

Patient Safety Technologies, Inc
Form 10-Q
August 14, 2009

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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 Number)

43460 Ridge Park Drive, Suite 140, Temecula, CA 92590
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (951) 587-6201

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 past 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 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 definitions of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated
filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting
company

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

There were 19,396,834 shares of the registrant's common stock outstanding as of August 4, 2009.

PATIENT SAFETY TECHNOLOGIES, INC.

FORM 10-Q FOR THE QUARTER
ENDED JUNE 30, 2009

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We believe that it is important to communicate our plans and expectations about the future to our stockholders and to the public. Some of the statements in this report are forward-looking statements about our plans and expectations of what may happen in the future, including in particular the statements about our plans and expectations in Part I of this report under the heading “Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.” Statements that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). You can sometimes identify forward-looking statements by our use of forward-looking words like “may,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms and other similar expressions.

Although we believe that the plans and expectations 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 and expectations will be achieved. Our actual results and stockholder values could be very different from and worse than 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 in Part I, Item 1A of annual report on Form 10-K for the year ended December 31, 2008 filed with the SEC on April 15, 2009, as amended on May 1, 2009 and July 13, 2009 (the “Form 10-K”), including without limitation the following:

- The early stage of adoption of our Safety-Sponge System and the unpredictability of our sales cycle
 - Our need for additional financing to support our business
 - Any failure of our new management team to operate effectively
- Our reliance on third-party manufacturers, some of whom are sole-source suppliers
 - Any inability to successfully defend our intellectual property portfolio

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 and expectations 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 and expectations change.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets
(In thousands, except par value)

	June 30, 2009 (unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 251	\$ 296
Accounts receivable	188	418
Inventories, net	657	200
Prepaid expenses	220	188
Total current assets	1,316	1,102
Restricted certificate of deposit	94	94
Notes receivable	121	121
Property and equipment, net	474	622
Goodwill	1,832	1,832
Patents, net	3,277	3,439
Long-term investment	667	667
Other assets	29	37
Total assets	\$ 7,810	\$ 7,914
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities		
Accounts payable	\$ 1,770	\$ 909
Current portion of convertible debentures	1,425	1,425
Current portion of notes payable	600	1,100
Accrued liabilities	9,983	3,358
Total current liabilities	13,778	6,792
Long-term convertible debentures, less current portion	53	51
Long-term notes payable, less current portion	1,530	---
Deferred tax liability	979	1,042
Total liabilities	16,340	7,885
Stockholders' equity:		
Convertible preferred stock, \$1.00 par value, cumulative 7% dividend: 1,000 shares authorized; 11 issued and outstanding at June 30, 2009 and December 31, 2008;		
(Liquidation preference of \$1.2 million at June 30, 2009 and December 31, 2008	11	11
Common stock, \$0.33 par value: 25,000 shares authorized; 17,180 shares issued and outstanding at June 30, 2009 and December 31, 2008;	5,675	5,675
Additional paid-in capital	35,767	36,034

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Accumulated deficit	(49,983)	(41,691)
Total stockholders' (deficit) equity	(8,530)	29
Total liabilities and stockholders' equity	\$ 7,810	\$ 7,914

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

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PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(unaudited)

	For the Quarter Ending June 30,		For the Six Months Ending June 30,	
	2009	2008	2009	2008
Revenues	\$ 1,028	\$ 557	\$ 1,964	\$ 1,057
Cost of revenue	619	326	1,168	719
Gross profit	409	231	796	338
Operating expenses:				
Research and development	86	38	199	81
Sales and marketing	553	682	1,202	1,134
General and administrative	1,360	1,687	3,911	2,723
Total operating expenses	1,999	2,407	5,312	3,938
Operating loss	(1,590)	(2,176)	(4,516)	(3,600)
Other income (expenses):				
Interest expense	(220)	(88)	(440)	(175)
Change in fair value of warrant liability	(2,155)	(168)	(2,570)	(168)
Realized loss on assets held for sale, net	—	—	—	(25)
Unrealized loss on assets held for sale, net	—	—	—	(65)
Total other income (expense)	(2,375)	(256)	(3,010)	(433)
Loss from operations before income taxes	(3,965)	(2,432)	(7,526)	(4,033)
Income tax benefit	31	32	65	65
Net loss	(3,934)	(2,400)	(7,461)	(3,968)
Preferred dividends	(19)	(19)	(38)	(38)
Net loss applicable to common shareholders	\$ (3,953)	\$ (2,419)	\$ (7,499)	\$ (4,006)
Net loss per common share - basic and diluted				
	\$ (0.23)	\$ (0.19)	\$ (0.44)	\$ (0.32)
Weighted average common shares outstanding:				
Basic and diluted	17,198	13,054	17,198	12,567

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

PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	For the Six Months Ending June 30,	
	2009	2008
Operating activities:		
Net loss	\$ (7,461)	\$ (3,968)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	170	163
Amortization of patents	162	162
Amortization of debt discount	247	-
Non-cash interest	61	-
Stock-based compensation to consultants	-	8
Stock-based compensation to employees and directors	572	1,001
Non cash expense related to issuance of warrants	1,297	-
Change in fair value of warrant derivative liability	2,570	168
Inventory valuation allowance	106	-
Loss on sale of property	-	91
Income tax expense (benefit)	(64)	(65)
Changes in operating assets and liabilities:		
Accounts receivable	231	(116)
Inventories	(563)	(28)
Prepaid expenses	(32)	(467)
Other assets	8	-
Accounts payable	860	317
Accrued liabilities	(157)	250
Net cash used in operating activities	(1,993)	(2,484)
Investing activities:		
Purchase of property and equipment	(14)	(264)
Proceeds from sale of assets held for sale, net	-	226
Net cash provided by investing activities	(14)	(38)