MONY GROUP INC
Form PREM14A
October 14, 2003

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

THE MONY GROUP INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: Common stock, par value $0.01 per share, of The MONY Group Inc.

(2) Aggregate number of securities to which transaction applies: 53,871,643 shares of The MONY Group Inc. common stock, which includes 5,862,478 shares of common stock issuable upon the exercise of issued and outstanding stock options and warrants that have an exercise price less than $31.00 per share.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): The filing fee is determined based upon the product of 53,871,643 shares of The MONY Group Inc. common stock (including stock options and warrants that have an exercise price less than $31.00 per share) and the merger consideration of $31.00 per share (equal to $1,670,020,933). In accordance with Exchange Act Rule 0-11(c), the filing fee was determined by calculating a fee of $80.90 per $1,000,000 of the aggregate merger consideration of $1,670,020,933.

(4) Proposed maximum aggregate value of transaction: $1,670,020,933

(5) Total fee paid: $135,105

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: N/A

(2) Form, Schedule or Registration Statement No.: N/A

(3) Filing Party: N/A

(4) Date Filed: N/A

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PRELIMINARY PROXY MATERIALS SUBJECT TO COMPLETION

The MONY Group Inc.

1740 Broadway

New York, NY 10019

www.mony.com

Important Special Meeting of Stockholders

[•], 2003

Dear Stockholder:

You are cordially invited to attend the special meeting of stockholders of The MONY Group Inc., to be held on **[•]**, 2003, at **[•]** a.m. local time, at **[•]**.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of September 17, 2003, among AXA Financial, Inc., AIMA Acquisition Co. and The MONY Group Inc., providing for the acquisition of MONY by AXA Financial. If the MONY stockholders adopt the merger agreement, AIMA Acquisition Co., a wholly owned subsidiary of AXA Financial, will merge with and into MONY, and each issued and outstanding share of MONY common stock will be canceled and converted automatically into the right to receive $31.00 in cash without interest, less any applicable withholding tax, except for any such shares of MONY common stock with respect to which appraisal rights have been properly perfected under Delaware law. As a result of the merger, MONY will cease to be a publicly traded company and will become a wholly owned subsidiary of AXA Financial.

Your board of directors, by unanimous vote and after careful consideration, (i) has approved the merger agreement, including the merger and the other transactions contemplated thereby, (ii) has determined that the terms of the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of MONY and its stockholders and (iii) recommends that MONY stockholders vote FOR adoption of the merger agreement.

Completion of the proposed merger is subject to the satisfaction or valid waiver of a number of conditions, including, among others, obtaining certain necessary approvals and consents from applicable insurance and banking regulators and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Therefore, even if MONY s stockholders adopt the merger agreement, we cannot assure you that the proposed merger will be completed.

The accompanying proxy statement provides you with detailed information about the proposed merger and the special meeting. Please give this material your careful and prompt attention. You may also obtain more information about MONY from documents that we have filed with the U.S. Securities and Exchange Commission.

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YOUR VOTE IS IMPORTANT

Your vote is important regardless of the number of shares of MONY common stock that you own. Because adoption of the merger agreement requires the affirmative vote of holders of a majority of the issued and outstanding shares of MONY common stock entitled to vote thereon, a failure to vote, or an abstention from voting, will have the same effect as a vote against the merger.

Accordingly, you are requested to vote your shares of MONY common stock by proxy promptly by either (a) using a toll-free number as described in the enclosed proxy card or voting instruction form, (b) using the Internet as described in the enclosed proxy card or voting instruction form or (c) by completing, signing, dating and promptly mailing the proxy card in the postage-paid envelope provided, whether or not you plan to attend the special meeting. Voting in any of these ways will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

Finally, if you have any questions or need assistance in voting your shares of MONY common stock, please call D. F. King & Co., Inc., which is assisting MONY, toll-free at (800) 488-8075.

On behalf of your Board of Directors, thank you for your cooperation.

