FRANKLIN UNIVERSAL TRUST
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November 01, 2011

Annual Report

Franklin Universal Trust

Your Fund s Goals and Main Investments: Franklin Universal Trust s primary investment objective is to provide high, current income consistent with preservation of capital. Its secondary objective is growth of income through dividend increases and capital appreciation.

Dear Shareholder:

This annual report for Franklin Universal Trust covers the fiscal year ended August 31, 2011.

Performance Overview

For the 12 months under review, the Fund s cumulative total returns were +11.58% based on net asset value and +9.01% based on market price, as shown in the Performance Summary on page 6. For comparison, the Credit Suisse (CS) High Yield Index, which is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market, produced a total return of +8.37%, and utilities stocks, as measured by the Standard & Poor s® (S&P®) 500 Utilities Index, which tracks all electric utility stocks in the broad S&P 500® Index, posted a +15.01% total return for the same period.[1]

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The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund s Statement of Investments (SOI). The SOI begins on page 13.

Economic and Market Overview

During the fiscal year under review, Federal Reserve Board (Fed) policymakers maintained historically low interest rates while adopting a more restrained view of the economy largely because of developments in Europe and signs the U.S. economic expansion lacked momentum. To promote a stronger recovery and help maintain inflation levels the Fed believed consistent with its dual mandate to foster maximum employment and price stability, the Fed undertook a second round of quantitative easing consisting of a $600 billion purchase of longer term U.S. Treasuries, which ended on June 30. Subsequently, the Fed continued to purchase U.S. Treasuries with proceeds from maturing debt in an effort to support economic growth.

Despite the Fed s actions, the economy grew more slowly than expected. Housing market weakness continued and unemployment remained high. After showing solid improvement through the first half of the reporting period, manufacturing activity weakened partly because of global supply-chain disruptions following Japan s natural disasters. Geopolitical instability in some oil-producing regions drove up oil prices for most of the period. However, investor concerns over weak economic data caused crude oil prices to drop from their 12-month high of $114 per barrel on April 29 to $89 at period-end. Storms and droughts in several states reduced crop yields, pushing up grain prices. As oil and food prices rose, the pace of inflation accelerated during the period.

Generally favorable economic improvements and positive corporate earnings reports somewhat eased investor concerns about the turmoil in North Africa and the Middle East, multiple crises triggered by Japan s earthquake, widening debt problems in the eurozone and headwinds facing the U.S. economy. Fixed income and equity markets performed well overall for the 12 months under review. Near period-end, however, heightened volatility roiled global financial markets due to U.S. lawmakers protracted debate and eventual compromise on the debt limit, independent credit rating agency S&P s downgrade of the long-term U.S. credit rating to AA+ from AAA, and fears of sovereign debt crisis contagion in Europe. Subsequently, the Fed announced it was likely to keep the federal funds target rate at 0.00% to 0.25% at least through mid-2013 to promote ongoing economic recovery. In this environment, investors sought the perceived safe haven of U.S. Treasuries, which drove prices higher and yields lower for the fiscal year under review.

Investment Strategy

We invest primarily in two asset classes: high yield bonds and utility stocks.

Within the high yield portion of the portfolio, we use fundamental research

to invest in a diversified portfolio of bonds. Within the utility portion of the portfolio, we focus on companies with attractive dividend yields and with a history of increasing their dividends.

Manager s Discussion

The Fund s primary asset classes, high yield corporate bonds and utility stocks, benefited from steady economic growth at the beginning of the fiscal year ended August 31, 2011. Although the pace of growth slowed from that experienced in the early stages of the economic recovery, it was robust enough to support corporate earnings growth and cash flow generation. A moderate economic growth rate can be ideal for high yield corporate issuers, as it enables them to service their debt obligations and improve their credit profiles while discouraging management teams from being too shareholder friendly at the expense of the balance sheet. In fact, the default rate steadily declined and remained near historical lows during the fiscal year. During the first part of the fiscal year, yield spreads over U.S. Treasury securities, a key measure of high yield bond valuations, steadily declined from 6.98 percentage points at the beginning of the fiscal year to 4.88 percentage points in early February, as measured by the CS High Yield Index.[2] The narrowing of spreads combined with low interest rates on U.S. Treasury bonds led to the high yield market yielding a record-low 6.67 percentage points in mid-May.[2]

Beginning in the spring, however, the steady growth environment was disrupted by renewed fears out of Europe, once again centered on Greece s precarious debt situation. The political battle over raising the U.S. debt ceiling, which went down to the wire over the summer, and S&P s downgrade of the U.S. long-term credit rating, added to financial market uncertainty and caused investors to reduce their appetite for investments perceived as risky. In spite of several favorable mergers and acquisitions (M&A) transactions in which high yield bond issuers were acquired by investment-grade companies, high yield spreads over U.S. Treasuries widened significantly to end the period wider than they began, at 7.23 percentage points.[2] Despite the heightened volatility, high yield corporate bonds generated a total return of +8.37% for the 12-month period ended August 31, 2011.[1] Utility stocks trailed the broader equity market for much of the year, until their defensive nature led to sharp outperformance in the volatile months of July and August. Benefiting as well from the low interest rate environment and investors search for higher yield, utility stocks generated a total return of +15.01% for the fiscal year.[1]

2. Source: Credit Suisse.

High Yield Corporate Bonds

The Fund benefited from its overweighted position in the energy sector and underweighted position in the transportation industry relative to the CS High Yield Index. Energy bonds were buoyed by strong oil prices, especially in the aftermath of the Libyan uprising, as well as by continued exploration success in North American shale plays. In addition, several high yield issuers were acquired by investment-grade buyers, thus driving up their bonds prices as well as those of other companies that investors thought might be the next acquisition targets. The transportation industry lagged the broader index primarily due to weakness in the shipping segment. The tepid global economic recovery did not spur enough demand to compensate for an increased supply of new vessels. Charter rates began to soften in the container segment and fell sharply in the tanker and dry bulk subsegments to a fraction of long-term historical averages.

The Fund s performance was impeded by an overweighted position in the health care sector[3] and an underweighted position in the restaurant industry. Returns in the health care sector lagged the market rally in late 2010 and early 2011, because of the general perception that the sector is less cyclical than other economically sensitive sectors. In addition, health care companies actively engaged in M&A and share buybacks. Recently, a slowdown in Medicare reimbursement and the prospect of further reductions negatively impacted the outlook for some companies in the sector. Restaurant bonds outperformed the index despite increased costs for most protein commodities, as product mix changes and new pricing initiatives offset much of this impact. Additionally, casual dining trends showed some resilience and new product offerings began to stimulate traffic at many quick-service restaurants. We sold our restaurant industry holding by period-end.

Utility Stocks

The utilities sector underperformed the broader equity markets during the 12-month reporting period, although the performance gap narrowed significantly in the final few months. Excess supplies of electricity and natural gas pressured power prices, negatively impacting utility companies operating in unregulated markets. Regulated utility companies continued to display a positive fundamental outlook, with growth opportunities coming from infrastructure investments necessary to upgrade an aging existing system, in an effort to meet more demanding environmental regulations and provide for

3. The Fund s health care holdings are in the health care equipment and services industry and the pharmaceuticals, biotechnology and life sciences industry in the SOI.

future demand growth. Low electricity prices also helped regulated utility companies offset the pricing pressure customers would ordinarily feel from increased levels of capital investment. Thus, the investments made by most regulated utility companies translated into positive earnings growth. Finally, with declining domestic interest rates, the dividend yield on utility stocks continued to look attractive compared to alternative income-producing investments. The Fund s utility holdings continued to focus on regulated, dividend-paying utilities.

Thank you for your continued participation in Franklin Universal Trust. We look forward to serving your future investment needs.

