any protection to us for statements made in this report. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Company Background

Freestone Resources, Inc. (the “Company” or “Freestone”) is an oil and gas technology development company that is actively developing and marketing technologies and solvents designed to benefit various sectors in the oil and gas industry. The Company’s flagship technology, the Oil Recovery Unit (“ORU”), was developed for the extraction of hydrocarbons of value from ground soils, oil sands, vessels and other hydrocarbon-containing materials. The ORU’s primary use is for the cleanup of hydrocarbon contamination, and the extraction of hydrocarbons of value from oil sands and oil shale.

Freestone is also actively researching complimentary technologies that will be utilized with the ORU system in order to provide complete production and remediation solutions to oil and gas operators, drillers, and producers. The technologies currently under evaluation include systems designed to recycle frac water and produced water.

Available Information

The Freestone website is www.freestonerresourcesinc.com. The Company’s references to the URLs for these websites are intended to be inactive textual references only. The Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of

the Securities Exchange Act of 1934, as amended, are filed with the U.S. Securities and Exchange Commission (the “SEC”).

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy, and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Technology Development Business

Freestone is actively developing relationships with oil and gas companies, as well as environmental service companies that can benefit from the ORU's unique abilities to extract hydrocarbons of value from various mediums. One such relationship includes the Company's issuance of a License Agreement to Hydrex Technologies, LLC ("Hydrex"), a Texas limited liability company for the use and utilization of the Company's ORU system in various territories.

Products and Services

Oil Recovery Units and Solvent Testing

Freestone has been engaged in extensive laboratory testing of solvents to perfect the ORU systems. Most tests of the aforementioned solvents have included the extraction of oil from oil sands and oil shale, as well as the extraction of hydrocarbons from contaminated soils. The ORU systems were licensed to Hydrex Technologies, LLC so that they can be built for commercial use.

Freestone's current well assets and leases were purchased for the purpose of testing various solvents and technologies designed to increase oil and gas production. These leases contain wells that have paraffin and asphaltine problems, and the tests are allowing the company to perfect a treatment method that can be marketed to potential customers.

Acquisition of Earth Oil Services, Inc.

On September 24, 2009 the Company entered into a Stock Purchase Agreement (the "Agreement") with Environmental Services and Support, Inc., a California corporation ("Enviro Serv") and Lawrence Shultz, an individual ("Shultz") that provides for the sale to and purchase by Enviro Serv and Shultz of 31,603,734 shares of common stock of the Company ("Company Shares") in exchange for and purchase by the Company of all of the issued and outstanding shares of capital stock (the "EOSI Shares") of Earth Oil Services, Inc., a Nevada corporation ("EOSI"), plus the payment of a contingency amount of \$250,000 (the "Contingency Amount") by the Company to an Enviro Serv creditor, and the payment of \$150,000 to Enviro Serv in a deferred license fee payment.

Enviro Serv stated that it owned certain proprietary technology that is purportedly a chemical solvent that can separate, extract and recycle hydrocarbon contaminants from ground soils, tar sands, vessels and other materials (the "Technology"). EOSI has an exclusive license to use the Enviro Serv proprietary technology. In this connection, Enviro Serv has engaged a fabricator to build a prototype machine (the "Prototype") designed to be used in conjunction with the Technology. Enviro Serv is indebted to the fabricator for its development of the Prototype. As aforesaid, the Company has agreed to pay this indebtedness (the Contingency Amount) if certain conditions are met such as release of all liens on the Prototype and demonstrations that the Prototype effectively does what it is designed to do, i.e. recover the chemical solvent after use.

The Company filed a lawsuit in the United States District Court for the Northern District of Texas, Dallas Division, on July 9, 2010, Civil Action Number 3:10-cv-01349-O against Lawrence Shultz, Environmental Services and Support, Inc., David Feuerborn and Thomas Jennings for, but not limited to, the rescission of the Agreement. See Item 3, “Legal Proceedings” for additional information.

On June 26, 2011 the Company entered into a Settlement Agreement (the “Settlement Agreement”) with Enviro Serv, Shultz, David Feuerborn, an individual residing in Riverside County, California, and Thomas Jennings, an individual residing in Orange County, California (collectively the “Parties”). The Settlement Agreement permanently and irrevocably effectuates a final and binding global settlement and release of the Parties regarding the pending lawsuit between the Parties in the Northern District of Texas, Cause No. 3:10-CV-01349-O. Furthermore, the Settlement Agreement rescinds the Stock Purchase Agreement entered into by and between the Parties on September 24, 2009, and cancels 28,818,734 shares of Freestone’s common stock of the 31,603,734 shares of Freestone common stock that was originally issued to Enviro Serv and Shultz, and returns said cancelled stock to the Company’s treasury.

Research and Development

Freestone is actively evaluating other oil and gas treatment technologies, solvents, and water treatment systems that enhance the services and technologies offered by the Company. The current technologies under evaluation focus on the waste streams created by the oil and gas industry. These waste streams include: oil-based sludge, frac water, produced water, tailing ponds derived from oil sand production, etc.

Growth Strategy

Freestone is actively pursuing a strategy of growth through the development of joint ventures and license agreements with oil and gas, and environmental service companies that can utilize the ORU systems. Freestone intends to research various methods in which to expand its marketing efforts to refineries, oil and gas storage companies, independent operators, and environmental service companies.

Sale of Natural Gas and Oil

Freestone does not intend to refine its natural gas or oil production. Freestone will sell all or most of its production to certain purchasers in a manner consistent with industry practices at prevailing rates. Freestone currently sells its natural gas to Shoreline Gas, LLC and sells oil to Bargas, Inc, Superior Crude Gathering, Inc., and BML, Inc. Under current conditions, we should be able to find other purchasers, if needed. All of our produced oil is held in tank batteries and then each respective purchaser transports the oil by truck. Respectively, our natural gas is transported via pipeline.

Environmental Matters

Freestone's oil and gas operations and properties ORU operations are subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue.

These laws and regulations may:

- require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities;
- limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and
- impose substantial liabilities for pollution resulting from its operations, or due to previous operations conducted on any leased lands.

The permits required for our operations may be subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are in substantial compliance with current applicable environmental laws and regulations, and have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on us, as well as the oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act, as amended ("CERCLA"), and comparable state statutes impose strict, joint and several liability on owners and operators of sites and on persons who disposed of or arranged for the disposal of "hazardous substances" found at such sites. It is not uncommon for the neighboring land owners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act, as amended ("RCRA"), and comparable state statutes govern the disposal of "solid waste" and "hazardous waste" and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of "hazardous substance," state laws affecting our operations may impose clean-up liability relating to petroleum and petroleum related products. In addition, although RCRA classifies certain oil field wastes as "non-hazardous," such exploration and production wastes could be reclassified as hazardous wastes thereby making such wastes subject to more stringent handling and disposal requirements.

ITEM 1A. RISK FACTORS

As a smaller reporting company we are not required to provide the information required by this item.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTY

Freestone's corporate offices are located at Republic Center, Suite 1350, 325 N. St. Paul St. Dallas, TX 75201. Freestone entered into a lease agreement on this property for a term of five years.

ITEM 3. LEGAL PROCEEDINGS

The Company filed a lawsuit in the United States District Court for the Northern District of Texas, Dallas Division, on July 9, 2010, Civil Action Number 3:10-cv-01349-O against Lawrence Shultz (“Shultz”), Environmental Services and Support, Inc. (“ESSI”), David Feuerborn (“Feuerborn”) and Thomas Jennings (Jennings”) (the “Defendants”).

