

Patient Safety Technologies, Inc  
Form 10-Q  
August 16, 2010

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

or

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-09727

PATIENT SAFETY TECHNOLOGIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

13-3419202  
(I.R.S. Employer Identification No.)

5 Caufield Place, Suite 102, Newtown, PA 18940  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (215) 579-7789

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller Reporting Company

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

The number of outstanding shares of the registrant's common stock, par value \$0.33 per share, as of August 13, 2010 was 23,456,063.

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PATIENT SAFETY TECHNOLOGIES, INC.

FORM 10-Q FOR THE QUARTER  
ENDED JUNE 30, 2010

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this quarterly report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can sometimes identify forward-looking statements by our use of forward-looking words like “may,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “seeks,” “predicts,” “potential,” or “continue” or other similar expressions. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, plans, objectives, expectations and intentions. Other statements contained in this report that are not historical facts are also forward-looking statements.

We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. Although we believe that the plans, objectives, expectations and intentions reflected in or suggested by our forward-looking statements are reasonable, those statements are based only on the current beliefs and assumptions of our management and on information currently available to us and, therefore, they involve uncertainties and risks as to what may happen in the future. Accordingly, we cannot guarantee that our plans, objectives, expectations or intentions will be achieved. Our actual results, performance (financial or operating) or achievements could differ from those expressed in or implied by any forward-looking statement in this report as a result of many known and unknown factors, many of which are beyond our ability to predict or control. These factors include, but are not limited to, those described under the caption “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2009 filed on March 31, 2010 and amended on April 30, 2010, including without limitation the following:

- our need for additional financing to support our business;
- the early stage of adoption of our Safety-Sponge® System and the need to expand adoption of our Safety-Sponge® System;
  - any failure of our new management team and Board of Directors to operate effectively;
- our reliance on third-party manufacturers, some of whom are sole-source suppliers, and on our exclusive distributor; and
  - any inability to successfully protect our intellectual property portfolio.

The risks included in our filings are not exhaustive, and additional factors could adversely affect our business and financial performance. We operate in a competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

Our forward-looking statements speak only as of the date they are made and should not be relied upon as representing our plans, objectives, expectations and intentions as of any subsequent date. Although we may elect to update or revise forward-looking statements at some time in the future, we specifically disclaim any obligation to do so, even if our plans, objectives, expectations or intentions change.

## HELPFUL INFORMATION

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As used throughout this quarterly report on Form 10-Q, the terms the “Company,” “the registrant,” “we,” “us,” and “our” mean Patient Safety Technologies, Inc., a Delaware corporation, together with its consolidated subsidiary, SurgiCount Medical Inc., a California Corporation, unless the context otherwise requires.

Unless otherwise indicated, all statements presented in this quarterly report on Form 10-Q regarding cumulative number of surgical sponges used and numbers of procedures are internal estimates only.

Safety-Sponge®, SurgiCounter™ and Citadel™, among others, are registered or unregistered trademarks of Patient Safety Technologies, Inc. (including its subsidiary).

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

PATIENT SAFETY TECHNOLOGIES, INC.  
Condensed Consolidated Balance Sheets

	June 30, 2010 (Unaudited)	December 31, 2009
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,591,755	\$ 3,446,726
Restricted cash	651,223	—
Accounts receivable	532,798	906,136
Inventories, net	1,179,826	565,823
Prepaid expenses	122,445	207,598
<b>Total current assets</b>	<b>7,078,047</b>	<b>5,126,283</b>
Property and equipment, net	873,131	744,646
Goodwill	1,832,027	1,832,027
Patents, net	2,951,554	3,114,025
Long-term investment	666,667	666,667
Other assets	42,671	43,246
<b>Total assets</b>	<b>\$ 13,444,097</b>	<b>\$ 11,526,894</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,726,325	\$ 2,043,166
Convertible note	1,424,558	1,424,558
Capital lease-current portion	—	19,330
Warrant derivative liability	996,388	3,666,336
Deferred revenue	6,416,818	8,099,144
Accrued liabilities	1,334,277	1,242,876
<b>Total current liabilities</b>	<b>11,898,366</b>	<b>16,495,410</b>
Capital lease, less current portion	—	58,274
Deferred tax liability	740,622	805,768
<b>Total liabilities</b>	<b>12,638,988</b>	<b>17,359,452</b>
<b>Commitments and contingencies (Note 20)</b>		
<b>Stockholders' equity:</b>		
Series A preferred stock, \$1.00 par value, cumulative 7% dividend: 1,000,000 shares authorized; 10,950 issued and outstanding at June 30, 2010 and December 31, 2009; (Liquidation preference of \$1.2 million at June 30, 2010 and December 31, 2009)	10,950	10,950
	60,067	—

