BIOSPECIFICS TECHNOLOGIES CORP
Form 10QSB
September 26, 2007

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

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

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

BIOSPECIFICS TECHNOLOGIES CORP.
(Exact name of small business issuer as specified in its charter)

Delaware	**0-19879**	**11-3054851**
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. Employer Identification No.)

35 Wilbur Street
Lynbrook, NY 11563
(Address of principal executive office)

516.593.7000
(Issuer's telephone number)

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

Yes [ ] No [X]

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

Yes [ ] No [X]

State the number of shares outstanding of the issuer's classes of common equity, as of the latest practicable date:

Class of Stock	Outstanding September 4, 2007

Common Stock ($.001 par value)	5,316,101

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

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BIOSPECIFICS TECHNOLOGIES CORP.

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Introductory Comments – Terminology

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

Introductory Comments – Forward Looking Statements

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

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PART I– FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

BIOSPECIFICS TECHNOLOGIES CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2007 (unaudited)
Assets	
Current assets:	
Cash and cash equivalents	$ 2,624,246
Accounts receivable, net	47,058
Prepaid expenses and other current assets	124,162
Total current assets	**2,795,466**
Property, plant and equipment, net	51,751
Total assets	**2,847,217**
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued expenses	1,909,453
Deferred revenue	1,437,116
Accrued tax and other accrued liabilities of discontinued operations	78,138
Total current liabilities	**3,424,707**
Long-term deferred revenue	3,625,192
Stockholders' equity (deficit):	
Series A Preferred stock, $.50 par value, 700,000 shares authorized; none outstanding	-
Common stock, $.001 par value; 10,000,000 shares authorized; 5,447,368 and 5,365,816 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	5,447
Additional paid-in capital	4,303,927
Retained earnings (deficit)	(7,192,325)
Treasury stock, 131,267 shares at cost at June 30, 2007 and December 31, 2006	(693,957)
Notes receivable from former CEO and Chairman and other related party	(625,774)
Total stockholders' equity (deficit)	**(4,202,682)**
Total liabilities and stockholders’ equity	**$ 2,847,217**

See accompanying notes to consolidated financial statements

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BIOSPECIFICS TECHNOLOGIES CORP. AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenues:				
Net sales	$ 10,832	$ 6,883	$ 11,932	$ 13,676
Licensing fees	289,279	289,279	578,558	578,558
Consulting fees	70,000	70,000	140,000	93,333
	370,111	366,162	730,490	685,567
Costs and expenses:				
General and administrative	812,947	845,271	1,910,414	1,817,666
Research and development	72,060	247,847	458,419	993,212
	885,007	1,093,118	2,368,833	2,810,878
Operating loss from continuing operations	(514,896)	(726,956)	(1,638,343)	(2,125,311)
Other income (expense):				
Interest income	36,894	64,313	78,143	82,138
Interest expense	-	(16)	-	(521)
	36,894	64,297	78,143	81,617
Loss from continuing operations before benefit (expense) for income tax	(478,002)	(662,659)	(1,560,200)	(2,043,694)
Income tax benefit (expense)	-	-	(3,600)	-
Net income (loss) from continuing operations	**(478,002)**	**(662,659)**	**(1,563,800)**	**(2,043,694)**
Discontinued operations:				
Net loss from discontinued operations	-	-	-	(1,115,704)
Net gain on the sale of assets	-	(31)	-	3,601,071
Net income (loss)	**$ (478,002)**	**$ (662,690)**	**$ (1,563,800)**	**$ 441,673**
Basic net income (loss) per share:				
From continuing operations	$ (0.09)	$ (0.13)	$ (0.30)	$ (0.39)
From discontinued operations	$ -	$ -	$ -	$ 0.48
Basic net income (loss) per share	**$ (0.09)**	**$ (0.13)**	**$ (0.30)**	**$ 0.09**
Diluted net income (loss) per share:				
From continuing operations	$ (0.09)	$ (0.13)	$ (0.30)	$ (0.39)
From discontinued operations	$ -	$ -	$ -	$ 0.48
Diluted net income (loss) per share	**$ (0.09)**	**$ (0.13)**	**$ (0.30)**	**$ 0.09**
	5,275,337	**5,231,679**	**5,255,354**	**5,205,147**