The Company alleges that the Defendants and possibly others, committed fraud by nondisclosure, the common law tort of conversion by pretext and swindling, deceptive trade practices, common law fraud and fraud by misrepresentation/statutory fraud upon the Company in connection with an executed Stock Purchase Agreement (the "Agreement").

The Company is seeking rescission of the Agreement and setting aside the shares of Company common stock issued to the Defendants or their assigns and the recovery of certain sums paid in connection with the agreement. The Company is also seeking a declaratory judgment that the Agreement is void and unenforceable; that the Company's shares of stock issued to one or more of Defendants be cancelled; that the Company may adjust its share register to so reflect such cancellation; that the Agreement is void, unenforceable, and subject to cancellation by this Court; and that the Company's damages were proximately caused by such fraud and deception and the breach of legal duties owed to it by one or more of the Defendants. The Company is also seeking actual damages from the Defendants, jointly and severally, of at least \$1,614,149, as well as reasonable and necessary attorney's fees. The Company is further seeking unliquidated damages within the jurisdictional limits of the United States District Court for the Northern District of Texas, Dallas Division, exemplary damages, statutory damages, prejudgment interest and post judgment interest, compounded annually, and such other and further relief to which the Company may show itself to be justly entitled.

On June 26, 2011 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Enviro Serv, Shultz, David Feuerborn, an individual residing in Riverside County, California, and Thomas Jennings, an individual residing in Orange County, California (collectively the "Parties"). The Settlement Agreement permanently and irrevocably effectuates a final and binding global settlement and release of the Parties regarding the pending lawsuit between the Parties in the Northern District of Texas, Cause No. 3:10-CV-01349-O. Furthermore, the Settlement Agreement rescinds the Stock Purchase Agreement entered into by and between the Parties on September 24, 2009, and cancels 28,818,734 shares of Freestone's common stock of the 31,603,734 shares of Freestone common stock that was originally issued to Enviro Serv and Shultz, and returns said cancelled stock to the Company's treasury.

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

None. The Company intends to hold an annual shareholder's meeting in the third quarter of the fiscal year ending June 30, 2012.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Stock is currently quoted on the OTC:BB under the symbol "FSNR."

The following tables set forth the quarterly high and low bid prices for the Common Stock for 2011 and 2010. The prices set forth below represent interdealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

Fiscal 2011	High	Low
First Quarter	\$ 0.51	\$ 0.09
Second Quarter	\$ 0.35	\$ 0.10
Third Quarter	\$ 0.35	\$ 0.13
Fourth Quarter	\$ 0.30	\$ 0.12
Fiscal 2010	High	Low
First Quarter	\$ 0.09	\$ 0.03
Second Quarter	\$ 0.39	\$ 0.04
Third Quarter	\$ 0.28	\$ 0.16
Fourth Quarter	\$ 0.89	\$ 0.17

Shareholders

As of June 30, 2011, there were approximately 247 record holders of the Common Stock. This number excludes any estimate by Freestone of the number of beneficial owners of shares held in street name, the accuracy of which cannot be guaranteed.

Dividends

Freestone has not paid cash dividends on any class of common equity since formation and Freestone does not anticipate paying any dividends on its outstanding common stock in the foreseeable future.

Warrants

In June 2011, the Company issued a warrant to purchase 500,000 shares of common stock to Hydrex Technologies, ("Hydrex") in conjunction with the issuance of a License Agreement to Hydrex. The warrants were exercised on June 9, 2011 for \$24,000, which, per the agreement, was 20% of the closing price on the last trading day prior to the exercise. The Company has a similar warrant agreement with Hydrex, in which the warrant is only granted and exercisable upon the completion of commercial-scale Oil Recovery Units within a stated period of time.

Stock compensation

On April 21, 2011 the Company's Board of Directors approved the following stock compensation awards to Officers and stock for services to consultants. All stock awards are subject to Rule 144 restrictions are valued at the closing trading price on that day of \$.18. Clayton Carter, President and CEO, 1,000,000 shares or \$180,000; Don Edwards, Chief Investment Officer and Vice President, 1,000,000 shares or \$180,000; James Carroll, Chief Financial Officer, 500,000 shares or \$90,000; Richard Harris, consultant, 600,000 shares or \$108,000; Jimmy Carter, consultant,

750,000 shares or \$135,000; Cade Carter, consultant, 500,000 shares or \$90,000; S. George Alfonso, the Company's attorney, 200,000 or \$36,000; Mark Smith, consulting accountant, 100,000 shares or \$18,000; Michael McGhan, consultant, 250,000 shares or \$45,000; Richard Feldman, consultant, 250,000 shares or \$45,000; and Jim Miller, consultant, 150,000 shares or \$27,000.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company we are not required to provide the information required by this item.

ITEM 7. MANAGEMENT DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At present, Freestone's management is focused on the utilization of our unique solvent EncapSol. Freestone's acquisitions of certain oil and gas properties are necessary to conduct research and development for EncapSol, and our hydrocarbon-based product Petrozene. Minimal revenues have been earned and related expenses have been incurred from the incidental operation of these oil and gas interests, as well as miscellaneous fees associated with the corporation. Freestone continues to look for various solvents, chemicals, and technologies that might fit into Freestone's petro-chemical line.

Critical Accounting Policies

Our consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles. As such, management is required to make certain estimates, judgments and assumptions that they believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expense during the periods presented. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Revenues from oil, gas and natural gas liquids, which are produced from the Company's wells used its research and development activities, are recognized when the products are sold to a purchaser at a fixed or determinable price, delivery has occurred and title has transferred, and collectability of the revenue is reasonably assured.

Stock Based Compensation

Pursuant to Accounting Standards Codification ("ASC") 505, the guidelines for recording stock issued for services require the fair value of the shares granted be based on the fair value of the services received or the publicly traded share price of the Company's registered shares on the date the shares were granted (irrespective of the fact that the shares granted were unregistered), whichever is more readily determinable. This position has been further clarified by the issuance of ASC 820,. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Accordingly, the Company elected the application of these guidelines. Freestone has determined that the fair value of all common stock issued for goods or services is more readily determinable based on the publicly traded share price on the date of grant.

Research and Development

The Company currently has limited finances available for research and development. As the Company's financial position improves the Company plans to develop an appropriate research and development policy.