Very truly yours,

Michael I. Roth

Chairman of the Board and Chief Executive Officer

Neither the United States Securities and Exchange Commission nor any state securities regulator has approved or disapproved the merger described in the proxy statement or determined if the proxy statement is accurate or adequate. Any representation to the contrary is a criminal offense.

This proxy statement is dated **[•]**, 2003 and is first being mailed to stockholders on or about **[•]**, 2003.

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The MONY Group Inc.

1740 Broadway

New York, NY 10019

www.mony.com

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON [•], 2003

To the Stockholders of The MONY Group Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of The MONY Group Inc., a Delaware corporation, will be held on **[•]**, 2003, at **[•]** a.m. local time, at **[•]** for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of September 17, 2003, among AXA Financial, Inc., AIMA Acquisition Co. and The MONY Group Inc. A copy of the merger agreement is attached as Annex A to the accompanying proxy statement. Pursuant to the terms of the merger agreement, AIMA Acquisition Co., a wholly owned subsidiary of AXA Financial, will merge with and into MONY, with MONY continuing as the surviving corporation and becoming a wholly owned subsidiary of AXA Financial, and each issued and outstanding share of common stock of MONY, other than those shares of MONY common stock, including MONY restricted common stock, held by the stockholders, if any, who properly exercise their appraisal rights under Delaware law, will be converted into the right to receive $31.00 in cash without interest and less any required withholding tax.

2. To transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

The MONY board of directors, by unanimous vote and after careful consideration, (i) has approved the merger agreement, including the merger and the other transactions contemplated thereby, (ii) has determined that the terms of the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of MONY and its stockholders and (iii) recommends that MONY stockholders vote FOR adoption of the merger agreement.

Only MONY stockholders of record at the close of business on **[•]**, 2003, are entitled to notice of and to vote at the special meeting and at any adjournment or postponement of the special meeting. All MONY stockholders of record are cordially invited to attend the special meeting in person. However, to assure that your shares of MONY common stock are voted in case you cannot attend, you are urged to vote your shares by proxy by either (a) using a toll-free number as described in the enclosed proxy card or voting instruction form, (b) using the Internet following the instructions on the enclosed proxy card or voting instruction form or (c) by completing, signing, dating and promptly mailing your proxy card in the postage-paid envelope provided for that purpose. Any stockholder attending the special meeting may vote in person even if he or she has returned a proxy.

MONY stockholders have the right to dissent from the merger and obtain payment in cash of the fair value of their shares of MONY common stock as determined by the Delaware Court of Chancery under applicable provisions of Delaware law. In order to perfect and exercise appraisal rights, stockholders must deliver a written demand for appraisal of their shares before the taking of the vote on the merger at the special meeting and must not vote in favor of the merger. A copy of the applicable Delaware statutory provisions is included as Annex C to the accompanying proxy statement, and a summary of these provisions can be found under Dissenters Rights of Appraisal in the accompanying proxy statement. The amount awarded by the Delaware Court of Chancery in respect of the exercise of a stockholder s appraisal rights may be more than, less than or equal to the merger consideration.

Adoption of the merger agreement requires approval of holders of a majority of the issued and outstanding shares of MONY common stock entitled to vote thereon. In the event that there are not sufficient votes to approve the proposed merger at the time of the special meeting, the special meeting may be adjourned in order to permit further solicitation by MONY.

By Order of the Board of Directors

Lee M. Smith

Vice President and Corporate Secretary

New York, New York

[•], 2003

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the special meeting, please complete, sign, date and promptly mail your enclosed proxy card or voting instruction form in the postage-paid envelope provided. Should you prefer, you may vote by proxy by telephone or via the Internet by following the instructions on your proxy card or voting instruction form. Remember, if you do not return your proxy card or vote by proxy by telephone or via the Internet or if you abstain from voting, it will have the same effect as a vote against adoption of the merger agreement. You may revoke your proxy and vote in person if you decide to attend the special meeting.

Please do not send your certificates representing shares of MONY common stock at this time. If the merger agreement is adopted, you will be sent instructions regarding the surrender of your certificates representing shares of MONY common stock.