Sincerely,

Performance Summary as of 8/31/11

Your dividend income will vary depending on dividends or interest paid by securities in the Fund s portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities. Total return reflects reinvestment of the Fund s dividends and capital gain distributions, if any, and any unrealized gains or losses. Total returns do not reflect any sales charges paid at inception or brokerage commissions paid on secondary market purchases. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gains distributions, if any, or any realized gains on the sale of Fund shares.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Endnotes

The risks associated with higher yielding, lower rated securities include higher risk of default and loss of principal. These securities carry a greater degree of credit risk relative to investment-grade securities. In addition to having sensitivity to other factors, securities issued by utility companies are particularly sensitive to interest rate movements. The Fund s share price and yield will be affected by interest rate movements. Special risks are associated with foreign investing, including currency volatility, economic instability and political developments of countries where the Fund invests. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. The Fund is actively managed but there is no guarantee that the manager s investment decisions will produce the desired results.

1. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated.
2. Assumes reinvestment of distributions based on net asset value.
3. Assumes reinvestment of distributions based on the dividend reinvestment and cash purchase plan.
4. Distribution rate is based on an annualization of the Fund s 3.80 cent per share August dividend and the NYSE closing price of $6.33 on 8/31/11.

Annual Shareholders Meeting

March 25, 2011

An annual shareholders meeting of Franklin Universal Trust (Fund) was held on March 25, 2011. At the meeting, the holders of 22,147,325 shares of the Fund s common stock were represented in person or by proxy, constituting a quorum. The following persons were elected by the shareholders to serve as Trustees of the Fund.

Important Notice to Shareholders

Share Repurchase Program

The Fund s Board previously authorized an open-market share repurchase program, pursuant to which the Fund may purchase Fund shares, from time to time, up to 10% of the Fund s common shares in open-market transactions, at the discretion of management. This authorization remains in effect.

Dividend Reinvestment and Cash Purchase Plan

The Fund s Dividend Reinvestment and Cash Purchase Plan (Plan) offers you a prompt and simple way to reinvest dividends and capital gain distributions in shares of the Fund. The Plan also allows you to purchase additional shares of the Fund by making voluntary cash payments. BNY Mellon Investment Servicing (US) Inc. (Plan Agent), P.O. Box 358035, Pittsburgh, PA 15252-8035, acts as your Plan Agent in administering the Plan. The complete Terms and Conditions of the Dividend Reinvestment and Cash Purchase Plan are contained in the Fund s Dividend Reinvestment and Cash Purchase Plan Brochure. Participants should contact the Agent at the address above to obtain a copy of the Brochure.

You are automatically enrolled in the Plan unless you elect to receive dividends or distributions in cash. If you own shares in your own name, you should notify the Plan Agent, in writing, if you wish to receive dividends or distributions in cash.

If the Fund declares a dividend or capital gain distribution payable either in cash or in stock of the Fund and the market price of shares on the valuation date equals or exceeds the net asset value, the Fund will issue new shares to you at the higher of net asset value or 95% of the then current market price. Whenever the Fund declares a distribution from capital gains or an income dividend payable in either cash or shares, if the net asset value per share of the Fund s common stock exceeds the market price per share on the valuation date, the Plan Agent shall apply the amount of such dividend or distribution payable to participants to the purchase of shares (less their pro rata share of brokerage commissions incurred with respect to open market purchases in connection with the reinvestment of such dividend or distribution). If the price exceeds the net asset value before the Plan Agent has completed its purchases, the average purchase price may exceed the net asset value, resulting in fewer shares being acquired than if the Fund had issued new shares. All reinvestments are in full and fractional shares, carried to three decimal places. The Fund will not issue shares under the Plan at a price below net asset value.

The Plan permits you on a voluntary basis to submit in cash payments of not less than $100 each up to a total of $5,000 per month to purchase additional shares of the Fund. It is entirely up to you whether you wish to buy additional shares with voluntary cash payments, and you do not have to send in the same amount each time if you do. These payments should be made by check or money order payable to BNY Mellon Investment Servicing (US) Inc. and sent to Investment Services, P.O. Box 382009, Pittsburgh, PA 15250-8009, Attn: Franklin Universal Trust.

Your cash payment will be aggregated with the payments of other participants and invested on your behalf by the Plan Agent in shares of the Fund that are purchased in the open market.

The Plan Agent will invest cash payments on approximately the 5th of each month in which no dividend or distribution is payable and, during each month in which a dividend or distribution is payable, will invest cash payments beginning on the dividend payment date. *Under no circumstances will interest be paid on your funds held by the Plan Agent.* Accordingly, you should send any voluntary cash payments you wish to make shortly before an investment date but in sufficient time to ensure that your payment will reach the Plan Agent not less than two business days before an investment date. Payments received less than two business days before an investment date will be invested during the next month or, if there are more than 30 days until the next investment date, will be returned to you. You may obtain a refund of any cash payment by written notice, if the Plan Agent receives the written notice not less than 48 hours before an investment date.

There is no direct charge to participants for reinvesting dividends and capital gain distributions, since the Plan Agent s fees are paid by the Fund. However, when shares are purchased in the open market, each participant will pay a pro rata portion of any brokerage commissions incurred. The Plan Agent will deduct a $5.00 service fee from each of your voluntary cash payments.

The automatic reinvestment of dividends and capital gain distributions does not relieve you of any taxes which may be payable on dividends or distributions. In connection with the reinvestment of dividends and capital gain distributions, if the Fund issues new shares, shareholders receiving such shares generally will be treated as having a distribution equal to the market value of the shares received, and if shares are purchased on the open market, shareholders generally will be treated as having received a distribution equal to the cash distribution that would have been paid.

The Fund does not issue new shares in connection with voluntary cash payments. All investments are in full and fractional shares, carried to three decimal places. If the market price exceeds the net asset value at the time the Plan Agent purchases the additional shares, you will receive shares at a price greater than the net asset value.

You will receive a monthly account statement from the Plan Agent showing total dividends and capital gain distributions, date of investment, shares acquired and price per share, and total shares of record held by you and by the Plan Agent for you. You are entitled to vote all shares of record, including shares purchased for you by the Plan Agent, and, if you vote by proxy, your proxy will include all such shares.

As long as you participate in the Plan, the Plan Agent will hold the shares it has acquired for you in safekeeping, in its name or in the name of its nominee. This convenience provides added protection against loss, theft or inadvertent destruction of certificates. However, you may request that a certificate representing your Plan shares be issued to you.

You may withdraw from the Plan without penalty at any time by notifying the Plan Agent, in writing, at the address above. If you withdraw, you will receive, without charge, stock certificates issued in your name for all full shares. The Plan Agent will convert any fractional shares you hold at the time of your withdrawal to cash at current market price and send you a check for the proceeds.

If you hold shares in your own name, please address all notices, correspondence, questions, or other communications regarding the Plan to the Plan Agent at the address noted above. If your shares are not held in your name, you should contact your brokerage firm, bank, or other nominee for more information and to determine if your nominee will participate in the Plan on your behalf.

The Fund or the Plan Agent may amend or terminate the Plan. You will receive written notice at least 90 days before the effective date of termination or of any amendment. In the case of termination, you will receive written notice at least 90 days before the record date of any dividend or capital gain distribution by the Fund.

See Abbreviations on page 31.

Rounds to less than 0.1% of net assets.

[*] The principal amount is stated in U.S. dollars unless otherwise indicated.

[a] Non-income producing.

[b] Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in
a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Fund s Board of Trustees. At August 31,
2011, the aggregate value of these securities was $58,854,776, representing 34.07% of net assets.

[c] Income may be received in additional securities and/or cash.