Results of Operations for the Year Ended June 30, 2011 Compared to the Year Ended June 30, 2010

	506,823
Net liabilities from discontinued operations (Note 8)	
	207,587
	302,436
Current maturities of long term debt (Note 9)	
	61,740
	79,875
Deferred rent and other current liabilities	
	127,825
	118,609
Total current liabilities	
	3,489,113
	3,876,709

LONG-TERM LIABILITIES:

Long term debt, less current maturities (Note 9)

2,295,216

2,337,874

Net liabilities from discontinued operations (Note 8)

297,705

408,005

Other liabilities

572,415

593,735

Total liabilities

6,654,449

7,216,323

STOCKHOLDERS EQUITY:

Common stock, \$.01 par value; 20,000,000 shares authorized, 6,822,537 and 6,786,335 issued and outstanding at June 30, 2003 and December 31, 2002, respectively

68,225

67,863

Additional paid-in capital

	21,825,057
	21,811,262
Accumulated deficit	
	(9,730,930
)	
	(9,252,079
)	
Loan receivable from Director and former CEO (Note 6)	
	(1,000,000
)	
Total stockholders' equity	
	11,162,352
	12,627,046
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	
\$	
	17,816,801
\$	

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) **Basis of Presentation**

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

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), requires that companies either recognize compensation expense for grants of stock options and other equity instruments based on fair value or provide pro forma disclosure of net income (loss) and net income (loss) per share in the notes to the financial statements. Statement of Financial Accounting Standards No. 148, Accounting for Stock-based Compensation Transition and Disclosure an amendment of FASB Statement No. 123, (SFAS 148) amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. At June 30, 2003, the Company has six stock-based compensation plans, which are described in further detail in the Company s Annual Report on Form 10-K for the year ended December 31, 2002. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and related interpretations. Accordingly, no compensation cost has been recognized under SFAS 123 for the Company s employee stock option plans. Had compensation cost for awards under those plans been determined based on the grant date fair values, consistent with the method required under SFAS 123, the Company s net (loss) and net (loss) per share would have been adjusted to the pro forma amounts indicated below:

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

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Basic and Diluted net loss per share - as reported

Basic and Diluted net loss per share - pro forma	\$	(0.05)	\$	(0.08)	\$	(0.11)	\$	(0.26)
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Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model.

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

(2) **Recent Accounting Standards**

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

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which supersedes Emerging Issues Task Force Issue (EITF) 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*. The standard affects the accounting for restructuring charges and related activities and generally will lengthen the timeframe for reporting of expenses relating to restructuring activities beyond the period in which a plan is initiated. The provisions of this statement are required to be adopted for exit or disposal activities that are initiated after 2002. The provisions of EITF 94-3 will continue to apply with regard to the Company's previously announced restructuring plans.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, (An interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34) (FIN 45). FIN 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. The Interpretation also requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The accounting requirements for the initial recognition of guarantees are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for all guarantees outstanding, regardless of when they were issued or modified, for annual periods that end after December 15, 2002. The adoption of FIN No. 45 did not have a material effect on the Company's consolidated financial statements. See Note 6 of Notes to Consolidated Financial Statements hereunder for additional information on the Company's limited guaranty and pledge of a \$1,000,000 interest bearing deposit, as of December 31, 2002, at a financial institution to provide additional security for loans in the aggregate amount of \$2,418,000 from the financial institution to an entity controlled by the former Chairman and Chief Executive Officer of the Company. In addition, BBI Clinical Laboratories, a discontinued operation, operated from a 15,000 square foot facility in New Britain CT pursuant to a lease which expires in July 2005 and which was guaranteed by the Company. In connection with the Company's decision to exit this business segment, the Company has assumed the obligation to make the remaining lease payments, which is included in the Company's estimate of remaining liabilities associated with discontinued operations. See Note 8 of Notes to Consolidated Financial Statements.

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

January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the Company is required to apply FIN No. 46 on July 1, 2003. The Company does not have any VIE s.

In November 2002, the EITF reached a final consensus on EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. The provisions of EITF 00-21 are required to be adopted for revenue arrangements entered into by the Company after June 28, 2003, although early adoption is permitted. EITF 00-21 addresses arrangements with customers that have multiple deliverables such as equipment and installation and provides guidance as to when recognition of revenue for each deliverable is appropriate. The Company adopted EITF 00-21 as of July 1, 2003 on a prospective basis and does not, at the present time, expect EITF 00-21 to have a material impact on our financial position or results of operations.

(3) Inventories

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

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

(4) Segment Reporting and Related Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by senior management in deciding how to allocate resources and in assessing the performance of each segment. The Company is organized into segments along business lines and senior management regularly reviews financial results for all business lines, focusing primarily on revenue and operating income.

The Company had four operating segments as of June 30, 2003. The Diagnostics segment serves the worldwide in vitro diagnostics industry, including users and regulators of their test kits, with quality control products, and test kit components. The Biotech segment is a research and development center providing support for the other BBI business units, as well as contract research, molecular and cell biology services, and repository services for the government and life sciences industry. The Laboratory Instrumentation segment sells diagnostic instruments primarily to the worldwide in vitro diagnostic industry on an OEM basis, and also performs in-house instrument servicing. The PCT segment consists of research and development primarily in pressure cycling technology (PCT). The Company performs research in the development of PCT, with particular focus in the areas of nucleic acid extraction and pathogen inactivation. The Company announced the availability for commercial sale of its PCT products in late September 2002. PCT revenue to date consists primarily of both private and public (National Institutes of Health) funding of segment research and, commencing in late 2002, the sale of PCT products. Most of the expenditures incurred by this segment are for research and development expenses, general management expenses and patent costs. See also Note 8 of Notes to Consolidated Financial Statements with respect to discontinued operations, which are no longer classified as an operating segment of the Company.

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The Company's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Inter-segment sales are recorded on a third party best price basis and are significant in measuring segment operating results. The following segment information has been prepared in accordance with the internal accounting policies of the Company, as described above.

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Operating segment revenue was as follows:

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

Operating segment income (loss) was as follows:

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

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

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

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

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

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

The net loss per share computation for the first six months of 2003 and 2002 reflects the issuance of 7,047 and 4,654 additional shares of common stock, respectively, purchased by employees through their participation in the Company's employee stock purchase plan. In December 2001, an additional 600,000 shares of common stock were subscribed to and paid for by a group of investors for \$1,500,000 (before expenses). These shares were issued in the first quarter of 2002.

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

(6) Related Party Transaction

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

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

The ultimate value that may be recovered by the Company is dependent on numerous factors including market conditions relative to the real

estate, the value of and ability to sell the Company's common stock, and the financial status of Mr. Schumacher. At December 31, 2002, the Company performed a test for impairment of the restricted cash by analyzing the value of the collateral, and determined that the restricted cash was not impaired. While the restricted cash was not impaired as of December 31, 2002, the termination of Mr. Schumacher as the Company's Chairman and Chief Executive Officer by the Board of Directors in February 2003, together with the decline in the quoted market value of the Company's common stock subsequent to December 31, 2002, which comprises a major element of the collateral, are indicators of impairment. The Company reevaluated the adequacy of the value of the collateral as of June 30, 2003 and through July 21, 2003. The value of the collateral as of July 21, 2003 approximates the amount of the Company's recorded loan (including interest) as of June 30, 2003; the value of the collateral is based primarily on the changing market value of the Company's common stock which is pledged as collateral. Accordingly, the Company has not recorded any permanent impairment of loan value in the first half of 2003. If actual market conditions are less favorable or other factors arise in the future that are significantly different than those anticipated by management, the establishment of a valuation reserve against this asset might be required. Mr. Schumacher has notified the Company of a payment to the financial institution against the loan during the second quarter of 2003 utilizing personal assets that were not pledged as collateral, thereby increasing the collateral to loan ratio.

(7) **Stockholders Equity**

Shareholders Purchase Rights Plan

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

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

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

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

(8) Disposition of Assets

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

The Company's estimate of remaining short and long term accrued liabilities to exit the clinical laboratory testing business is \$505,000 as of June 30, 2003. The major component of this accrual is estimated lease exit and facility related costs (\$400,000), with the remainder for other miscellaneous costs associated with exiting this business segment. The Company recorded an after-tax gain of \$4,334,000 in 2001, and an additional \$225,000 in 2002; the remaining accrual may be subject to future adjustments as the Company completes the process of exiting this business and permanently closing the facility.