No person has been authorized to give any information or to make any representations other than those contained in this proxy statement in connection with the solicitation of proxies made hereby, and, if given or made, such information or representation must not be relied upon as having been authorized by MONY or any other person.

If you have any questions or need assistance in voting your shares of MONY common stock, please call D. F. King & Co., Inc., which is assisting MONY, toll-free at (800) 488-8075.

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SUMMARY TERM SHEET

This summary does not contain all of the information that is important to you. You should carefully read the entire proxy statement, including each of the annexes attached to the proxy statement, to fully understand the merger. A copy of the merger agreement is attached as Annex A to this proxy statement. We encourage you to read the merger agreement carefully in its entirety because it is the legal document that governs the merger.

Proposed Acquisition

Stockholder Vote. You are being asked to vote to adopt a merger agreement pursuant to which MONY will be acquired by AXA Financial.

Price for Your Stock. In the proposed merger, you will receive $31.00 in cash, without interest, less any applicable withholding tax, for each of your shares of MONY common stock.

Board Recommendation (page 24)

MONY s board of directors, by unanimous vote and after careful consideration, (i) has approved the merger agreement, including the merger and the other transactions contemplated thereby, (ii) has determined that the terms of the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of MONY and its stockholders and (iii) recommends that MONY stockholders vote FOR adoption of the merger agreement. See The Merger Recommendation of MONY s Board of Directors.

MONY s Reasons for the Merger (page 21)

MONY s board of directors carefully considered the terms of the proposed transaction and MONY s strategic alternatives in deciding to enter into the merger agreement and to recommend that stockholders vote FOR adoption of the merger agreement. Among the factors considered by the board of directors were:

- the consideration of $31.00 per share in cash to be paid in the proposed merger;
- the current and prospective environment in which MONY operates and its impact on MONY s opportunities as a stand-alone entity;
- the strategic alternatives available to MONY;

- MONY s financial condition, results of operations and business and earnings prospects;
- the view of MONY s management and board of directors that it was likely that one or more agencies would downgrade MONY s senior debt credit ratings and MONY Life s financial strength ratings;
- the terms and conditions of the merger agreement;
- the written opinion of Credit Suisse First Boston LLC, dated September 17, 2003, to the effect that as of such date and based upon and subject to the matters stated in such opinion, the merger consideration was fair, from a financial point of view, to the holders of MONY common stock, other than AXA Financial and its affiliates; and
- the interests of certain officers and directors of MONY that are different from, or in addition to, the interests of MONY stockholders generally.

See The Merger MONY s Reasons for the Merger.

Opinion of MONY s Financial Advisor (page 24)

In connection with the proposed merger, MONY s financial advisor, Credit Suisse First Boston LLC, delivered a written opinion to the MONY board of directors, dated September 17, 2003, to the effect that as of the date of the opinion and based upon and subject to the matters stated in the opinion, the merger consideration was fair, from a financial point of view, to the holders of MONY common stock, other than AXA Financial and its affiliates. The full text of Credit Suisse First Boston s written opinion is attached to this proxy statement as Annex B. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. Credit Suisse First Boston s opinion is addressed to the MONY board of directors and does not constitute a recommendation to any stockholder as to any matter relating to the merger. See The Merger Opinion of MONY s Financial Advisor.

Certain United States Federal Income Tax Consequences (page 40)

The conversion of shares of MONY common stock into cash pursuant to the merger is a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local or foreign tax laws. You should consult your own tax advisor about the particular tax consequences of the merger to you. See Certain U.S. Federal Income Tax Consequences.

The Special Meeting of Stockholders (page 12)

Place, Date and Time. The special meeting will be held at [•], at **[•]** a.m. local time, on [•], 2003.

What Vote is Required for Adoption of the Merger Agreement. Adoption of the merger agreement requires the approval of holders of a majority of the issued and outstanding shares of MONY common stock entitled to vote thereon. The failure to vote, or an abstention from voting, has the same effect as a vote against adoption of the merger agreement. As such, your vote is important.