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Series B convertible preferred stock, \$1.00 par value, cumulative 7% dividend:  
 150,000 shares authorized; 60,067 issued and outstanding at June 30, 2010 and 0  
 issued and outstanding at December 31, 2009;  
 (Liquidation preference of \$6.0 million at June 30, 2010 and \$0 at December 31,  
 2009)

Common stock, \$0.33 par value: 100,000,000 shares authorized; 23,456,063 shares issued and outstanding at June 30, 2010 and December 31, 2009	7,740,501	7,740,501
Additional paid-in capital	51,113,594	44,834,321
Accumulated deficit	(58,120,003)	(58,418,330)
Total stockholders' equity (deficit)	805,109	(5,832,558)
Total liabilities and stockholders' equity (deficit)	\$ 13,444,097	\$ 11,526,894

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

PATIENT SAFETY TECHNOLOGIES, INC.  
Condensed Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 3,765,517	\$ 1,027,605	\$ 6,130,337	\$ 1,963,605
Cost of revenue	1,790,360	618,562	2,879,248	1,167,562
Gross profit	1,975,157	409,043	3,251,089	796,043
Operating expenses:				
Research and development	97,972	85,581	131,302	198,581
Sales and marketing	828,445	553,225	1,822,562	1,202,225
General and administrative	2,076,776	1,359,848	3,728,638	3,910,848
Total operating expenses	3,003,193	1,998,654	5,682,502	5,311,654
Operating loss	(1,028,036)	(1,589,611)	(2,431,413)	(4,515,611)
Other income (expense)				
Interest expense	(796)	(219,733)	(13,042)	(439,733)
Gain (loss) on change in fair value of warrant derivative liability	951,210	(2,155,119)	2,669,949	(2,570,119)
Other income (expense)	(5,075)	—	52,782	—
Total other income (expense)	945,339	(2,374,852)	2,709,689	(3,009,852)
Income (loss) before income taxes	(82,697)	(3,964,463)	278,276	(7,525,463)
Income tax benefit	32,573	30,719	65,146	64,719
Net income (loss)	50,124	(3,933,744)	343,422	(7,460,744)
Preferred dividends	(25,932)	(19,325)	(45,095)	(38,325)
Net income (loss) applicable to common shareholders	\$ (76,056)	\$ (3,953,069)	\$ 298,327	\$ (7,499,069)
Income (loss) per common share				
Basic	\$ (0.00)	\$ (0.23)	\$ 0.01	\$ (0.44)
Diluted	\$ (0.00)	\$ (0.23)	\$ 0.01	\$ (0.44)
Weighted average common shares outstanding:				
Basic	23,456,063	17,197,872	23,456,063	17,197,872
Diluted	23,456,063	17,197,872	24,895,607	17,197,872

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



PATIENT SAFETY TECHNOLOGIES, INC.  
 Condensed Consolidated Statements of Cash Flows  
 (Unaudited)

	Six Months Ended June 30,	
	2010	2009
<b>Operating activities:</b>		
Net income (loss)	\$ 343,422	\$ (7,460,744)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	277,779	170,360
Amortization of patents	162,471	162,471
Amortization of debt discount	—	247,124
Stock based compensation	804,525	571,782
Gain on reduction of contingent tax liability	(427,700)	—
Loss on abandonment of lease		