(9) Debt

On April 5, 2000, the Company borrowed \$2,447,000, net of related costs, under a mortgage agreement on its West Bridgewater, MA facility, of which approximately \$2,342,000 remains outstanding as of June 30, 2003. The Company used the funds to reduce the outstanding balance of its existing line of credit. The principal amount of the note issued in connection with the mortgage is due on March 31, 2010. During the first five years the note carries an interest rate of 9.75%; after five years the rate charged will be .75% greater than the Corporate Base Rate then in effect. The mortgage precludes the payment of dividends on the Company's common stock and contains certain other restrictive covenants. Under this mortgage agreement the Company is subject to certain financial covenants. The Company failed to meet its debt service coverage covenant for the year ended December 31, 2002, but in the first quarter of 2003 the financial institution waived this default and other defaults relating to reports and the termination of the Company's former Chairman and Chief Executive Officer. Monthly payments on this mortgage are based on a twenty year amortization schedule with a balloon payment representing the remaining balance due in full on March 10, 2010. The mortgage is collateralized by the Company's West Bridgewater, MA facility, which has a net book value of approximately \$1,977,000 as of June 30, 2003.

(10) Subsequent Event

On July 9, 2003, the Company announced Mr. Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer, agreed to accept an engagement with the Company as an Executive Consultant to advise the Company with respect to the strategic direction of the Company's PCT and BBI Source Scientific activities and the Company's ownership interest in Panacos Pharmaceuticals, Inc. BBI Source Scientific is the Company's California-based instrument subsidiary, which developed and manufactures the PCT Barocycler instrument. As part of this engagement, Mr. Schumacher is expected to reevaluate the ongoing business prospects for both the Laboratory Instrumentation segment and PCT activities prior to the end of year 2003.

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

RECENT DEVELOPMENTS

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

On July 9, 2003, the Company announced Mr. Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer, agreed to accept an engagement with the Company as an Executive Consultant to advise the Company with respect to the strategic direction of the Company's PCT and BBI Source Scientific activities and the Company's ownership interest in Panacos Pharmaceuticals, Inc. BBI Source Scientific is the Company's California-based instrument subsidiary which developed and manufactures the PCT Barocyler instrument. As part of this engagement, Mr. Schumacher is expected to reevaluate the ongoing business prospects for both the Laboratory Instrumentation segment and PCT activities prior to the end of year 2003.

CRITICAL ACCOUNTING POLICIES

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 AND 2002

Revenue

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

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

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

Gross Profit

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

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

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

Research and Development

Research and development expenditures declined 33.4%, or \$211,000, to \$420,000 in the second quarter of 2003 from \$631,000 in the second quarter of 2002. The decreased level of expenditures was associated primarily with a reduced level of work associated with PCT related projects. The Company announced the availability for commercial sale of its PCT products in late September 2002.

Selling and Marketing

Selling and marketing expenses decreased by 4.0%, or \$33,000, to \$782,000 in the second quarter of 2003 from \$815,000 in the second quarter of 2002. The Company incurred a higher level of marketing and promotion related costs in the second quarter of 2002 associated with its year 2002 introduction of the PCT BarocyclerTM.

General and Administrative

General and administrative expenses decreased 6.8%, or \$80,000, to \$1,100,000 in the second quarter of 2003 from \$1,180,000 in the second quarter of 2002. The decrease is due to a decline in employee health care costs coupled with reduced compensation costs associated with the elimination of the salary that would have been paid to the Company's former Chairman and Chief Executive Officer who was terminated in February 2003. This decrease was offset by approximately \$100,000 of increased legal, audit and director fees incurred by the Special Oversight Committee of the Company's Board of Directors, formed in February 2003, in conjunction with the termination of the Company's Chairman and Chief Executive Officer, for the purpose of overseeing the management of the affairs of the Company until such time as a new Chief Executive Officer is employed.

Operating Loss

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Operating loss amounted to \$(156,000) in the second quarter of 2003 compared to an operating loss of \$(247,000) in the second quarter of 2002. The Diagnostics segment's operating income decreased to \$402,000 in the second quarter of 2003 from \$549,000 in the second quarter of 2002, associated with a 4.2% decline in product revenue at the Diagnostics segment as explained above. The Biotech segment's operating profit amounted to \$12,000 in the second quarter of 2003 as compared to an operating loss of \$(243,000) in the second quarter of 2002, due to higher revenues associated with work on contract research services and government repository services. The operating loss of the PCT segment decreased to \$(301,000) in the second quarter of 2003 from \$(447,000) in the second quarter of 2002 primarily due to reduced patents, trade show and research and development costs. The PCT segment, which includes both private and public (National Institutes of Health) funding of segment research, continues to experience lower than expected product sales since commercial launch in September 2002 associated with a longer than expected selling cycle. The Laboratory Instrumentation segment's operating loss increased to \$(269,000) in the second quarter of 2003 from \$(106,000) in the second quarter of 2002. This segment recorded a 23.1% decline in revenue due to a lower level of both contract manufacturing work and instrument development services for PCT coupled with increased costs associated with a facility lease renewal effective February 1, 2002.

Interest Expense

Interest expense, primarily from the Company's outstanding mortgage, increased \$14,000 as compared to the second quarter of 2002, associated with increased fees due to the Company's default of a mortgage covenant. The Company failed to meet its debt service coverage covenant for the year ended December 31, 2002, but in the first quarter of 2003 the financial institution waived this default and the Company's other defaults relating to reports and

the termination of the Company's former Chairman and Chief Executive Officer. The fees were incurred to waive these defaults.

Evaluation of Financial Asset

As of June 30, 2003, the Company reevaluated the recoverability of the loan receivable from Mr. Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer as discussed further in Note 6 of Notes to Consolidated Financial Statements. The Company's review included an evaluation of the adequacy of the collateral associated with the loan. The Company's security interest in this collateral is a junior interest subordinated to the financial institution that provided the loan to the entity controlled by Mr. Schumacher. The collateral consists of real estate holdings and common stock of the Company. In evaluating the adequacy of the collateral, the Company considered the outstanding balance of the financial institution's loan to the entity controlled by Mr. Schumacher and the fact that the Company has a junior position in the collateral, as well as the liquidity and net realizable value of the assets underlying the collateral. The Company's analysis assumes transaction costs to sell the properties, and applies a liquidity discount to the trading value of the common stock. The ultimate value that may be recovered by the Company is dependent on numerous factors including market conditions relative to the real estate, the value of and ability to sell the Company's common stock, and the financial status of Mr. Schumacher. At December 31, 2002, the Company performed a test for impairment of the restricted cash by analyzing the value of the collateral, and determined that the restricted cash was not impaired. While the restricted cash was not impaired as of December 31, 2002, the termination of Mr. Schumacher by the Board of Directors in February 2003, together with the decline in the quoted market value of the Company's common stock subsequent to December 31, 2002, which comprises a major element of the collateral, are indicators of impairment. The Company has reevaluated the adequacy of the value of the collateral as of June 30, 2003 and through July 21, 2003. The value of the collateral as of July 21, 2003 approximates the amount of the Company's recorded loan (including interest) as of June 30, 2003; the value of the collateral is based primarily on the changing market value of the Company's common stock which is pledged as collateral. Accordingly, the Company has not recorded any permanent impairment of loan value in the first half of 2003. If actual market conditions are less favorable or other factors arise in the future that are significantly different than those anticipated by management, the establishment of a valuation reserve against this asset might be required. Mr. Schumacher has notified the Company of a payment to the financial institution against the loan during the second quarter of 2003 utilizing personal assets that were not pledged as collateral, thereby increasing the collateral to loan ratio.