Who Can Vote at the Meeting. At the special meeting, you can vote all of the shares of MONY common stock that you own of record as of [•], 2003, which is the record date for the special meeting. If you own shares that are registered in someone else s name, for example, a broker, you need to direct that person to vote those shares or obtain an authorization from that person and vote the shares yourself at the meeting. As of the record date, there were **[•]** shares of MONY common stock issued and outstanding, which were held by approximately **[•]** stockholders of record.

Procedure for Voting. You can vote your shares of MONY common stock by:

- completing, signing, dating and mailing the enclosed proxy card;
- voting by proxy by telephone or via the Internet as described in the enclosed proxy card or voting instruction form; or
- attending the special meeting and voting in person.

Procedure for Revoking your Proxy. You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either advise the Corporate Secretary of MONY in writing, deliver a proxy dated after the date of the proxy you wish to revoke, submit a later dated instruction by telephone or via the Internet or attend the special meeting and vote your shares in person. Merely attending the special meeting will not constitute revocation of your proxy. If you have instructed a broker, bank or other nominee to vote your shares of MONY common stock, you must follow the directions received from the broker, bank or other nominee to change your instructions.

If your shares of MONY common stock are held in street name by your broker, you should instruct your broker to vote your shares by following the instructions provided by your broker. Remember, if you fail to instruct your broker to vote your shares, it has the same effect as a vote AGAINST adoption of the merger agreement. See The Special Meeting of MONY Stockholders.

Dissenters Rights of Appraisal (page 60)

Delaware law provides stockholders with appraisal rights in the event the merger is consummated. This means that you are entitled to have the value of your shares of MONY common stock independently determined by the Delaware Court of Chancery, exclusive of any element of value arising from the accomplishment or expectation of the merger, and to receive payment based on that valuation. The ultimate amount that you receive as a dissenting stockholder in an appraisal proceeding may be more than, less than or the same as the amount you would have received in the merger. To exercise your appraisal rights, you must deliver a written demand for appraisal to MONY before the vote of MONY stockholders at the special meeting on [•], 2003, and you must not vote in favor of adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. After 60 days following the effective date of the merger, any demand for appraisal will become irrevocable and absent consent from the surviving corporation, any MONY stockholder who has made a demand for appraisal will no longer be entitled to receive the $31.00 per share of MONY common stock provided for in the merger agreement; instead, he or she will receive the fair value of the shares, as determined by the Delaware Court of Chancery, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, as determined by the Delaware Court of Chancery. See Dissenters Rights of Appraisal.

Litigation Relating to the Merger (page 39)

Ten substantially similar putative class action lawsuits relating to the proposed merger have been filed against MONY, its directors, AXA Financial, Inc. and AIMA Acquisition Co. in the Delaware Court of Chancery. In addition, MONY, its directors and AXA Financial have been named in two putative class action lawsuits relating to the proposed merger filed in New York State Supreme Court in Manhattan. The complaints in these actions, all of which purport to be brought as class actions on behalf of all MONY stockholders, excluding the defendants and their affiliates, allege that the $31.00 cash price per share of MONY common stock to be paid to MONY stockholders in connection with the proposed merger is inadequate and that MONY s directors breached their fiduciary duties to holders of MONY common stock in negotiating and approving the merger agreement. The complaints also allege that AXA Financial and AIMA aided and abetted the alleged breaches of fiduciary duty by MONY and its directors. The complaints seek various forms of relief, including damages and injunctive relief that would, if granted, prevent completion of the merger. MONY intends to defend the actions vigorously. See Litigation Relating to the Merger.

MONY Stock Price (page 57)

Shares of MONY common stock are listed on the New York Stock Exchange under the symbol MNY. On September 17, 2003, which was the last trading day before announcement of the merger, the closing share price of MONY common stock was $29.33. The average closing stock price of MONY common stock over the one-year period ended September 17, 2003 was $24.74 per share. See Market Price of MONY Common Stock.