[d] See Note 9 regarding defaulted securities.

[e] The coupon rate shown represents the rate at period end.

[f] See Note 1(b) regarding senior floating rate interests.

[g] See Note 8 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

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Notes to Financial Statements

1. Organization and Significant Accounting Policies

Franklin Universal Trust (Fund) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as a closed-end investment company.

The following summarizes the Fund s significant accounting policies.

a. Financial Instrument Valuation

The Fund s investments in securities and other financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Senior fixed rate notes are carried at cost. Under procedures approved by the Fund s Board of Trustees, the Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds are valued at the closing net asset value.

Debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Fund s pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option-adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. The Fund may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

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Notes to Financial Statements *(continued)*

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity.

Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to some restrictions on resale.

c. Income Taxes

It is the Fund s policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required. The Fund files U.S. income tax returns as well as tax returns in certain other jurisdictions. The Fund records a provision for taxes in its financial statements including penalties and interest, if any, for a tax position taken on a tax return (or expected to be taken) when it fails to meet the more likely than not (a greater than 50% probability) threshold and based on the technical merits, the tax position may not be sustained upon examination by the tax authorities. As of August 31, 2011, and for all open tax years, the Fund has determined that no provision for income tax is required in the Fund s financial statements. Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

d. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

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Notes to Financial Statements *(continued)*

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

f. Guarantees and Indemnifications

Under the Fund s organizational documents, its officers and trustees are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At August 31, 2011, there were an unlimited number of shares authorized ($0.01 par value). During the years ended August 31, 2011 and August 31, 2010 there were no shares issued; all reinvested distributions were satisfied with previously issued shares purchased in the open market.

The Fund s Board of Trustees previously authorized an open-market share repurchase program pursuant to which the Fund may purchase, from time to time, Fund shares in open-market transactions, at the discretion of management. This authorization remains in effect. During the years ended August 31, 2011 and August 31, 2010, there were no shares repurchased.

3. SENIOR FIXED RATE NOTES

On August 29, 2008, the Fund issued $65 million principal amount of a new class of five-year senior fixed rate notes (Notes). The Notes are general unsecured obligations of the Fund and rank senior to trust shares and all existing or future unsecured indebtedness of the Fund. The Notes bear interest, payable semi-annually, at the rate of 5.87% per year, to maturity on August 28, 2013. The Fund is required to maintain on a monthly basis a specified discounted asset value for its portfolio in compliance with guidelines established in the Notes Agreement, and is required under the 1940 Act to maintain asset coverage for the Notes of at least 300%. The Fund has met these requirements during the year ended August 31, 2011. The issuance costs of $427,946 incurred by the Fund are deferred and amortized on an interest method basis over the term of the Notes. Subject to certain restrictions and make whole premiums, the Fund may prepay the Notes at any time. At August 31, 2011, if the Notes were fully prepaid, the make whole premium related to the current balance of the Notes would have been approximately $4,305,000.

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Notes to Financial Statements *(continued)*

3. SENIOR FIXED RATE NOTES *(continued)*

During the year ended August 31, 2009, the Fund made early partial prepayments of $23,000,000 and incurred make whole premiums in the amount of $1,701,222. Upon completion of these early prepayments, the balance of the Notes was reduced to $42,000,000. In connection with the early Notes prepayments, the Fund expensed $145,034 of previously incurred Notes issuance costs.

Based on the Notes current credit rating, remaining time to maturity, stated coupon rates, and other covenants, at August 31, 2011, the estimated fair value of the Notes was approximately $45,497,000.

4. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager

a. Management Fees

The Fund pays an investment management fee to Advisers of 0.75% per year of the average weekly managed assets. Managed assets are defined as the Fund s gross asset value minus the sum of accrued liabilities, other than the principal amount of the Notes.

b. Administrative Fees

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on average daily net assets, and is not an additional expense of the Fund.

5. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund s custodian expenses. During the year ended August 31, 2011, there were no credits earned.

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Notes to Financial Statements *(continued)*

6. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At August 31, 2011, the capital loss carryforwards were as follows:

During the year ended August 31, 2011, the Fund utilized $1,609,187 of capital loss carryforwards.

On August 31, 2011, the Fund had expired capital loss carryforwards of $36,323,436, which were reclassified to paid-in capital.

Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered short-term as under previous law. Any post-enactment capital losses generated will be required to be utilized prior to the losses incurred in pre-enactment tax years.

For tax purposes, realized capital losses occurring subsequent to October 31 may be deferred and treated as occurring on the first day of the following fiscal year. At August 31, 2011, the Fund deferred realized capital losses of $1,238,760.

The tax character of distributions paid during the years ended August 31, 2011 and 2010, was as follows:

At August 31, 2011, the cost of investments, net unrealized appreciation (depreciation), and undistributed ordinary income for income tax purposes were as follows:

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of payments-in-kind, bond discounts and premiums, and corporate actions.

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Notes to Financial Statements *(continued)*

7. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended August 31, 2011, aggregated $88,710,562 and $89,680,227, respectively.

8. Investments in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an open-end investment company managed by Advisers. Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid by the Sweep Money Fund.

9. Credit Risk and Defaulted Securities

At August 31, 2011, the Fund had 67.12% of its portfolio invested in high yield, senior secured floating rate notes, or other securities rated below investment grade. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

The Fund held defaulted securities and/or other securities for which the income has been deemed uncollectible. At August 31, 2011, the aggregate value of these securities represent less than 0.05% of the Fund s portfolio. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The securities have been identified on the accompanying Statement of Investments.

10. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund s own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund s investments and are summarized in the following fair value hierarchy:

- Level 1 quoted prices in active markets for identical securities
- Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

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Notes to Financial Statements *(continued)*

10. FAIR VALUE MEASUREMENTS *(continued)*

The following is a summary of the inputs used as of August 31, 2011, in valuing the Fund s assets and liabilities carried at fair value:

11. NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in the ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP (Generally Accepted Accounting Principles) and IFRS (International Financial Reporting Standards) and include new guidance for certain fair value measurement principles and disclosure requirements. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Fund is currently evaluating the impact, if any, of applying this provision.

12. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

ABBREVIATIONS

Selected Portfolio

FRN - Floating Rate Note
PIK - Payment-in-kind

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Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Franklin Universal Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Franklin Universal Trust (the Fund) at August 31, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, its cash flows for the year then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2011 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
October 19, 2011

Franklin Universal Trust

Tax Designation (unaudited)

Under Section 854(b)(2) of the Internal Revenue Code (Code), the Fund designates 25.14% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended August 31, 2011.

Under Section 854(b)(2) of the Code, the Fund designates the maximum amount allowable but no less than $2,880,998 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended August 31, 2011. Distributions, including qualified dividend income, paid during calendar year 2011 will be reported to shareholders on Form 1099-DIV in January 2012. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

Under Section 871(k)(1)(C) of the Code, the Fund designates the maximum amount allowable but no less than $7,618,210 as interest related dividends for purposes of the tax imposed under Section 871(a)(1)(A) of the Code for the fiscal year ended August 31, 2011.

Franklin Universal Trust

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Generally, each board member serves until that person s successor is elected and qualified.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios
have a common investment manager or affiliated investment managers.
**Charles B. Johnson and Rupert H. Johnson, Jr. are considered to be interested persons of the Fund under the federal securities laws due to their positions as officers and directors
and major shareholders of Franklin Resources, Inc., which is the parent company of the Fund s investment manager and distributor.
Note 1: Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.
Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

**The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund s Audit Committee includes
at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund s Board has determined that there is at least one such
financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an
expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a
Member and Chairman of the Fund s Audit Committee since 2006. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an under-
standing of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates,
accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those
of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an
independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases or the listing standards applicable to the Fund.**

Franklin Universal Trust

Shareholder Information

Proxy Voting Policies and Procedures

The Fund s investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund s complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund s proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission s website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission s website at sec.gov. The filed form may also be viewed and copied at the Commission s Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

Certifications

The Fund s Chief Executive Officer Finance and Administration is required by the New York Stock Exchange s Listing Standards to file annually with the Exchange a certification that she is not aware of any violation by the Fund of the Exchange s Corporate Governance Standards applicable to the Fund. The Fund has filed such certification.