Income Taxes

In 2000, the Company established a full valuation allowance for its deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109 and in consideration of three consecutive years of losses; accordingly, the Company has not recognized an income tax benefit associated with the loss from operations in the second quarter of 2003 and the second quarter of 2002.

Net Loss

The Company had a net loss of \$(225,000) in the second quarter of 2003 as compared to a net loss of \$(294,000) in the second quarter of 2002.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2003 AND 2002

Revenue

Total revenue increased 7.9%, or \$857,000, to \$11,666,000 in the first six months of 2003 from \$10,809,000 in the first six months of 2002. The increase in revenue was the result of an increase in product revenue of 1.5% or \$98,000, to \$6,662,000 in the first six months of 2003 from \$6,564,000 in the first six months of 2002, coupled with a 17.9% or \$758,000 increase in service revenue to \$5,004,000 in the first six months of 2003 as compared to service revenue of \$4,246,000 in the first six months of 2002.

Product Revenue. The increase in product revenue occurred in the Diagnostics segment and was due primarily to sales associated with newly released AccuRun products and custom (OEM) panels, which included one

large order from an international distributor. In the first half of 2002 however, product revenues were offset and adversely impacted by delays from several customers at the Diagnostics segment in getting final customer approval for shipment, and the impact of the Company's increased focus on commercializing PCT, which diverted resources from other projects. The increase in product revenues was also partially offset by a lower level of contract manufacturing orders at the Laboratory Instrumentation segment.

Service Revenue. The \$758,000 increase in service revenue was primarily related to increased contract service work associated with repository activities performed at the Biotech segment.

Gross Profit

Overall gross profit increased 1.6%, or \$69,000 to \$4,332,000 in the first six months of 2003 from \$4,263,000 in the first six months of 2002. Product gross profit decreased 3.8%, or \$126,000, to \$3,147,000 in the first six months of 2003 from \$3,273,000 in the first six months of 2002; product gross margin decreased to 47.3% in the first six months of 2003 from 49.9% in the first six months of 2002. Services gross profit increased \$194,000 or 19.6% to \$1,184,000 in the first six months of 2003 from \$990,000 in the first six months of 2002, while service gross margin increased slightly to 23.7% in the first six months of 2003 from 23.3% in the first six months of 2002.

Product Gross Margin. The decline in product gross margin was primarily due to an unfavorable product sales mix shift to lower margin products coupled with increased manufacturing processing costs at the Diagnostics segment.

Service Gross Margin. The service gross margin increase was primarily due to increased service revenues at the Biotech segment and PCT related grant revenue combined with an increased level of billable hours associated with government contract reimbursable work.

Research and Development

Research and development expenditures declined 40.9%, or \$568,000, to \$821,000 in the first six months of 2003 from \$1,389,000 in the first six months of 2002. The decreased level of expenditures was associated primarily with a reduced level of work associated with PCT related projects. The Company announced the availability for commercial sale of its PCT products in late September 2002.

Selling and Marketing

Selling and marketing expenses decreased by 8.1%, or \$140,000, to \$1,590,000 in the first six months of 2003 from \$1,730,000 in the first six months of 2002. The Company incurred significant marketing and promotion related costs in the first six months of 2002.

associated with its introduction of the PCT Barocycler™ at an industry trade show.

General and Administrative

General and administrative costs increased 1.8%, or \$41,000, to \$2,267,000 in the first six months of 2003 from \$2,226,000 in the first six months of 2002. The increase is associated with legal, audit and director fees incurred by the Special Oversight Committee of the Company's Board of Directors, formed in February 2003, in conjunction with the termination of the Company's Chairman and Chief Executive Officer, for the purpose of overseeing the management of the affairs of the Company until such time as a new Chief Executive Officer is employed. The Company also incurred increased legal fees associated with the March 2003 adoption of a Shareholder Purchase Rights Plan. These increases were partially offset by reduced compensation costs due to the elimination of the salary that would have been paid to the Company's former Chairman and Chief Executive Officer who was terminated in February 2003, and lower employee health care costs.

Operating Loss

Operating loss amounted to \$(346,000) in the first six months of 2003 compared to an operating loss of \$(1,083,000) in the first six months of 2002. The Diagnostics segment's operating income increased to \$859,000 in the first six months of 2003 from \$687,000 in the first six months of 2002, due to an increase in product sales associated with newly released AccuRun products and custom (OEM) panels, which included one large order from an international distributor in the first six months of 2003. The Biotech segment's operating loss decreased to \$(45,000) in the first six months of 2003 from \$(376,000) in the first six months of 2002; higher revenues associated with work on two research contracts and increased repository services combined with an increased level of billable hours associated with government contract reimbursable work was partially offset by higher wages, supplies and facility costs. The operating loss of the PCT segment decreased to \$(683,000) in the first six months of 2003 from \$(1,239,000) in the first six months of 2002 primarily due to reduced patents, trade show and research and development costs. The PCT segment, which includes both private and public (National Institutes of Health) funding of segment research, continues to experience lower than expected product sales since commercial launch in September 2002 associated with a longer than expected selling cycle. The Laboratory Instrumentation segment's operating loss increased to \$(477,000) in the first six months of 2003 from \$(155,000) in the first six months of 2002. This segment recorded a 29.5% decline in revenue due to a lower level of both contract manufacturing work and instrument development services for PCT coupled with increased costs associated with a facility lease renewal effective February 1, 2002.

Interest Expense

Interest expense, primarily on the Company's outstanding mortgage, increased \$22,000 in the first six months of 2003 as compared to the first six months of 2002, due to increased fees associated with the Company's default of a mortgage covenant. The Company failed to meet its debt service coverage covenant for the year ended December 31, 2002, but in the first quarter of 2003 the financial institution waived this default and the Company's other defaults relating to reports and the termination of the Company's former Chairman and Chief Executive Officer. The fees were incurred to waive these defaults.

Evaluation of Financial Asset

As of June 30, 2003, the Company reevaluated the recoverability of the loan receivable from Mr. Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer as discussed further in Note 6 of Notes to Consolidated Financial Statements. The Company's review included an evaluation of the adequacy of the collateral associated with the loan. The Company's security interest in this collateral is a junior interest subordinated to the financial institution that provided the loan to the entity controlled by Mr. Schumacher. The collateral consists of real estate holdings and common stock of the Company. In evaluating the adequacy of the collateral, the Company considered the outstanding balance of the financial institution's loan to the entity controlled by Mr. Schumacher and the fact that the Company has a junior position in the collateral, as well as the liquidity and net realizable value of the assets underlying the collateral. The Company's analysis assumes transaction costs to sell the properties, and applies a liquidity discount to the trading value of the common stock. The ultimate value that may be recovered by the Company is dependent on numerous factors including market conditions relative to the real estate, the value of and ability to sell the Company's common stock, and the financial status of Mr. Schumacher. At December 31, 2002, the Company performed a test for impairment of the restricted cash by analyzing the value of the collateral, and determined that the restricted cash was not impaired. While the restricted cash was not impaired as of December 31, 2002, the termination of Mr. Schumacher by the Board of Directors in February 2003, together with the decline in the quoted market value of the Company's common stock subsequent to December 31, 2002, which comprises a major element of the collateral, are indicators of impairment. The Company has reevaluated the adequacy of the value of the collateral as of June 30, 2003 and through July 21, 2003. The value of the collateral as of July 21, 2003 approximates the amount of the Company's recorded loan (including interest) as of June 30, 2003; the value of the collateral is based primarily on the changing market value of the Company's common stock which is pledged as collateral. Accordingly, the Company has not recorded any permanent impairment of loan value in the first half of 2003. If actual market conditions are less favorable or other factors arise in the future that are significantly different than those anticipated by management, the establishment of a valuation reserve against this asset might be required. Mr. Schumacher has notified the Company of a payment to the

financial institution against the loan during the second quarter of 2003 utilizing personal assets that were not pledged as collateral, thereby increasing the collateral to loan ratio.