When the Merger will be Completed (page 43)

We are working to complete the merger as quickly as possible. While we anticipate completing the merger in the first quarter of 2004, the closing of the merger could occur later because the merger is subject to receipt of stockholder approval and satisfaction of other requirements, including the conditions described immediately below. See The Merger Agreement Effective Time of the Merger.

Conditions to Completing the Merger (page 52)

AXA Financial and MONY s obligation to complete the merger depends upon a number of conditions being satisfied, including the following:

adoption of the merger agreement by the holders of at least a majority of the issued and outstanding shares of MONY common stock;

expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976;

approval of governmental and other authorities required for the merger, including, among other things, the approval of the insurance regulatory authorities of the states of Arizona, New York and Ohio, and such approval of the Banking Commissioner for the State of Connecticut as may be required by applicable law;

approval of the Office of Thrift Supervision for the indirect acquisition by AXA Financial of Advest Trust Company, an indirect subsidiary of MONY, and the simultaneous merger of Advest Trust Company into Frontier Trust Company, FSB, a subsidiary of AXA Financial; and

the absence of any legal restraint blocking the merger.

In addition, AXA Financial s obligation to complete the merger is subject to a number of additional conditions, including the following:

the absence of a material adverse effect on MONY;

stockholder approval of new investment advisory contracts and sub-advisory contracts from investment companies registered under the Investment Company Act of 1940 for which a subsidiary of MONY acts as an investment advisor or subadvisor, representing in the aggregate at least 80% of the total assets of all such investment companies;

receipt of written confirmation or other written guidance from the Office of Thrift Supervision, reasonably satisfactory to AXA Financial, that the merger of Advest Trust Company and Frontier Trust Company will not adversely affect the existing status under Section 10(c)(9)(C) of the Home Owners Loan Act of AXA Financial; and

appraisal rights not being perfected by holders of more than 10% of the issued and outstanding shares of MONY common stock prior to the merger.

Either MONY or AXA Financial could choose to waive a condition to its obligation to complete the merger if the law permits even though that condition has not been satisfied. See The Merger Agreement Conditions to Consummation of the Merger.

Termination of the Merger Agreement and Termination Fee (pages 55 and 56)

MONY and AXA Financial can mutually agree at any time to terminate the merger agreement without completing the merger, even if the stockholders of MONY have adopted the merger agreement. Also, under certain circumstances either MONY or AXA Financial can decide, without the consent of the other party, to terminate the merger agreement prior to the closing of the merger, even if the stockholders of MONY have adopted the merger agreement. See The Merger Agreement Termination.

MONY will be required to pay a termination fee of $50 million to AXA Financial if, among other things MONY s board of directors fails to recommend stockholder approval of the merger agreement, withdraws its recommendation or modifies or changes its recommendation in a manner adverse to the interests of AXA Financial or if MONY or its board of directors recommends that MONY stockholders approve any acquisition proposal other than the merger. See The Merger Agreement Termination Fee.

Interests of Directors and Executive Officers in the Merger (page 32)

Some of MONY s directors and executive officers have interests in the merger that are different from, or are in addition to, their interests as stockholders in MONY. MONY s board of directors considered these additional interests when the MONY board of directors approved the merger agreement. See The Merger Interests of MONY s Directors and Executive Officers in the Merger.

Director and Executive Officer Voting (page 12)

As of October 6, 2003, approximately 3.2% of the issued and outstanding shares of MONY common stock were held by directors and executive officers of MONY and their affiliates. MONY has been advised by its directors and executive officers that they intend to vote all of their shares of MONY common stock in favor of the proposal to adopt the merger agreement. See The Special Meeting of MONY Stockholders Director and Executive Officer Voting and Security Ownership Security Ownership of Directors and Executive Officers.

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Procedure for Receiving Merger Consideration (page 44)

AXA Financial will appoint a paying agent to coordinate the payment of the cash merger consideration following the merger. The paying agent will send you written instructions for surrendering your certificates representing shares of MONY common stock and obtaining the cash merger consideration promptly after we have completed the merger. Do not send in your certificates representing shares of MONY common stock now. See The Merger Agreement Exchange Procedures.