Shares used in computation of basic net income (loss) per share				
Shares used in computation of diluted net income (loss) per share	**5,275,337**	**5,231,679**	**5,255,354**	**5,205,295**

See accompanying notes to consolidated financial statements

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BIOSPECIFICS TECHNOLOGIES CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended June 30,	
Cash flows from operating activities:	**2007**	**2006**
Net loss	$ (1,563,800)	$ (2,043,694)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,072	19,412
Issuance of restricted stock for services	-	7,875
Stock-based compensation expense	248,144	423,762
Changes in operating assets and liabilities:		
Accounts receivable	(234)	(27,457)
Prepaid expenses and other current assets	(75,448)	(32,499)
Accounts payable and accrued expenses	194,556	541,009
Employee bonus plan liability	-	(6,600)
Deferred revenue	(318,558)	(246,891)
Net cash provided by (used in) operating activities from continuing operations	**(1,499,269)**	**(1,365,083)**
Net cash provided by (used in) discontinued operations	**(321,037)**	**982,502**
Net cash provided by investing activities from discontinued operations	**-**	**6,058,713**
Cash flows from financing activities:		
Proceeds received from stock option exercises	77,374	-
Payment to minority shareholders	-	(83,406)
Net cash provided by (used in) financing activities from continuing operations	**77,374**	**(83,406)**
Net cash used in financing activities from discontinued operations	**-**	**-**
Increase in cash and cash equivalents	(1,742,932)	5,592,726
Cash and cash equivalents at beginning of year	4,367,178	539,380
Cash and cash equivalents at end of period	**$ 2,624,246**	**$ 6,132,106**
Supplemental disclosures of cash flow information:		
Cash paid during the periods for:		
Interest	$ -	$ 521
Taxes	$ 3,600	$ -

Supplemental disclosures of non-cash transactions:
In March 2007, in full repayment of the $304,398 loan owed to the Company by Wilbur Street Corporation (“WSC”), WSC offset $304,398 in back rent due from the Company in repayment of the loan. The transaction was recorded by reducing the rent payable by $304,398 and the receivable from the former CEO and Chairman by $98,253 and increasing additional paid in capital by $206,145.

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

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

See accompanying notes to consolidated financial statements

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BIOSPECIFICS TECHNOLOGIES CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007
(Unaudited)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

DISCONTINUED OPERATIONS

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

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

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

As consideration for the purchased assets including our API inventory we received $8 million in cash, DFB's assumption of certain liabilities, and the right to receive earn out payments in the future based on sales of certain products. In connection with the closing of the Asset Purchase Agreement, we agreed to provide certain technical assistance and certain transition services to DFB in consideration of fees and costs totaling over $1.4 million. DFB paid to us a partial payment of $425,000 in respect to the technical assistance to be provided by us. The consulting obligations generally expire during March 2011.

On January 8, 2007, we entered into an Amendment to the Asset Purchase Agreement with ABC-NY and DFB (the "Amendment") in order to clarify the intent of the parties with respect to certain provisions of

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the Asset Purchase Agreement and the parties are discussing further clarifications to address certain concerns raised by Auxilium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements are unaudited, but include all adjustments (consisting only of normal, recurring adjustments) which we consider necessary for a fair presentation of our financial position at such dates and the operating results and cash flows for those periods. Although we believe that the disclosures in our financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States (the “U.S.”) has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for quarterly reporting.