In addition, the Fund s Chief Executive Officer Finance and Administration and Chief Financial Officer and Chief Accounting Officer are required by the rules of the U.S. Securities and Exchange Commission to provide certain certifications with respect to the Fund s Form N-CSR and Form N-CSRS (which include the Fund s annual and semiannual reports to shareholders) that are filed semiannually with the Commission. The Fund has filed such certifications with its Form N-CSRS for the six months ended February 28, 2011. Additionally, the Fund expects to file, on or about October 28, 2011, such certifications with its Form N-CSR for the year ended August 31, 2011.

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Item 2. Code of Ethics.

(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 12(a)(1), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

Item 3. Audit Committee Financial Expert.

(a)(1) The Registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is John B. Wilson and he is "independent" as defined under the relevant Securities and Exchange Commission Rules and Releases.

Item 4. Principal Accountant Fees and Services.

To be updated

Item 5. Audit Committee of Listed Registrants. Members of the Audit Committee are: J. Michael Luttig, Frank A. Olson and John B. Wilson.

Item 6. Schedule of Investments. N/A

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The board of trustees of the Fund has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund's investment manager Franklin Advisers, Inc. in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the investment manager.

The investment manager has delegated its administrative duties with respect to the voting of proxies to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the investment manager’s instructions and/or policies. The investment manager votes proxies solely in the interests of the Fund and its shareholders.

To assist it in analyzing proxies, the investment manager subscribes to Institutional Shareholder Services, Inc. (ISS), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services. In addition, the investment

manager subscribes to Glass, Lewis & Co., LLC (Glass Lewis), an unaffiliated third-party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies. Although ISS and/or Glass Lewis analyses are thoroughly reviewed and considered in making a final voting decision, the investment manager does not consider recommendations from ISS, Glass Lewis or any other third party to be determinative of the investment manager s ultimate decision. As a matter of policy, the officers, directors/trustees and employees of the investment manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. Efforts are made to resolve all conflicts in the interests of the investment manager s clients. Material conflicts of interest are identified by the Proxy Group based upon analyses of client, distributor, broker-dealer and vendor lists, information periodically gathered from directors and officers, and information derived from other sources, including public filings. In situations where a material conflict of interest is identified, the Proxy Group may defer to the voting recommendation of ISS, Glass Lewis or those of another independent third-party provider of proxy services; or send the proxy directly to the Fund's board or a committee of the board with the investment manager's recommendation regarding the vote for approval. If the conflict is not resolved by the Fund's board or a committee of the board, the Proxy Group may refer the matter, along with the recommended course of action by the investment manager, if any, to an interdepartmental Proxy Review Committee (which may include portfolio managers and/or research analysts employed by the investment manager), for evaluation and voting instructions. The Proxy Review Committee may defer to the voting recommendation of ISS, Glass Lewis or those of another independent third-party provider of proxy services; or send the proxy directly to the Fund's board or a committee of the board.

Where a material conflict of interest has been identified, but the items on which the investment manager s vote recommendations differ from Glass Lewis, ISS, or another independent third-party provider of proxy services relate specifically to (1) shareholder proposals regarding social or environmental issues, (2) Other Business without describing the matters that might be considered, or (3) items the investment manager wishes to vote in opposition to the recommendations of an issuer s management, the Proxy Group may defer to the vote recommendations of the investment manager rather than sending the proxy directly to the Fund's board or a board committee for approval.

To avoid certain potential conflicts of interest, the investment manager will employ echo voting, if possible, in the following instances: (1) when the Fund invests in an underlying fund in reliance on any one of Sections 12(d) (1) (E), (F), or (G) of the 1940 Act, the rules thereunder, or pursuant to any SEC exemptive orders thereunder; (2) when the Fund invests uninvested cash in affiliated money market funds pursuant to the rules under the 1940 Act or any exemptive orders thereunder (cash sweep arrangement); or (3) when required pursuant to the Fund s governing documents or applicable law. Echo voting means that the investment manager will vote the shares in the same proportion as the vote of all of the other holders of the Fund s shares.

The recommendation of management on any issue is a factor that the investment manager considers in determining how proxies should be voted. However, the investment manager does not consider recommendations from management to be determinative of the investment manager s ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and the investment manager will not support the position of the company's management in any situation where it deems that the ratification of management s position would adversely affect the investment merits of owning that company s shares.

Investment manager s proxy voting policies and principles The investment manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the investment manager cannot anticipate all future situations. In all cases, each proxy will be considered based on the relevant facts and circumstances.

Board of directors. The investment manager supports an independent board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The investment manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The investment manager will consider withholding votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the investment manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company s corporate governance guidelines or provisions and performance. The investment manager generally will support non-binding shareholder proposals to require a majority vote standard for the election of directors; however, if these proposals are binding, the investment manager will give careful review on a case-by-case basis of the potential ramifications of such implementation.

Ratification of auditors of portfolio companies. The investment manager will closely scrutinize the independence, role and performance of auditors. On a case-by-case basis, the investment manager will examine proposals relating to non-audit relationships and non-audit fees. The investment manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of a lack of independence, accounting irregularities or negligence.

Management and director compensation. A company s equity-based compensation plan should be in alignment with the shareholders long-term interests. EFF;padding:0in 0in 0in 0in;width:16.0%;">

762,066

798,542

Other long-term assets

228,178

143,807

Total other assets

990,244

942,349

TOTAL ASSETS

$

17,327,951

$

19,843,369

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 1,377,487	$ 1,970,517
Accrued employee compensation	1,116,786	898,449

Other accrued expenses	571,102	506,823
Liabilities from discontinued operations (Note 8)	195,660	302,436
Current maturities of long term debt (Note 9)	56,092	79,875
Deferred rent and other current liabilities	83,512	118,609
Total current liabilities	3,400,639	

3,876,709

LONG-TERM LIABILITIES:

Long term debt, less current maturities (Note 9)

2,288,388

2,337,874

Liabilities from discontinued operations (Note 8)

260,998

408,005

Other liabilities

	561,190
	593,735
Total liabilities	
	6,511,215
	7,216,323
STOCKHOLDERS EQUITY:	
Common stock, $.01 par value; 20,000,000 shares authorized, 6,827,592 and 6,786,335 issued and outstanding at September 30, 2003 and December 31, 2002, respectively	
	68,276

		67,863
Additional paid-in capital	21,835,146	21,811,262
Accumulated deficit	(10,086,686)	(9,252,079)
Loan receivable from Director and former CEO (Note 6)	(1,000,000)	
Total stockholders equity	10,816,736	12,627,046
TOTAL LIABILITIES & STOCKHOLDERS EQUITY		

$	17,327,951
$	19,843,369

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2003		For the nine months ended September 30, 2002	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(834,607)	$	(1,522,937)
Less: income from discontinued operations				225,000
Loss from continuing operations		(834,607)		(1,747,937)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:				
Depreciation and amortization		971,170		968,902
Gain on disposal of property and equipment		(548)		
Provision for doubtful accounts		8,000		
Changes in operating assets and liabilities:				
Accounts receivable		398,193		295,821
Inventories		586,119		(619,460)
Prepaid expenses and other current assets		(8,754)		(53,272)
Other long-term assets		(84,371)		9,530
Accounts payable		(593,030)		817,209
Accrued employee compensation		218,337		132,872
Other accrued expenses		64,279		(58,544)
Deferred rent and other current liabilities		(35,097)		(37,157)
Other liabilities		(32,545)		29,153
Net cash provided by (used in) operating activities		657,146		(262,883)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for additions to property and equipment		(88,468)		(578,417)
Proceeds from sale of property and equipment		14,000		
Net cash used in investing activities		(74,468)		(578,417)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of common stock		24,297		149,739
Repayments of long-term debt		(73,269)		(60,784)
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 (Note 6)				(1,010,659)
Net cash used in financing activities		(48,972)		(396,704)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		533,706		(1,238,004)
Cash used in discontinued operations		(253,783)		(606,699)
Cash and cash equivalents, beginning of year		975,649		2,857,916

Cash and cash equivalents at end of period, excluding restricted cash of $1,010,659 at September 30, 2002	$	1,255,572	$	1,013,213
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING 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 condensed 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 nine months ended September 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 filings for the three months ended March 31, 2003 and three and six months ended June 30, 2003, respectively.