Payment of Dividends to MONY Stockholders (page 48)

Pursuant to the merger agreement, at any time after January 1, 2004, MONY can set a record date for, and declare and pay, a dividend to its stockholders out of specified components of its earnings for the last six months of 2003, up to a maximum dividend of $0.45 per share of MONY common stock. Accordingly, MONY may or may not be able to pay a dividend to its stockholders, depending on its financial results for the last six months of 2003. See The Merger Agreement Dividend from Adjusted Net Earnings.

Questions

If, after reading this proxy statement, you have additional questions about the merger or other matters discussed in this proxy statement, need additional copies of this proxy statement or require assistance with voting your shares of MONY common stock, please call:

D. F. King & Co., Inc.

48 Wall Street

New York, New York 10005

Toll-Free: (800) 488-8075

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer to in this proxy statement, contain forward-looking statements concerning the operations, economic performance, prospects and financial condition of MONY, as well as information relating to the merger. Forward-looking statements include, among other things, discussions concerning MONY s potential exposure to market risks, as well as statements expressing expectations, beliefs, estimates, forecasts, projections and assumptions. MONY claims the protection afforded by the safe harbor for forward-looking statements as set forth in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. Actual results could be materially better or worse than those anticipated by forward-looking statements due to a number of important factors including, but not limited to, the following:

- the financial performance of MONY through the completion of the merger;
- satisfaction of the closing conditions set forth in the merger agreement, including the approval of MONY stockholders and regulatory approvals;
- a significant delay in the expected completion of the merger;
- MONY could experience losses, including venture capital losses;
- MONY could be subjected to downgrades by ratings agencies of MONY s senior debt ratings and the claims-paying and financial-strength ratings of MONY s insurance subsidiaries;
- MONY could be required to take a goodwill impairment charge relating to its investment in The Advest Group, Inc. if the market deteriorates;
- MONY could have to accelerate amortization of deferred policy acquisition costs if market conditions deteriorate;
- MONY may be required to recognize in its earnings other than temporary impairment charges on its investments in fixed maturity and equity securities held by it;
- MONY could have to write off investments in certain securities if the issuers financial condition deteriorates;
- actual death-claim experience could differ from MONY s mortality assumptions;
- MONY could have liability from as-yet-unknown litigation and claims;
- larger settlements or judgments than MONY anticipates could result in pending cases due to unforeseen developments; and
- changes in laws, including tax laws, could affect the demand for MONY s products.

MONY does not undertake to update or revise any forward-looking statements, which speak only as of the date they were made, whether as a result of new information, future events or otherwise.

THE PARTIES TO THE MERGER

The MONY Group Inc.

MONY is a Delaware corporation with its executive offices located at 1740 Broadway, New York, New York 10019. Its telephone number is (212) 708-2000. MONY, with approximately $55 billion in assets under management and administration as of June 30, 2003, is a financial services firm that manages a portfolio of member companies. These companies include MONY Life Insurance Company, MONY Life of America, The Advest Group, Inc., Enterprise Capital Management, Inc., Matrix Capital Markets Group, Inc., Advest, Inc., and U.S. Financial Life Insurance Company. These companies manufacture and distribute protection, asset accumulation, brokerage and advisory products and services to individuals, corporations and institutions through retail and wholesale distribution channels. MONY s common stock is traded on the New York Stock Exchange under the symbol MNY.

AXA Financial, Inc.

AXA Financial, Inc. is a Delaware corporation with its executive offices located at 1290 Avenue of the Americas, New York, New York 10104. Its telephone number is (212) 554-1234. AXA Financial is a diversified financial services organization offering a broad spectrum of financial advisory, insurance and investment management products and services. It is one of the world s largest asset managers, with total assets under management of approximately $457.5 billion at June 30, 2003. AXA Financial s financial advisory and insurance product businesses are conducted principally by its wholly owned life insurance subsidiary, The Equitable Life Assurance Society of the United States, its insurance general agency, AXA Network, LLC, and its broker dealers, AXA Advisors, LLC and AXA Distributors, LLC. Equitable Life, which was established in the State of New York in 1859, is among the largest life insurance companies in the United States. AXA Financial s investment management and related services business is conducted by Alliance Capital Management L.P.