The information included in this Report should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-KSB for the year ended December 31, 2006 filed with the SEC on September 26, 2007 and our Quarterly Report on Form 10QSB for the quarter ended March 31, 2007 filed with the SEC on September 26, 2007. The Consolidated Balance Sheet as of December 31, 2006 is derived from our audited consolidated financial statements as of that date.

Principles of Consolidation

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

Management Estimates

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

Revenue Recognition

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

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

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

Product Sales

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

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

License Fees

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

Upfront License Fees

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

Milestones

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

The timing and amount of revenue that we recognize from licenses of technology, either from upfront fees or milestones where we are providing continuing services related to product development, is primarily dependent upon our estimates of the development period. We define the development period as the point from which research activities commence up to regulatory approval of either our, or our partners’, submission assuming no further research is necessary. As product candidates move through the development process, it is necessary to revise these estimates to consider changes to the product development cycle, such as changes in the clinical development plan, regulatory requirements, or various other factors, many of which may be outside of our control. Should the FDA or other regulatory agencies require additional data or information, we would adjust our development period estimates accordingly. The impact on revenue of changes in our estimates and the timing thereof is recognized prospectively over the remaining estimated product development period.

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Consulting and Technical Assistance Services

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

Stock-Based Compensation

Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), we estimate the fair value of our employee stock awards at the date of grant using the Black-Scholes option-pricing model, which requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates of the expected volatility of the market price of our stock and the expected term of the award. When establishing an estimate of the expected term of an award, we consider the vesting period for the award, our recent historical experience of employee stock option exercises (including forfeitures) and the expected volatility. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, our valuation assumptions used to value employee stock-based awards granted in future periods may change.

Further, SFAS 123(R) requires that employee stock-based compensation costs be recognized over the requisite service period, or the vesting period, in a manner similar to all other forms of compensation paid to employees. The allocation of employee stock-based compensation costs to each operating expense line are estimated based on specific employee headcount information at each grant date and estimated stock option forfeiture rates and revised, if necessary, in future periods if actual employee headcount information or forfeitures differ materially from those estimates. As a result, the amount of employee stock-based compensation costs we recognize in each operating expense category in future periods may differ significantly from what we have recorded in the current period.

Employee stock-based compensation expense recognized under SFAS 123(R) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Research and development	$ 1,660	$ -	$ 4,240	$ 60,605
General and administrative	107,937	4,785	243,904	363,155
Total stock-based compensation expense	$ 109,597	$ 4,785	$ 248,144	$ 423,760

Stock Option Activity

A summary of our stock option and warrant activity during the six months ended June 30, 2007 is presented below:

Option	Total Number of Shares	Weighted-Average Exercise Price
Outstanding as of December 31, 2006	1,281,125	$1.17
Granted	152,000	$4.30
Forfeited	(32,273)	$1.99
Exercised	(81,552)	$1.14
Expired	-	-
	1,319,300	$1.32

Outstanding as of June 30, 2007		
Exercisable as of June 30, 2007	1,016,300	$1.51

The weighted-average grant-date fair value for options granted during the six months ended June 30, 2007 was $4.30 per share and $1.02 per share in the corresponding six month period of 2006. During the six

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months ended June 30, 2007 and 2006, $77,374 and zero was received from stock options exercised by employees, respectively.

The aggregate intrinsic value of options outstanding and exercisable as of June 30, 2007 was approximately $3,191,182. Aggregate intrinsic value represents the total pre-tax intrinsic value, based on the closing prices of our common stock of $4.65 on June 30, 2007, which would have been received by the option holders had all option holders exercised their options as of that date. Total unrecognized compensation cost related to nonvested stock options outstanding as of June 30, 2007 was $397,608 which we expect to recognize over a weighted-average period of 1.2 years.

Recent Accounting Pronouncements

In July 2006, FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” (“SFAS No. 48”) which is effective for fiscal years beginning after December 15, 2006. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition. We adopted the Interpretation on January 1, 2007. The application of SFAS No. 48 is not expected to have a material effect on our financial position and results of operations.