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 September 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 expense has been recognized under SFAS 123 for the Company s employee stock option plans. Had compensation expense 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 September 30,		For the Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Net loss - as reported	$ (355,756)	$ (342,178)	$ (834,607)	$ (1,522,937)
Deduct: Stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(180,116)	(91,425)	(415,714)	(618,223)
Net loss - pro forma	$ (535,872)	$ (433,603)	$ (1,250,321)	$ (2,141,160)

Basic and Diluted net loss per share - as reported	$	(0.05)	$	(0.05)	$	(0.12)	$	(0.23)
Basic and Diluted net loss per share - pro forma	$	(0.08)	$	(0.06)	$	(0.18)	$	(0.32)

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 consolidated 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 consolidated 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 impact on the Company s Condensed 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 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 Condensed 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 was 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. 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; such adoption did not have a material impact on the Company s consolidated financial position or statements of operations.

(3) Inventories

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

		September 30, 2003		December 31, 2002
Raw materials	$	3,161,702	$	3,170,988
Work-in-process		1,728,097		1,988,585
Finished goods		1,618,135		1,934,480
	$	6,507,934	$	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 September 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 segments, 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 Condensed Consolidated Financial Statements with respect to discontinued operations, which are no longer classified as an operating segment of the Company.

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

Operating segment revenue was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Segment revenue:				
Diagnostics	$ 3,142,000	$ 2,623,000	$ 9,048,000	$ 8,600,000
Biotech	2,404,000	2,982,000	7,283,000	7,308,000
Laboratory Instrumentation	427,000	536,000	1,380,000	1,889,000
PCT	90,000	166,000	498,000	547,000
Eliminations	(234,000)	(431,000)	(714,000)	(1,659,000)
Total Revenue	$ 5,829,000	$ 5,876,000	$ 17,495,000	$ 16,685,000

Operating segment income (loss) from continuing operations was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Segment operating income (loss):				
Diagnostics	$ 489,000	$ 206,000	$ 1,348,000	$ 893,000
Biotech	(104,000)	(29,000)	(149,000)	(405,000)
Laboratory Instrumentation	(260,000)	(197,000)	(737,000)	(352,000)
PCT	(408,000)	(490,000)	(1,092,000)	(1,729,000)
Operating loss from continuing operations	$ (283,000)	$ (510,000)	$ (630,000)	$ (1,593,000)

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

	September 30 , 2003	December 31 , 2002
Identifiable corporate and segment assets:		
Corporate	$ 1,493,000	$ 2,141,000
Diagnostics	9,420,000	10,281,000
Biotech	3,984,000	4,844,000
Laboratory Instrumentation	1,347,000	1,359,000
PCT	1,084,000	1,218,000
Total assets	$ 17,328,000	$ 19,843,000

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

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

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if potentially dilutive common shares had been issued. For the purposes of this calculation, stock options are considered common stock equivalents in periods in which they have a dilutive effect. Stock options that are antidilutive are excluded from the calculation. Potentially dilutive securities having a net effect of 46,540 and 6,001 common shares for the three and nine months ended September 30, 2003 and 132,855 and 215,259 common shares for the three and nine months ended September 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 nine months of 2003 and 2002 reflects the issuance of 12,102 and 9,749 additional shares of common stock, respectively, purchased by employees through their participation in the Company s employee stock purchase plan. Additionally, the net (loss) per share computation for the first nine months of 2002 reflects the issuance of 600,000 additional shares of common stock in the first quarter of 2002. In December 2001, these shares of common stock were subscribed to and paid for by a group of investors for $1,500,000 (before expenses).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Weighted Average Shares Outstanding, basic	6,824,075	6,782,175	6,804,972	6,618,338
Net effect of dilutive common stock equivalents-based on treasury stock method using average market price				
Weighted Average Shares Outstanding, diluted	6,824,075	6,782,175	6,804,972	6,618,338
Loss from continuing operations	$ (355,756)	$ (567,178)	$ (834,607)	$ (1,747,937)
Income from discontinued operations		225,000		225,000
Net loss	$ (355,756)	$ (342,178)	$ (834,607)	$ (1,522,937)
Loss per share from continuing operations, basic & diluted	$ (0.05)	$ (0.08)	$ (0.12)	$ (0.26)
Income per share from discontinued operations-basic & diluted		0.03		0.03
Net loss per share-basic & diluted	$ (0.05)	$ (0.05)	$ (0.12)	$ (0.23)

(6) <u>Related Party Transaction</u>

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 September 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 September 30, 2003 and through October 31, 2003. The value of the collateral as of October 31, 2003 approximates the amount of the Company s recorded loan (including interest) as of September 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 nine months 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 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 July 9, 2003, the Company announced Mr. Schumacher, the Company s former Chairman and Chief Executive Officer, agreed to accept an engagement with the Company as an Executive Project 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.

(7) Stockholders Equity

Shareholders Purchase Rights Plan

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

The Rights Plan is designed to deter coercive or unfair takeover tactics and to ensure that all of the Company s shareholders receive fair and equal treatment in the event of an unsolicited attempt to acquire the Company. The Rights Plan was not adopted in response to any effort to acquire the Company, and the Board is not aware of any such effort. The Rights will expire on February 27, 2013 unless earlier redeemed or exchanged. Each Right entitles the registered holder, subject to the terms of a Rights Agreement, to purchase from the Company one one-thousandth of a share of the Company s Series A Junior Participating Preferred Stock at a purchase price of $45.00 per one one-thousandth of a share, subject to adjustment. In general, the Rights will not be exercisable until a subsequent distribution date which will only occur if a

person or group acquires beneficial ownership of 15% or more of the Company s Common Stock or announces a tender or exchange offer that would result in such person or group owning 15% or more of the Common Stock. With respect to any person or group who currently beneficially owns 15% or more of the Company s Common Stock, the Rights will not become exercisable unless and until such

person or group acquires beneficial ownership of additional shares of Common Stock.

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

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

Warrants

In November 1999, the Company sold 29,155 equity units to MDBio, Inc. a Maryland not-for profit corporation. Each equity unit consists of one share of common stock and a warrant to purchase one share of common stock with an exercise price of $10.00 per share. MDBio paid the Company $175,000 for the equity units. These warrants expired unexercised at the close of business September 30, 2003.