AIMA Acquisition Co.

AIMA Acquisition Co. is a Delaware corporation with its executive offices located at 1290 Avenue of the Americas, New York, New York 10104 c/o AXA Financial, Inc. Its telephone number is (212) 554-1234. AIMA is a wholly owned subsidiary of AXA Financial. AIMA was formed solely for the purpose of facilitating the merger.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following questions and answers are provided for your convenience and briefly address some commonly asked questions about the proposed merger and the special meeting of MONY stockholders. You should carefully read this entire proxy statement, including each of the annexes attached to this proxy statement.

Q: Why am I receiving this proxy statement and proxy card?

A: You are receiving this proxy statement and proxy card because, as of **[•]**, 2003, the record date for the special meeting, you owned shares of MONY common stock. This proxy statement describes the issues on which we would like you, as a stockholder, to vote. It also provides you with the important information about these issues to enable you to make an informed decision as to whether or not to vote your shares of MONY common stock for the merger.

Q: When and where is the special meeting of stockholders?

A: The special meeting of stockholders will be held on **[•]**, 2003, at **[•]** a.m. local time, at **[•]**.

Q: What am I being asked to vote on?

A: You are being asked to consider and adopt the merger agreement, pursuant to which AXA Financial will acquire MONY through the merger of a wholly owned subsidiary of AXA Financial, AIMA, with and into MONY. After the merger, MONY will become a wholly owned subsidiary of AXA Financial.

Q: Who is entitled to vote at the special meeting of stockholders?

A: Holders of record of MONY common stock as of the close of business on **[•]**, 2003 are entitled to vote on the merger agreement.

Q: What stockholder approval is required to adopt the merger agreement?

A: A quorum must be present at the special meeting and the affirmative vote of stockholders representing a majority of the issued and outstanding shares of MONY common stock entitled to vote for adoption of the merger agreement is required to adopt the merger agreement.

Q: Does MONY s board of directors recommend the adoption of the merger agreement?

A: Yes. MONY s board of directors unanimously recommends that MONY stockholders vote FOR adoption of the merger agreement. MONY s board of directors considered many factors in deciding to recommend adoption of the merger agreement, including, among other things, the consideration of $31.00 per share in cash to be paid in the proposed merger, the current and prospective environment in which MONY operates and its impact on MONY s opportunities as a stand-alone entity, the strategic alternatives available to MONY and MONY s financial condition, results of operations and business and earnings prospects. The $31.00 cash per share merger consideration represents a premium of approximately 5.69% to the closing price of MONY common stock on September 17, 2003 and approximately 25.30% to the average daily closing price of MONY common stock over the one-year period ended September 17, 2003.

Q: What will MONY stockholders receive in the merger?

A: In the merger, each issued and outstanding share of MONY common stock will be converted into the right to receive $31.00 in cash, without interest and less any required withholding tax, unless you perfect and exercise your appraisal rights as set forth below.

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Q: Am I entitled to appraisal rights?

A: Yes. Under Delaware law, if the merger is completed and you do not vote in favor of adopting the merger agreement, you have the right to seek appraisal of the fair value of your shares of MONY common stock, as determined by the Delaware Court of Chancery, exclusive of any element of value arising from the accomplishment or expectation of the merger, but only if you deliver a written demand for an appraisal before the vote on the merger agreement and comply with the applicable Delaware law procedures. A demand for appraisal becomes irrevocable 60 days after the effective time of the merger. Once that happens, absent the consent of the surviving corporation, any stockholder who has made a demand for appraisal rights will no longer be entitled to receive the merger consideration of $31.00 in cash per share of MONY common stock. Instead, these stockholders will receive the fair value, as determined by the Delaware Court of Chancery, of his or her shares of MONY common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, also as determined by the Delaware Court of Chancery. The amount awarded by the Delaware Court of Chancery could be greater than, less than or equal to $31.00 per share of MONY common stock. AXA Financial will not be obligated to complete the merger if appraisal rights are perfected by holders of more than 10% of the issued and outstanding shares of MONY common stock as of immediately prior to the merger. AXA Financial has the right to waive this condition and complete the merger. See Dissenters Rights of Appraisal and Annex C to this proxy statement.