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

3. DISCONTINUED OPERATIONS

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

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

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

As consideration for the purchased assets including our API inventory we received $8 million in cash, DFB’s assumption of certain liabilities, and the right to receive earn out payments in the future based on sales of certain products. In connection with the closing of the Asset Purchase Agreement, we agreed to provide certain technical assistance and certain transition services to DFB in consideration of fees and costs totaling over $1.4 million. DFB paid to us a partial payment of $425,000 in respect to the technical assistance to be provided by us. In March 2007, DFB paid us an additional $400,000 under the terms of the agreement. The consulting obligations generally expire during March 2011.

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For accounting purposes, the operating results of ABC-Curacao and certain operations of ABC-NY have been classified as discontinued operations in the Consolidated Statement of Operations for all periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Income (loss) from discontinued operations	$ -	$ -	$ -	$ (1,115,704)
Pre-tax gain (loss) on disposal of discontinued operations [1]	-	(31)	-	$ 3,601,071
Income (loss) from discontinued operations	$ -	$ (31)	$ -	$ 2,485,367

(1) We did not record any tax liability associated with the gain on the disposal of discontinued operations in 2006 due to our large net operating loss carryforwards.

4. NET LOSS PER SHARE

In accordance with SFAS No. 128, “Earnings Per Share” (SFAS 128), basic net loss per share amount is computed using the weighted-average number of shares of common stock outstanding during the periods presented, while diluted net loss per share is computed using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of diluted earnings per share result from the assumed exercise of stock options, and warrants using the if converted method. For the three and six months ended June 30, 2007 and 2006, we incurred a net loss from continuing operations and, as such, we did not include the effect of outstanding stock options or warrants in the diluted net loss per share calculations, as their effect would have been anti-dilutive.

The following table summarizes the number of common equivalent shares excluded from the calculation of diluted net loss per share from continuing operations reported in the consolidated statement of operations as their effect would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Stock options	1,266,967	1,061,925	1,235,384	996,925
Warrants	10,000	10,000	10,000	10,000
Total	1,276,967	1,071,123	1,245,384	1,006,925

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following:

	June 30, 2007	December 31, 2006
Trade accounts payable and accrued expenses	$ 1,681,727	$ 1,751,014
Accrued legal and other professional fees	125,800	120,030
Accrued payroll and related costs	101,926	148,252
Total	$ 1,909,953	$ 2,019,296

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6. INCOME TAXES

We recorded minimum income tax provisions for the three and six month period ended June 30, 2007 of $3,600 and zero for the comparable period of 2006.

7. RELATED PARTY TRANSACTIONS

In March 2007, in full repayment of the $304,398 loan owed to the Company by Wilbur Street Corporation ("WSC"), WSC offset $304,398 in back rent due from the Company in repayment of the loan.

8. SUBSEQUENT EVENTS

None.

Item 2: Management's Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the Financial Statements and related notes thereto included elsewhere in this Report.

Overview

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

In March 2006, we sold the collagenase topical business to DFB to refocus our efforts on the clinical indications related to our collagenase injection business. Sales of this topical collagenase had declined significantly since the peak year of 1999. Under the terms of the Asset Purchase Agreement, DFB assumed ownership and operation of our wholly-owned subsidiary, ABC-Curacao, where the API is manufactured, along with certain other assets, including our FDA manufacturing license.

Prior to the sale of our collagenase topical business in March 2006, we had been in the business of manufacturing the API for a topical collagenase prescription product. This topical collagenase product is a FDA approved biologic product indicated for debridement of chronic dermal ulcers and severely burned areas. Under the terms of our agreement with Abbott, Abbott compounded the API into a topical collagenase ointment utilizing the API Enzyme manufactured by us. The topical collagenase was sold primarily to long-term care centers.