On September 30, 1998 the Company acquired the remaining outstanding common stock (approximately 81%) of BioSeq, Inc., a development stage company with patent pending technology based on pressure cycling technology for $879,000 in cash (net of cash acquired of $121,000). In connection with the Company s acquisition of BioSeq, Inc., the Company issued warrants to purchase 100,000 shares of the Company s common stock at a purchase exercise price of $2.50 per share (subject to annual increases). As of December 31, 2002, warrants to purchase 67,192 shares of common stock remained outstanding at an exercise price of $3.66 per share. Subsequent to the quarter ended September 30, 2003, all remaining warrants outstanding that were issued pursuant to this transaction expired unexercised at the close of business October 8, 2003.

(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. (BBICL), 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 $457,000 as of September 30, 2003. The major component of this accrual is estimated lease exit and facility related costs ($350,000), 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 the third quarter of 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 $2,334,000 remains outstanding as of September 30, 2003. The Company used the funds to reduce the outstanding balance of its then 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. Monthly payments on this mortgage are based on a twenty year amortization schedule with a balloon payment representing the remaining balance due in full in March 2010. 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. The mortgage is collateralized by the Company s West Bridgewater, MA facility, which has a net book value of approximately $1,945,000 as of September 30, 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 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.

Mr. R. Wayne Fritzsche and Calvin A. Saravis were elected Directors of the Company at its Special Meeting in Lieu of Annual Meeting of Stockholders held on Thursday, October 2, 2003. Mr. Francis Capitanio s term expired at that time. Both Mr. Fritzsche and Dr. Saravis will serve until the Company s Annual Meeting in 2006. At a Directors meeting immediately following the Stockholders Meeting, Mr. Fritzsche was elected Chairman of the Board. Mr. William A. Wilson, a Director since 2001 and Chairman of the Board since February 2003, resigned from the Board on October 3, 2003 in order to pursue other activities.

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 SEPTEMBER 30, 2003 AND 2002

Revenue

Total revenue decreased 0.8%, or $47,000, to $5,829,000 in the third quarter of 2003 from $5,876,000 in the third quarter of 2002. The decrease in revenue was the result of a decline in service revenue of 23.4% or $704,000 to $2,304,000 in the third quarter of 2003 from $3,008,000 in the third quarter of 2002, substantially offset by an increase in product revenue of 22.9% or $657,000 to $3,525,000 in the third quarter of 2003 as compared to product revenue of $2,868,000 in the third quarter of 2002.

Product Revenue. An increase in product revenue at the Diagnostics segment was associated with higher sales of Accurun® and Basematrix products in the third quarter of 2003 as compared to the third quarter of 2002, driven by strong sales of controls for nucleic acid testing and custom Basematrix.

Service Revenue. The decrease in service revenue was associated with a higher level of clinical trial activity in the third quarter of 2002 as compared to the current quarter on two service contracts related to HIV vaccine development (as a result of increased activity from a subcontractor) and Hepatitis C work at the Biotech segment. This was partially offset by an increase in repository services in the third quarter of 2003.

Gross Profit

Overall gross profit increased 0.2%, or $4,000, to $2,022,000 in the third quarter of 2003 from $2,018,000 in the

third quarter of 2002. Product gross profit increased 23.1%, or $306,000, to $1,632,000 in the third quarter of 2003 from $1,326,000 in the third quarter of 2002; product gross margin increased slightly to 46.3% in the third quarter of 2003 from 46.2% in the third quarter of 2002. Service gross profit decreased $302,000 or 43.6% to $390,000 in the third quarter of 2003 from $692,000 in the third quarter of 2002; service gross margin declined to 16.9% in the third quarter of 2003 as compared to 23.0% in the third quarter of 2002.

Product Gross Margin. The slight increase in product gross margin was due to a more favorable overhead absorption performance.

Service Gross Margin. Service gross margin declined due to less profitable government research contracts at the Biotech segment in the third quarter of 2003 as compared to the third quarter of 2002. The third quarter of 2002 also benefited from increased service revenues at the Biotech segment associated with increased subcontract charges on two vaccine contracts.

Research and Development

Research and development expenditures declined 30.6%, or $217,000, to $491,000 in the third quarter of 2003 from $708,000 in the third quarter of 2002. The decreased level of expenditures was associated primarily with a reduced level of activity on PCT related projects, which included work on optimization protocols for various tissue types performed in the third quarter of 2002. In addition, in the third quarter of 2002, there was an increase in development work on software and purified reagents.

Selling and Marketing

Selling and marketing expenses increased by 3.0%, or $24,000, to $828,000 in the third quarter of 2003 from $804,000 in the third quarter of 2002. The Company has incurred a slightly higher level of marketing and promotion related costs in the third quarter of 2003 associated with both its Diagnostics and PCT segments, including the consulting costs of its former Chief Executive Officer.

General and Administrative

General and administrative expenses decreased 3.0%, or $30,000, to $986,000 in the third quarter of 2003 from $1,016,000 in the third quarter of 2002. The decrease is due primarily to a decline in employee health care costs.

Operating Loss from Continuing Operations

Operating loss from continuing operations amounted to $283,000 in the third quarter of 2003 compared to an operating loss from continuing operations of $510,000 in the third quarter of 2002. The Diagnostics segment s operating income increased to $489,000 in the third quarter of 2003 from $206,000 in the third quarter of 2002, associated with a 26.4% increase in product revenue at the Diagnostics segment as explained above. The Biotech segment s operating loss amounted to $104,000 in the third quarter of 2003 as compared to an operating loss of $29,000 in the third quarter of 2002, due to reduced revenues in the third quarter of 2003 associated with work on two vaccine development contracts compared to the third quarter of 2002. The operating loss of the PCT segment decreased to $408,000 in the third quarter of 2003 from $490,000 in the third 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 $260,000 in the third quarter of 2003 from $197,000 in the third quarter of 2002, due to a decline in revenue.

Interest Expense

Interest expense is incurred primarily from the Company s outstanding mortgage and increased $7,000 as compared to the third quarter of 2002. This increase was a result of a mortgage covenant waiver fee as the Company failed to meet its debt service coverage and other covenants for the year ended December 31, 2002.

Evaluation of Financial Asset

As of September 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 Condensed 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. The Company has reevaluated the adequacy of the value of the collateral as of September 30, 2003 and through October 31, 2003. The value of the collateral as of October 31, 2003 approximates the amount of the Company s recorded loan (including interest) as of September 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 nine months 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 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 third quarter of 2003 and the third quarter of 2002.

Loss from Continuing Operations

Loss from continuing operations amounted to $356,000 for the quarter ended September 30, 2003 as compared to a loss of $567,000 for the quarter ended September 30, 2002, as a result of the items discussed above.

Income from Discontinued Operations

In the third quarter of 2002, the Company adjusted its estimate of remaining accrued liabilities to exit the clinical laboratory testing business based upon new developments. The liability was reduced to $855,000 as of September 30, 2002. The major component of the remaining accrual as of September 30, 2002 was estimated lease exit and facility related costs ($532,000) with the remainder for health care claims, other

regulatory audit adjustments, and for other miscellaneous costs associated with exiting this business segment. This resulted in recording an after tax gain of $225,000 in the third quarter of 2002.

Net Loss

The Company had a net loss of $356,000 in the third quarter of 2003 as compared to a net loss of $342,000 in the third quarter of 2002.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

Revenue

Total revenue increased 4.9%, or $810,000, to $17,495,000 in the first nine months of 2003 from $16,685,000 in the first nine months of 2002. The increase in revenue was the result of an increase in product revenue of 8.0% or $754,000, to $10,186,000 in the first nine months of 2003 from $9,432,000 in the first nine months of 2002, coupled with a 0.8% or $56,000 increase in service revenue to $7,309,000 in the first nine months of 2003 as compared to service revenue of $7,253,000 in the first nine 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 custom order from an international distributor. In the first nine months of 2002, product revenue was adversely impacted by delays from several customers at the Diagnostics segment in getting final customer approval for shipment. The increase in product revenues was partially offset by a lower level of contract manufacturing work at the Laboratory Instrumentation segment.