Income Taxes

In 2000, the Company established a full valuation allowance for its deferred tax assets in accordance with

Statement of Financial Accounting Standards No. 109 and in consideration of three consecutive years of losses; accordingly, the Company has not recognized an income tax benefit associated with the loss from operations in the first six months of 2003 and the first six months of 2002.

Net Loss

The Company had a net loss of \$(479,000) in the first six months of 2003 as compared to a net loss of \$(1,181,000) in the first six months of 2002.

LIQUIDITY AND FINANCIAL CONDITION

The Company's working capital position decreased slightly to \$8,113,000 as of June 30, 2003 from \$8,197,000 (excluding \$1,000,000 of restricted cash) as of December 31, 2002.

Net cash provided by operations for the six months ended June 30, 2003 was \$14,000 as compared to net cash used by operations of \$454,000 for the six months ended June 30, 2002. Cash provided by operations during the first six months of 2003 was primarily the result of a significantly reduced level of inventory purchases, partially offset by an increase in accounts receivable, a reduction in accounts payable coupled with a lower year to date loss from operations as compared to the same period last year. The operational use of cash during the first six months of 2002 was primarily the result of the year to date loss and the buildup of raw materials inventory partially offset by favorable cash collections of receivables.

Net cash used in investing activities for the six months ended June 30, 2003 was \$28,000 compared to \$406,000 for the six months ended June 30, 2002. The Company has significantly curtailed current year capital expenditures in conjunction with its efforts to seek additional capital as discussed further hereunder.

Net cash used in financing activities for the six months ended June 30, 2003 was \$47,000 compared to cash used of \$390,000 during the six months ended June 30, 2002. In the first six months of 2002, as discussed further under "Related Party Transaction" below, the Company pledged \$1,000,000 via a deposit in an interest bearing account at a financial institution in early 2002; this was partially offset by a \$525,000 repayment in 2002 to the Company of a loan by its former Chief Executive Officer (CEO).

Based on current forecasts, management believes the Company has sufficient liquidity to finance operations for the next twelve months.

Management's forecasts involve assumptions that could prove to be incorrect. If the Company continues to incur operating losses or negative cash flows, it may need to raise additional funds. There can be no assurance that these funds will be available when required on terms acceptable to the Company, if at all. If adequate funds are not available when needed, the Company may be required to further reduce certain of its costs and delay, scale back, or eliminate certain of its activities, any of which could have a material adverse long term effect on its business, financial condition and results of operations. The Company is considering various sources of additional financing, including but not limited to, sale of business segments, strategic alliances and private placements of debt or equity securities, which could result in dilution to the Company's stockholders. On October 25, 2002, the Company retained an investment banking firm to advise the Company in the evaluation of strategic opportunities aimed at increasing shareholder value and liquidity by increasing the capital needed for growth; their engagement continues at this

date.

Related Party Transaction

As of December 31, 2001, the Company had entered into a one year loan of \$525,000 to Mr. Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer and a current Director of the Company, renewable at the Company's option, and collateralized by 90,000 of Mr. Schumacher's shares of the Company's common stock. This loan constituted an increase from the \$350,000 that had been loaned as of September 30, 2001. Interest on the loan was payable monthly at the annual rate of 7%. In January 2002, the principal of these loans was repaid in full with a portion of the proceeds of the loans described in the following sentence. The Company's loans were replaced by the Company's pledge of a \$1,000,000 interest bearing deposit at a financial institution to secure the Company's limited guaranty of loans in the aggregate amount of \$2,418,000 from the financial institution to an entity controlled by Mr. Schumacher. The loans are personally guaranteed by Mr. Schumacher. The Company's pledge is secured by a junior subordinated interest in the collateral provided by Mr. Schumacher to the financial institution. Such collateral includes certain of his real property and all of his common stock holdings in the

Company. The Company's original loan and subsequent pledge of \$1,000,000 were made to assist Mr. Schumacher in refinancing indebtedness related to, among other things, his divorce settlement and to enable him to avoid the need to sell his common stock holdings in the Company on the open market to satisfy his debts. The Company's Board of Directors and, with respect to the decision to pledge the \$1,000,000 cash collateral, a special committee of the independent directors, evaluated a number of options and concluded that the original loan to Mr. Schumacher and the subsequent pledge were the best option and in the best interests of the Company's stockholders in the belief that it would, among other things, avoid selling pressure on the Company's common stock and relieve the financial pressures on Mr. Schumacher that could otherwise divert his attention from the Company. In January 2003, the \$1,000,000 account was used to satisfy the Company's limited guaranty obligation. The Company has now satisfied its obligation under the limited guaranty and pledge with the financial institution. The Company continues to maintain its junior interest in the collateral pledged by Mr. Schumacher to the financial institution. The Company reflected the \$1,000,000 pledge as restricted cash on its balance sheet until the cash was used to satisfy the Company's limited guaranty in January 2003 and since then has recorded a \$1,000,000 loan receivable on its balance sheet as a reduction of stockholders' equity. As discussed further above, the Company has reevaluated the adequacy of the value of the collateral as of June 30, 2003 and through July 21, 2003. The value of the collateral as of July 21, 2003 approximates the amount of the Company's recorded loan (including interest) as of June 30, 2003; the value of the collateral is based primarily on the changing market value of the Company's common stock which is pledged as collateral. Accordingly, the Company has not recorded any permanent impairment of loan value in the first half of 2003. If actual market conditions are less favorable or other factors arise in the future that are significantly different than those anticipated by management, the establishment of a valuation reserve against this asset might be required. Mr. Schumacher has notified the Company of a payment to the financial institution against the loan during the second quarter of 2003 utilizing personal assets that were not pledged as collateral, thereby increasing the collateral to loan ratio.

On February 14, 2003, the Company announced that the Company's Board of Directors had terminated Mr. Schumacher as Chairman and Chief Executive Officer, effective immediately. Mr. Schumacher remains a Director of the Company. William A. Wilson, a Director, was named Chairman of the Board. Kevin W. Quinlan, President and Chief Operating Officer, continues to lead day-to-day operations. A special committee of the Board of Directors was appointed for the purpose of overseeing the management of the affairs of the Company until such time as a new Chief Executive Officer is employed.

On July 9, 2003, the Company announced Mr. Richard T. Schumacher, the Company's former Chairman and Chief Executive Officer, agreed to accept an engagement with the Company as an Executive Consultant to advise the Company with respect to the strategic direction of the Company's PCT and BBI Source Scientific activities and the Company's ownership interest in Panacos Pharmaceuticals, Inc. BBI Source Scientific is the Company's California-based instrument subsidiary, which developed and manufactures the PCT Barocycler instrument. As part of this engagement, Mr. Schumacher is expected to reevaluate the ongoing business prospects for both the Laboratory Instrumentation segment and PCT activities prior to the end of year 2003.