Outlook

We foresee the potential to generate income from limited sources in the next several years. Under the terms of our agreement with DFB, we are scheduled to receive certain contractual anniversary payments and, if DFB exceeds a certain sales target, we would be entitled to an earn out on sales. Under the terms of our agreement with Auxilium, we may receive milestone payments upon their achieving certain regulatory progress and if Auxilium elects to pursue additional indications for injectable collagenase ("Additional Indications"). In addition, as a result of our transaction with DFB in the first quarter of

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2006, our costs have been significantly reduced due mainly to the reduction in our workforce. Based on our current business model, we expect to have adequate cash reserves until the third quarter of 2008. In the longer term, a significant portion of our revenues are tied directly to the success of Auxilium in commercializing XIAFLEX ™.

Significant Risks

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

Critical Accounting Policies, Estimates and Assumptions

The preparation of unaudited consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The information at June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to state fairly the financial information set forth herein. The December 31, 2006 balance sheet amounts and disclosures included herein have been derived from the Company's December 31, 2006 audited consolidated financial statements. The interim results are not necessarily indicative of results to be expected for the full fiscal year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2006 and 2005 included in the Company's Form 10-KSB filed with the SEC on September 26, 2007 and our Quarterly Report on Form 10QSB for the quarter ended March 31, 2007 filed with the SEC on September 26, 2007. While our significant accounting policies are described in more detail in the notes to our unaudited consolidated financial statements, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our unaudited consolidated financial statements.

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

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

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

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upfront product license fees, for product candidates where we are providing continuing services related to product development, are deferred and recognized as revenue over the development period.

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

We recognize revenues from a consulting and technical assistance contract primarily as a result of the Asset Purchase Agreement. Consulting revenues are recognized ratably over the term of the contract. The consulting obligations under the Asset Purchase Agreement generally expire during March 2011.

Receivables and Deferred Revenue. Under our agreement with DFB, we agreed to provide certain technical assistance and transitional services in consideration of fees and costs totaling over $1.4 million. DFB paid to us a partial payment of $425,000 in respect to the technical assistance to be provided by us. In March 2007, DFB paid us an additional $400,000 under the terms of the agreement. The consulting obligations generally expire during March 2011. As of March 31, 2007 the remaining accounts receivable balance due was $575,000 for future services and was offset by the associated deferred revenues to be recognized in future periods of $575,000.

Inventory and Warranty Provisions. Our inventories are stated at the lower of cost or realizable market value. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements and compare that with the current inventory levels. In March 2006 we sold our topical collagenase business to DFB, including certain product inventory. As of a result of this sale our product inventory for the three and six months ended June 30, 2007 was zero.

Stock Based Compensation. Effective January 1, 2006, we account for employee stock-based compensation in accordance with SFAS No. 123, “Share Based Payment (Revised 2004)” (“SFAS 123(R)”), which supersedes our previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”), and related interpretations. We adopted SFAS 123(R) using the modified prospective application transition method, which requires that compensation expense be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been rendered as of the date of adoption. The modified prospective transition method does not require restatement of prior periods to reflect the impact of SFAS 123(R).

Under the provisions of SFAS 123(R), we estimate the fair value of our employee stock awards at the date of grant using the Black-Scholes option-pricing model, which requires the use of certain subjective assumptions. The most significant assumptions are our estimates of the expected volatility of the market price of our stock and the expected term of the award. Expected volatility is based on the historical volatility of our common stock. When establishing an estimate of the expected term of an award, we consider the vesting period for the award, our historical experience of employee stock option exercises (including forfeitures) and the expected volatility. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, we are likely to change our valuation assumptions used to value employee stock-based awards granted in future periods.

Further, SFAS 123(R) requires that employee stock-based compensation costs be recognized over the requisite service period, or the vesting period, in a manner similar to all other forms of compensation paid to employees. The allocation of employee stock-based compensation costs to each operating expense line

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are estimated based on specific employee headcount information at each grant date and estimated stock option forfeiture rates and revised, if necessary, in future periods if actual employee headcount information or forfeitures differ materially from those estimates. As a result, the amount of employee stock-based compensation costs we recognize in each operating expense category in future periods may differ significantly from what we have recorded in the current period.