Service Revenue. The increase in service revenue was primarily related to higher revenues associated with increased repository service work combined with an increased level of billable hours associated with government contract reimbursable work at the Biotech segment, partially offset by lower levels of contract research and instrument development activities and a lower level of grant revenues associated with PCT related activities.

Gross Profit

Overall gross profit increased 1.2%, or $73,000 to $6,354,000 in the first nine months of 2003 from $6,281,000 in the first nine months of 2002. Product gross profit increased 4.0%, or $185,000, to $4,779,000 in the first nine months of 2003 from $4,594,000 in the first nine months of 2002; product gross margin decreased to 46.9% in the first nine months of 2003 from 48.7% in the first nine months of 2002. Service gross profit decreased $113,000 or 6.7% to $1,574,000 in the first nine months of 2003 from $1,687,000 in the first nine months of 2002, while service gross margin decreased to 21.5% in the first nine months of 2003 from 23.2% in the first nine months of 2002.

Product Gross Margin. The decline in product gross margin was due to a lower level of product sales at both the Laboratory Instrumentation and Biotech segments, partially offset by an increased level of product sales at the Diagnostics segment.

Service Gross Margin. The service gross margin decrease was primarily due to a lower level of PCT related grant revenue coupled with less profitable research contracts at the Biotech segment.

Research and Development

Research and development expenditures declined 37.4%, or $785,000, to $1,312,000 in the first nine months of 2003 from $2,097,000 in the first nine months of 2002. The decreased level of expenditures was associated primarily with a reduced level of activity on 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 4.6%, or $116,000, to $2,418,000 in the first nine months of 2003 from $2,534,000 in the first nine months of 2002. The Company incurred significant marketing and promotion related costs in the first nine months of 2002 associated with its introduction of the PCT Barocycler™ at an industry trade show as compared to the first nine months of 2003.

General and Administrative

General and administrative costs increased 0.4%, or $12,000, to $3,254,000 in the first nine months of 2003 from $3,242,000 in the first nine months of 2002. This slight 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. The Company also incurred increased legal fees associated with the March 2003 adoption of a Shareholder Purchase Rights Plan. These increases were substantially 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 from Continuing Operations

Operating loss from continuing operations amounted to $630,000 in the first nine months of 2003 compared to an operating loss from continuing operations of $1,593,000 in the first nine months of 2002. The Diagnostics segment s operating income increased to $1,348,000 in the first nine months of 2003 from $893,000 in the first nine 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 nine months of 2003. The Biotech segment s operating loss decreased to $149,000 in the first nine months of 2003 from $405,000 in the first nine months of 2002; higher revenues associated with 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 facilities costs. The operating loss of the PCT segment decreased to $1,092,000 in the first nine months of 2003 from $1,729,000 in the first nine months of 2002 primarily due to reduced patents, trade show and research and development costs, partially offset by a lower level of PCT related grant revenues. 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 $737,000 in the first nine months of 2003 from $352,000 in the first nine months of 2002. This segment recorded a 25.7% 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 is incurred primarily on the Company s outstanding mortgage and increased $29,000 in the first nine months of 2003 as compared to the first nine months of 2002. The increase was a result of a mortgage covenant waiver fee as the Company failed to meet its debt service coverage and other covenants for the year ended December 31, 2002.

Evaluation of Financial Asset

As of September 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 Condensed 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. The Company has reevaluated the adequacy of the value of the collateral as of September 30, 2003 and through October 31, 2003. The value of the

collateral as of October 31, 2003 approximates the amount of the Company s recorded loan (including interest) as of September 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 nine months 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 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,

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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 nine months of 2003 and the first nine months of 2002.

Loss from Continuing Operations

Loss from continuing operations amounted to $835,000 for the nine months ended September 30, 2003 as compared to a loss of $1,748,000 for the nine months ended September 30, 2002 as a result of the items discussed above.

Discontinued Operations

In the third quarter of 2002, the Company adjusted its estimate of remaining accrued liabilities to exit the clinical laboratory testing business based upon new developments. The liability was reduced to $855,000 as of September 30, 2002. The major component of the remaining accrual as of September 30, 2002 was estimated lease exit and facility related costs ($532,000) with the remainder for health care claims, other regulatory audit adjustments, and for other miscellaneous costs associated with exiting this business segment. This resulted in recording an after tax gain of $225,000 in the third quarter of 2002.

Net Loss

The Company had a net loss of $835,000 in the first nine months of 2003 as compared to a net loss of $1,523,000 in the first nine months of 2002.

LIQUIDITY AND FINANCIAL CONDITION

The Company s working capital position decreased slightly to $7,969,000 as of September 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 nine months ended September 30, 2003 was $657,000 as compared to net cash used by operations of $263,000 for the nine months ended September 30, 2002. The improved cash flow from operations during the first nine months of 2003 was primarily the result of a lower year to date loss from operations as compared to the same period last year coupled with a continued reduced level of inventory purchases and favorable cash collections of accounts receivable. This was partially offset by a reduction in trade accounts payable. The operational use of cash during the first nine months of 2002 was primarily the result of the year to date loss and the buildup of raw materials inventory partially offset by an increase in trade accounts payable.

Net cash used in investing activities for the nine months ended September 30, 2003 was $74,000 compared to $578,000 for the nine months ended September 30, 2002. The Company has significantly curtailed current year capital expenditures to improve cash flow and in conjunction with its efforts to seek additional capital as discussed further hereunder.

Net cash used in financing activities for the nine months ended September 30, 2003 was $49,000 compared to cash used of $397,000 during the nine months ended September 30, 2002. In the first nine 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.

The Company continues to evaluate the performance of the Laboratory Instrumentation segment and the PCT segment, both of which continue to experience significant operating losses. As discussed further in Note 4 of Notes to Condensed Consolidated Financial Statements included in Part I of this Form 10-Q, the net book value of assets associated with these two business segments is approximately $2,431,000 as of September 30, 2003. 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. 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 Project 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. If these segments do not become profitable, the Company may need to write off some or all of the current net book value of these assets.

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 September 30, 2003 and through October 31, 2003. The value of the collateral as of October 31, 2003 approximates the amount of the Company s recorded loan (including interest) as of September 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 nine months 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 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 Project 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 September 30, 2003, there have been no significant changes in the Company s contractual obligations or commitments 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 expr identify forward-looking statements. Such statements include, without limitation, statements made regarding the expected recovery and value of 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 or prospects 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 September 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, 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**

Warrants

In November 1999, the Company sold 29,155 equity units to MDBio, Inc. a Maryland not-for profit corporation. Each equity unit consists of one share of common stock and a warrant to purchase one share of common stock with an exercise price of $10.00 per share. MDBio paid the Company $175,000 for the equity units. These warrants expired unexercised at the close of business September 30, 2003.

On September 30, 1998 the Company acquired the remaining outstanding common stock (approximately 81%) of BioSeq, Inc., a development stage company with patent pending technology based on pressure cycling technology for $879,000 in cash (net of cash acquired of $121,000). In connection with the Company s acquisition of BioSeq, Inc., the Company issued warrants to purchase 100,000 shares of the Company s common stock at a purchase exercise price of $2.50 per share (subject to annual increases). As of December 31, 2002, warrants to purchase 67,192 shares of common stock remained outstanding at an exercise price of $3.66 per share. Subsequent to the quarter ended September 30, 2003, all remaining warrants outstanding that were issued pursuant to this transaction expired unexercised at the close of business October 8, 2003.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

There were no matters submitted to a vote of security holders in the third quarter of 2003.