CONTRACTUAL OBLIGATIONS

As of June 30, 2003, there have been no significant changes in the Company's contractual obligations previously disclosed as of December 31, 2002.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements which involve risks and uncertainties, including statements regarding the Company's plans, objectives, expectations and intentions. In some cases, forward-looking statements are identified by terms such as may, will, should, could, would, expects, plans, anticipates, believes, estimates, projects, predicts, potential, and similar expressions. Such statements include, without limitation, statements made regarding the expected recovery and value of

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the loan receivable from the Company's former Chairman and Chief Executive Officer, the Company's belief that it has sufficient liquidity to finance operations over the next twelve months, and the anticipated future financial performance of the Company and its products. These forward-looking statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Also, these forward-looking statements represent the Company's best estimates and assumptions only as

of the date of this Report. Except as otherwise required by law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in the Report to reflect any change in the Company's expectations or any change in events, conditions, or circumstances on which any of the Company's forward-looking statements are based.

Factors which might cause actual results to differ materially from those projected in the forward-looking statements contained herein include the following: the Company may not be successful in commercializing its PCT products and services, or such activities may take longer than currently expected; the Company may not have sufficient resources to develop new or improved PCT products; demand for commercial applications of PCT may not materialize as expected or may take longer than expected to materialize; PCT may also not be adaptable to any other commercially viable applications; certain PCT applications may not fall within the claims of the Company's nine issued U.S. patents; individuals and groups utilizing PCT may be able to license such technology from entities other than the Company; due to operational, scientific or technical difficulties in the implementation of the Company's strategies and changes in customer demand, the Company's sales to IVD test kit manufacturers and sales of ACCURUN and other quality control products may decline; the Company may be unable to develop the end-user market for its quality control products; the Company may be unable to grow the sales of Source Scientific, Inc. to the extent anticipated; the uncertainty of the renewal and full funding of contracts with National Institutes of Health (NIH); the Company may be unable to obtain an adequate supply of the unique and rare specimens of plasma and serum necessary for certain of its products; the potential for significant reductions in purchases by any of the Company's major customers; the Company may be unable to obtain the necessary government approvals for certain of its products; the Company may be unable to compete effectively due to rapid changes in technology; the Company may be unable to attract and retain a qualified individual to serve as Chief Executive Officer; the collateral securing the Company's loan receivable from its former Chairman and Chief Executive Officer may be impaired, and the Company may not be able to fully collect the principal and interest due on a \$1,000,000 receivable from the former Chairman and Chief Executive Officer; and if expenses are higher than anticipated, or if revenues are lower than anticipated, the Company may require additional capital sooner than expected and there can be no assurance that the Company will be able to obtain additional financing or capital on acceptable terms, or that it will be successful in eliminating or scaling back certain of its activities. Certain of these and other factors which might cause actual results to differ materially from those projected are more fully set forth under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the reported market risks since December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer/Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2003, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer/Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Executive Officer/Principal Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process,

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summarize and report information required to be included in our periodic SEC filings within the required time period.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.		Reference
3.1	Amended and Restated Articles of Organization of the Company	(A)**
3.2	Amended and Restated Bylaws of the Company	(A)**
3.3	Amendment to Amended and Restated Bylaws of the Company	(C)**
4.1	Specimen Certificate for Shares of the Company's Common Stock	(A)**
4.2	Description of Capital Stock (contained in the Restated Articles of Organization of the Company filed as Exhibit 3.1)	(A)**
4.3	Form of warrants issued in connection with Paradigm Group	(H)**
4.4	3% Senior Subordinated Convertible Debenture issued to GCA Strategic Investment Fund Limited	(K)**
4.5	Warrant issued to GCA Strategic Investment Fund Limited	(K)**
4.6	Warrant issued to Wharton Capital Partners, Ltd.	(K)**
4.7	Warrant issued to DP Securities, Inc.	(K)**
4.8	Registration Rights Agreement, dated as of August 25, 2000, by and among Boston Biomedica, Inc., Wharton Capital Partners, Ltd., DP Securities, Inc. and GCA Strategic Investment Fund Limited	(K)**
4.9	3% Senior Subordinated Convertible Debenture issued to Richard P. Kiphart	(K)**
4.10	3% Senior Subordinated Convertible Debenture issued to Shoreline Micro-Cap Fund, L.P.	(K)**

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4.11	Warrant issued to Richard P. Kiphart	(K)**
4.12	Warrant issued to Shoreline Micro-Cap Fund, L.P.	(K)**
4.13	Registration Rights Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., Richard P. Kiphart and Shoreline Micro-Cap Fund, L.P.	(K)**
4.14	Rights Agreement dated as of February 27, 2003 between Boston Biomedica, Inc., and Computershare Trust Company, Inc.	(Q)**
10.1	Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company	(A)**
10.2	Exclusive License Agreement, dated April 28, 1999, between the University of North Carolina at Chapel Hill and the Company	(A)**
10.3	Agreement, dated October 1, 1995, between Ajinomoto Co., Inc. and the Company	(A)**
10.4	Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company	(A)**
10.5	1987 Non-Qualified Stock Option Plan*	(A)**
10.6	Employee Stock Option Plan*	(A)**
10.7	1999 Non-Qualified Stock Option Plan*	(I)**
10.8	1999 Employee Stock Purchase Plan*	(I)**
10.9	Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P.	(B)**
10.10	Loan Agreement dated March 31, 2000	(C)**
10.11	Contract, dated March 1, 1997, between National Cancer Institute and the Company	(D)**
10.12	Lease Agreement, dated May 16, 1997, for Gaithersburg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company	(E)**
10.13	Lease Agreement dated January 30, 1995 for Garden Grove, California facility between TR Brell, Cal Corp. and Source Scientific, Inc., and Assignment of Lease, dated July 2, 1997, for Garden Grove, California facility between Source Scientific, Inc. and BBI Source Scientific	(F)**
10.14	Contract, dated July 1, 1998, between the National Institutes of Health and the Company (NO1-A1-85341)	(G)**
10.15	Contract, dated July 1, 1998, between the National Heart Lung and Blood Institute and the Company (NO1-HB-87144)	(G)**
10.16	Agreement with Paradigm Group for the purchase of warrants dated August 18, 1999	(H)**

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

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10.20	Repository Contract with National Institute of Allergy and Infectious Disease, Division of AIDS (NO1-A1-95381), dated August 16, 1999.	(J)**
10.21	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., and GCA Strategic Investment Fund Limited.	(K)**
10.22	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., Richard P. Kiphart and Shoreline Micro-Cap Fund, L.P.	(K)**
10.23	Mortgage and Security Agreement dated March 31, 2000	(L)**
10.24	Asset Purchase Agreement dated February 20, 2001, by and between BBI Clinical Laboratories, Inc., Boston Biomedica, Inc., and Specialty Laboratories, Inc.	(M)**
10.25	Promissory Note dated July 10, 2001, as amended on October 4, 2001, by and among Boston Biomedica, Inc. and Richard T. Schumacher.	(N)**
10.26	Subscription Agreement dated as of December 6, 2001 by and between Boston Biomedica, Inc., Richard P. Kiphart, Andrew Gluck, David Valentine, Rebecca Kiphart and Arthur Hill.	(O)**
10.27	Junior Participation Agreement dated as of January 15, 2002, by and between Commerce Bank and Trust Company, Resorts Accommodations International, LLC, Richard T. Schumacher and Boston Biomedica, Inc.	(O)**
10.28	Pledge and Security Agreement dated as of January 15, 2002, by and between Richard T. Schumacher, Boston Biomedica, Inc., and Commerce Bank and Trust Company.	(O)**
10.29	Pledge Agreement effective as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	(O)**
10.30	Limited Guaranty dated as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	(O)**
10.31	Description of Compensation for Certain Directors*	(P)**
10.32	First Amendment to lease dated as of December 12, 2001 by and between Cabot Industrial Properties, L. P. and BBI Source Scientific, Inc.	(P)**
31.1	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification Pursuant to Item 601(b)(32) of Regulation S-K, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith

(A) Incorporated by reference to the registrant's Registration Statement on Form S-1 (Registration No. 333-10759) (the Registration Statement). The number set forth herein is the number of the Exhibit in said Registration Statement.