RESULTS OF OPERATIONS

As a result of selling our topical collagenase business in March 2006, we treated this disposition as discontinued operations and reclassified the financial information reported for all periods presented. Discontinued operations are more fully discussed in Note 3 to our consolidated financial statements, included in this Report.

THREE-MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006

Revenues

Product Revenues, net

Product revenues include the sales of the API Enzyme recognized at the time it is shipped to customers. From continuing operations, we had a small amount of revenue from the sale of collagenase for laboratory use. For the three months ended June 30, 2007 and 2006 product revenues were $10,832 and $6,883, respectively. This increase of $3,949 or 57% was primarily related to the amount of material required to perform testing by our customers.

Licensing Revenues

For each of the three months ended June 30, 2007 and 2006 we recognized licensing revenue of $289,279. Licensing revenues recognized are related to the cash payments received under the Auxilium Agreement in calendar years 2005 and 2004 and amortized over the expected development period.

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

Consulting Services

We recognize revenues from a consulting and technical assistance contract primarily as a result of the Asset Purchase Agreement. Consulting revenues are recognized ratably over the term of the contract. The consulting obligations under the Asset Purchase Agreement generally expire during March 2011. For the three months ended June 30, 2007 and 2006 consulting revenues were $70,000 in each period.

Costs and Expenses

Research and Development Activities

Research and development expenses were $72,060 and $247,847 respectively, for the three months ended June 30, 2007 and 2006. This decrease of $175,787 or 71% in research and development expenses was primarily due to lower external development and clinical costs.

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General and Administrative Expenses

General and administrative expenses were $812,947and $845,271 for the three months ended June 30, 2007 and 2006, respectively. The decrease in general and administrative expenses of $32,324 or 11% was lower employee-consulting and administrative personnel costs partially offset by increased legal and patent fees.

Other Income (expense), net

Other income (expense), net, was $36,894 and $64,297 for the three months ended June 30, 2007 and 2006, respectively. The decrease in other income, net of $27,403 or 43% during the second quarter of 2007 as compared to the 2006 period was primarily due to lower invested balances during the 2007 period.

Income Taxes

The expense for income taxes for the three months ended June 30, 2007 and 2006 was zero, in both periods.

SIX-MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006

Revenues

Product Revenues, net

Product revenues include the sales of the API Enzyme recognized at the time it is shipped to customers. From continuing operations, we had a small amount of revenue from the sale of collagenase for laboratory use. For the six months ended June 30, 2007 and 2006 product revenues were $11,932 and $13,676, respectively. This decrease of $1,744 or 13% was primarily related to the amount of material required to perform testing by our customers.

Licensing Revenues

For the six months ended June 30, 2007 and 2006 we recognized licensing revenue of 578,558 in each period. Licensing revenues recognized are related to the cash payments received under the Auxilium Agreement in calendar years 2005 and 2004 and amortized over the expected development period.

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

Consulting Services

We recognize revenues from a consulting and technical assistance contract primarily as a result of the Asset Purchase Agreement. Consulting revenues are recognized ratably over the term of the contract. The consulting obligations under the Asset Purchase Agreement generally expire during March 2011. For the six months ended June 30, 2007 and 2006 consulting revenues were $140,000 and $93,333, respectively. This increase of $46,667 or 50% in consulting revenues was primarily the result of the timing of the Asset Purchase Agreement.

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Costs and Expenses

Research and Development Activities

Research and development expenses were $458,419 and $993,212 respectively, for the six months ended June 30, 2007 and 2006. This decrease of $534,793 or 54% in research and development expenses was primarily due to lower licensing fees, employee stock-based compensation expense and research and development personnel costs which were partially offset by an increase in external development costs.