Subsequent to September 30, 2003, the Company held a Special Meeting in Lieu of Annual Meeting of Stockholders on October 2, 2003 (the Meeting). A total of 6,071,106 shares, or 88.99%, of the Company s Common Stock issued, outstanding and entitled to vote as of the record date, were represented in person or by proxy, at the Meeting. At the Meeting, one proposal was acted upon. The result of the proposal was as follows:

1. Dr. Calvin A. Saravis and Mr. R. Wayne Fritzsche were elected as Class I Directors of the Company, to serve as such until the 2006 Annual Meeting of Stockholders and until their successors have been duly elected and qualified, with 4,895,357 shares voting in favor, 1,175,749 votes withheld for Dr. Saravis, and 4,896,907 shares voting in favor, 1,174,199 votes withheld for Mr. Fritzsche, respectively.

The terms of office of Directors Richard T. Schumacher, Kevin W. Quinlan and William A. Wilson continued immediately after the Meeting. Mr. Francis Capitanio, a Director of the Company since 1986, did not stand for reelection as a Director and accordingly, his term expired on October 2, 2003 when his successor was duly elected and qualified. See also Part II, Item 5 Other Information hereunder.

Dr. Calvin A Saravis was not nominated pursuant to any arrangement or understanding with any person. Mr. R. Wayne Fritzsche was nominated to the Board of Directors pursuant to an Agreement dated as of June 30, 2003 between the Company and Richard T. Schumacher (the Nominee Agreement). In April 2003, Mr. Schumacher nominated Mr. Fritzsche and Russell B. Richardson for election as directors at the Company s forthcoming Annual Meeting of Stockholders. At the time of their nomination, Mr. Schumacher s nominees agreed to support the reinstatement of Mr. Schumacher as Chief Executive Officer of the Company. Pursuant to the Nominee Agreement the Company agreed that Mr. Capitanio would not stand for reelection, and following a further review and consideration of the candidates, the Board of Directors would select one of Mr. Fritzsche or Dr. Richerson as the nominee to fill the vacancy on the Board of Directors created by Mr. Capitanio not standing for reelection. Under the Nominee Agreement, Mr. Schumacher withdrew his two nominees and agreed not to proceed with or undertake any proxy solicitation for the Meeting. The Board of Directors selected Mr. Fritzsche as the nominee.

ITEM 5. OTHER INFORMATION

At a Directors meeting immediately following the Special Meeting in Lieu of Annual Meeting of Stockholders held on October 2, 2003, Mr. R. Wayne Fritzsche was elected Chairman of the Board. Mr. William A. Wilson, a Director since 2001 and Chairman of the Board since February 2003, resigned from the Board on October 3, 2003 in order to pursue other activities. The Company is presently seeking to fill one vacancy on its Board of Directors.

Boston Biomedica, Inc. was notified on August 22, 2003 that PricewaterhouseCoopers LLP (PwC) had resigned as the Company s independent accountants, effective August 22, 2003. The Company had a close working relationship with PwC over the past ten years since their engagement in 1993 as the Company s independent accountants, and the Company expressed its disappointment at this development. During the fiscal years ended December 31, 2000, December 31, 2001 and December 31, 2002, and through August 22, 2003, there were no

disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference thereto in their reports on the financial statements for such years. On November 5, 2003, the Audit Committee of the Board of Directors of the Company engaged Weinberg & Company, P. A. to act as the Company s independent accountants for the remainder of fiscal 2003 effective immediately. During the fiscal years ended December 31, 2001 and 2002 and through the date hereof, neither the Company nor anyone on its behalf consulted with Weinberg & Company P.A. with respect to any matters or events including any matters or events set forth in Items 304 (a) (2) (i) and (ii) of Regulation S-K.

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**
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. L.P.	K**
4.14	Rights Agreement dated as of February 27, 2003 between Boston Biomedica, Inc., and Computershare Trust Company, Inc.	P**
10.1	Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company	A**
10.2	1987 Non-Qualified Stock Option Plan*	A**
10.3	Employee Stock Option Plan*	A**

10.4	1999 Non-Qualified Stock Option Plan*	I**
10.5	1999 Employee Stock Purchase Plan*	I**
10.6	Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P.	B**
10.7	Loan Agreement dated March 31, 2000	C**
10.8	First Amendment to lease dated as of December 12, 2001 by and between Cabot Industrial Properties, L. P. and BBI Source Scientific, Inc.	D**
10.9	Lease Agreement, dated May 16, 1997, for Gaithersburg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company	E**
10.10	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**
10.11	Contract, dated July 1, 1998, between the National Institutes of Health and the Company (NO1-A1-85341)	G**
10.12	Contract, dated July 1, 1998, between the National Heart Lung and Blood Institute and the Company (NO1-HB-87144)	G**
10.13	Agreement with Paradigm Group for the purchase of warrants dated August 18, 1999	H**
10.14	Agreement with MDBio for the purchase of common stock and common stock warrants, dated September 30, 1999	J**
10.15	Lease Agreement dated September 30, 1999, for Frederick, Maryland facility, between MIE Properties, Inc., and the Company.	J**
10.16	Repository Contract with National Institute of Allergy and Infectious Disease, Division of AIDS (NO1-A1-95381), dated August 16, 1999.	J**
10.17	Securities Purchase Agreement dated as of August 25, 2000, by and among Boston Biomedica, Inc., and GCA Strategic Investment Fund Limited.	K**
10.18	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**
10.19	Mortgage and Security Agreement dated March 31, 2000	L**
10.20	Asset Purchase Agreement dated February 20, 2001, by and between BBI Clinical Laboratories, Inc., Boston Biomedica, Inc., and Specialty Laboratories, Inc.	M**
10.21	Promissory Note dated July 10, 2001, as amended on October 4, 2001, by and among Boston Biomedica, Inc. and Richard T. Schumacher.	N**
10.22		O**

	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.	
10.23	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**

10.24	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**
10.25	Pledge Agreement effective as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	O**
10.26	Limited Guaranty dated as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	O**
10.27	Description of Compensation for Certain Directors*	D**
10.28	Consultant Agreement between Boston Biomedica, Inc. and Richard T. Schumacher	Filed Herewith
10.29	Agreement between Boston Biomedica, Inc. and Richard T. Schumacher	Filed Herewith
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).

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, 2002.

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 Exhibit 4 of the registrant s Current Report on Form 8-K filed March 12, 2003.

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* 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 August 15, 2003, relative to the Company s issuance of a press release on August 15, 2003 announcing its financial results for the second quarter ended June 30, 2003. The Company filed a Form 8-K, dated August 22, 2003, relative to the resignation of PricewaterhouseCoopers LLP (PwC), as the Company s independent accountants.

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:	November 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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10.19	Mortgage and Security Agreement dated March 31, 2000	L**
10.20	Asset Purchase Agreement dated February 20, 2001, by and between BBI Clinical Laboratories, Inc., Boston Biomedica, Inc., and Specialty Laboratories, Inc.	M**
10.21	Promissory Note dated July 10, 2001, as amended on October 4, 2001, by and among Boston Biomedica, Inc. and Richard T. Schumacher.	N**
10.22	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**
10.23	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**
10.24	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**
10.25	Pledge Agreement effective as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	O**
10.26	Limited Guaranty dated as of January 15, 2002, by and between Boston Biomedica, Inc. and Commerce Bank and Trust Company.	O**

10.27	Description of Compensation for Certain Directors*	D**
10.28	Consultant Agreement between Boston Biomedica, Inc. and Richard T. Schumacher	Filed Herewith
10.29	Agreement between Boston Biomedica, Inc. and Richard T. Schumacher	Filed Herewith
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).

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, 2002.

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 Exhibit 4 of the registrant s Current Report on Form 8-K filed March 12, 2003.

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* 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.