(B) Incorporated by reference to Exhibit No. 10.17 of the Registration Statement.

(C) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

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- (D) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997.
- (E) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1997.
- (F) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.
- (G) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998.

- (H) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1999.
- (I) Incorporated by reference to the registrant's proxy statement, filed with the Securities and Exchange Commission on June 14, 1999.
- (J) Incorporated by reference to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1999.
- (K) Incorporated by reference to the registrant's Report on Form 8-K filed September 8, 2000.
- (L) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.
- (M) Incorporated by reference to the registrant's Report on Form 8-K filed March 8, 2001.
- (N) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001.
- (O) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- (P) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.
- (Q) Incorporated by reference to Exhibit 4 of the registrant's Current Report on Form 8-K filed March 12, 2003.

* Management contract or compensatory plan or arrangement.

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

(b) Reports on Form 8-K.

The Company filed a Form 8-K, dated April 2, 2003, relative to the Company's issuance of a press release on March 31, 2003 announcing its financial results for the fourth quarter and year ended December 31, 2002. The Company filed a Form 8-K, dated May 19, 2003, relative to the Company's issuance of a press release on May 16, 2003 announcing its financial results for the first quarter ended March 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BOSTON BIOMEDICA, INC.

(Registrant)

Date: August 14, 2003

By: */s/ Kevin W. Quinlan*
Kevin W. Quinlan
President and Chief Operating Officer and Treasurer
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

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4.10	3% Senior Subordinated Convertible Debenture issued to Shoreline Micro-Cap Fund, L.P.	(K)**
4.11	Warrant issued to Richard P. Kiphart	(K)**
4.12	Warrant issued to Shoreline Micro-Cap Fund, L.P.	(K)**
4.13	Registration Rights Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., Richard P. Kiphart and Shoreline Micro-Cap Fund, L.P.	(K)**
4.14	Rights Agreement dated as of February 27, 2003 between Boston Biomedica, Inc., and Computershare Trust Company, Inc.	(Q)**
10.1	Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company	(A)**
10.2	Exclusive License Agreement, dated April 28, 1999, between the University of North Carolina at Chapel Hill and the Company	(A)**

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10.3	Agreement, dated October 1, 1995, between Ajinomoto Co., Inc. and the Company	(A)**
10.4	Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company	(A)**
10.5	1987 Non-Qualified Stock Option Plan*	(A)**
10.6	Employee Stock Option Plan*	(A)**
10.7	1999 Non-Qualified Stock Option Plan*	(I)**
10.8	1999 Employee Stock Purchase Plan*	(I)**

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10.9	Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P.	(B)**
10.10	Loan Agreement dated March 31, 2000	(C)**
10.11	Contract, dated March 1, 1997, between National Cancer Institute and the Company	(D)**
10.12	Lease Agreement, dated May 16, 1997, for Gaithersburg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company	(E)**
10.13	Lease Agreement dated January 30, 1995 for Garden Grove, California facility between TR Brell, Cal Corp. and Source Scientific, Inc., and Assignment of Lease, dated July 2, 1997, for Garden Grove, California facility between Source Scientific, Inc. and BBI Source Scientific	(F)**
10.14	Contract, dated July 1, 1998, between the National Institutes of Health and the Company (NO1-A1-85341)	(G)**
10.15	Contract, dated July 1, 1998, between the National Heart Lung and Blood Institute and the Company (NO1-HB-87144)	(G)**
10.16	Agreement with Paradigm Group for the purchase of warrants dated August 18, 1999	(H)**
10.17	Agreement with MDBio for the purchase of common stock and common stock warrants, dated September 30, 1999	(J)**
10.18	Lease Agreement dated September 30, 1999, for Frederick, Maryland facility, between MIE Properties, Inc., and the Company.	(J)**
10.19	Sponsored Research Agreement with the University of North Carolina, Chapel Hill and the Company, dated, April 28, 1999 and the Company.	(J)**
10.20	Repository Contract with National Institute of Allergy and Infectious Disease, Division of AIDS (NO1-A1-95381), dated August 16, 1999.	(J)**
10.21	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., and GCA Strategic Investment Fund Limited.	(K)**
10.22	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., Richard P. Kiphart and Shoreline Micro-Cap Fund, L.P.	(K)**
10.23	Mortgage and Security Agreement dated March 31, 2000	(L)**
10.24	Asset Purchase Agreement dated February 20, 2001, by and between BBI Clinical Laboratories, Inc., Boston Biomedica, Inc., and Specialty Laboratories, Inc.	(M)**
10.25	Promissory Note dated July 10, 2001, as amended on October 4, 2001, by and among Boston Biomedica, Inc. and Richard T. Schumacher.	(N)**
10.26	Subscription Agreement dated as of December 6, 2001 by and between Boston Biomedica, Inc., Richard P. Kiphart, Andrew Gluck, David Valentine, Rebecca Kiphart and Arthur Hill.	(O)**
10.27		(O)**

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Junior Participation Agreement dated as of January 15, 2002, by and between Commerce Bank and Trust Company, Resorts Accommodations International, LLC, Richard T. Schumacher and Boston Biomedica, Inc.

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|-------|--|-------|
| 10.28 | Pledge and Security Agreement dated as of January 15, 2002, by and between Richard T. Schumacher, Boston Biomedica, Inc., and Commerce Bank and Trust Company. | (O)** |
| 10.29 | Pledge Agreement effective as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company. | (O)** |
| 10.30 | Limited Guaranty dated as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company. | (O)** |
| 10.31 | Description of Compensation for Certain Directors* | (P)** |

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10.32	First Amendment to lease dated as of December 12, 2001 by and between Cabot Industrial Properties, L. P. and BBI Source Scientific, Inc.	(P)**
31.1	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification Pursuant to Item 601(b)(32) of Regulation S-K, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith

(A) Incorporated by reference to the registrant's Registration Statement on Form S-1 (Registration No. 333-10759) (the Registration Statement). The number set forth herein is the number of the Exhibit in said Registration Statement.

(B) Incorporated by reference to Exhibit No. 10.17 of the Registration Statement.

(C) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

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

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

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

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

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

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

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

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

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

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

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

- (O) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- (P) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002.
- (Q) Incorporated by reference to Exhibit 4 of the registrant's Current Report on Form 8-K filed March 12, 2003.

* Management contract or compensatory plan or arrangement.

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