General and Administrative Expenses

General and administrative expenses were $1,910,414 and $1,817,666 for the six months ended June 30, 2007 and 2006, respectively. The increase in general and administrative expenses of $92,748 or 5% was primarily due to increased employee-consulting and legal expenses partially offset by lower employee stock-based compensation expense and general and administrative personnel costs.

Other Income (expense), net

Other income (expense), net, was $78,143 and $81,617 for the six months ended June 30, 2007 and 2006, respectively. The decrease in other income, net of $3,474 or 4% during the 2007 period as compared to the 2006 period reflects the amount of time during each of the six month periods that our cash was invested. Although our invested balances were higher in the 2006 period, our cash was invested for a shorter period of time during the six month period.

Income Taxes

The expense for income taxes for the six months ended June 30, 2007 and 2006 was $3,600 and zero, respectively. The income tax recorded in the 2007 period was primarily related to the minimum income taxes required under state regulations.

Liquidity and Capital Resources

To date, we have financed our operations primarily through product sales, debt instruments and licensing revenues and royalties under agreements with third parties. At June 30, 2007 and December 31, 2006, we had cash and cash equivalents in the aggregate of $2,624,246 and $4,367,178, respectively.

Continuing Operations

Net cash used in operating activities for the six months ended June 30, 2007 was $1,499,269 as compared to net cash used in operating activities in the 2006 period of $1,365,083. In the 2007 period, as compared to the 2006 period, the changes in net cash used in operating activities was primarily attributable to a decrease in accounts payable and accrued expenses.

Net cash provided by financing activities for the six months ended June 30, 2007 was $77,374 as compared to net cash used in financing activities for the 2006 period of $83,406. Net cash provided by financing activities for the 2007 period was primarily the result of stock option exercises. Net cash used in financing activities for the 2006 period was primarily the result of the issuance of treasury stock to the minority shareholders of ABC-Curacao and ABC-NY related to the Asset Purchase Agreement.

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Discontinued Operations

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

Net cash used in operating activities from discontinued operations in the 2007 was $321,037 as compared to net cash provided by operating activities of $982,502 in the comparable period of 2006.

Net cash provided by investing activities from discontinued operations in the 2007 and 2006 periods was zero and $6,058,713, respectively.

Net cash used in financing activities from discontinued operations in each period of 2007 and 2006 was zero in each period.

Risk Factors

See “Risk Factors” under Item 1, “Description of Business” included in our Annual Report on Form 10-KSB for the year ended December 31, 2006.

Item 3. Controls and Procedures

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our Principal Executive and Accounting Officer, we evaluated 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 (the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Principal Executive and Accounting Officer concluded that our disclosure controls and procedures are effective in reaching a reasonable level of assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission’s rules and forms.

Changes in internal controls. There were no changes in our internal controls over financial reporting during the six month period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. We continue to improve and refine our internal controls and our compliance with existing controls is an ongoing process.

Additionally, following the death of our former Chairman and CEO, Edwin H. Wegman, on February 16, 2007 and the termination of our Chief Financial Officer, Lawrence Dobroff, on May 7, 2007, the Audit Committee adopted the following two procedures:

- Any payment by the Company in excess of $10,000 other than payments for previously approved reoccurring expenses requires the written approval of any member of the Audit Committee in addition to the signature of our President, Thomas L. Wegman; and
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Any payment by the Company for the business expenses of our President, Thomas L. Wegman requires the written approval of any member of the Audit Committee.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

3.1 Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-KSB for the fiscal years ended December 31, 2005, 2004 and 2003).

3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-KSB for the fiscal years ended December 31, 2005, 2004 and 2003).

31.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule13a-14(a)/15d-14(a).

32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

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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.

BIOSPECIFICS TECHNOLOGIES CORP.
(Registrant)

Date: September 26, 2007

By: /s/ Thomas L. Wegman
Thomas L. Wegman
President
(Principal Executive and Financial Officer)