Q: What will happen to outstanding and unexercised stock options?

A: In the merger, each issued and outstanding unexercised stock option, whether vested or unvested, to acquire MONY common stock will be cancelled and converted into the right to receive for each share covered by the stock option the excess, if any, of $31.00 over the per share exercise price of the stock option, without interest, and net of applicable withholding taxes. Each issued and outstanding unexercised stock option with a per share exercise price of $31.00 or more will be canceled without payment.

Q: What will happen to outstanding shares of restricted MONY common stock?

A: Some of the officers and directors of MONY hold restricted stock awards. Immediately prior to completion of the merger, each share of restricted stock whether vested or unvested will be converted into the right to receive $31.00 per share.

Q: Will MONY continue to pay dividends on my shares of MONY common stock pending completion of the merger?

A: The merger agreement provides that at any time after January 1, 2004, MONY can set a record date for, and declare and pay, a dividend to its stockholders out of specified components of its earnings for the last six months of 2003, up to a maximum dividend of $0.45 per share of MONY common stock. Accordingly, MONY may or may not be able to pay a dividend to its stockholders, depending on its financial results for the last six months of 2003.

Q: What will happen to my shares of MONY common stock after the merger?

A: Following consummation of the merger, your shares of MONY common stock will represent solely the right to receive the merger consideration of $31.00 per share in cash, without interest and less any required withholding tax, unless you perfect your appraisal rights. In addition, upon consummation of the merger, trading in MONY common stock on the New York Stock Exchange will cease and price quotations for MONY common stock will no longer be available.

Q: Does AXA Financial have the financial resources to pay the aggregate merger consideration?

A: The aggregate consideration payable to MONY s stockholders and option and warrant holders in the merger is approximately $1.5 billion. AXA Financial has represented to us that, as of the closing of the merger, AXA Financial will have available cash sufficient to enable it to pay the aggregate merger consideration. In addition, AXA Financial also has advised us that it expects to obtain these funds from its parent, AXA. There is no financing condition to the consummation of the merger.

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Q: What are the U.S. federal income tax consequences of the transaction?

A: The conversion of shares into cash pursuant to the merger is a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local or foreign tax laws. You should consult your own tax advisor about the particular tax consequences of the merger to you.

Q: When will the merger be completed and when will payment be received?

A: We are working toward completing the merger as quickly as possible and we believe that the merger will be completed by the end of the first quarter of 2004. However, the closing of the merger could occur later than the first quarter of 2004 because the merger cannot be completed without the satisfaction of a number of closing conditions, including the approval of MONY stockholders as described in this proxy statement and the approval of regulatory authorities, including applicable insurance and banking regulatory authorities. The effective time of the merger will occur on the third business day following the satisfaction or waiver of the conditions to the merger contained in the merger agreement or on such other date as MONY and AXA Financial may otherwise agree.

Q: What if the merger is not completed?

A: It is possible that the merger will not be completed. That might happen if, for example, our stockholders do not approve the merger agreement. If that occurs, neither AXA Financial, AIMA nor any third party is under any obligation to make or consider any alternative proposals regarding the purchase of the shares of MONY common stock. Under some circumstances, a termination fee of $50 million would be payable to AXA Financial by MONY if the merger is not completed.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes, and consider how the merger affects you. Then simply mark, sign, date and promptly mail the enclosed proxy card in the postage-paid envelope provided. Should you prefer, you may cast your vote by proxy by telephone or via the Internet in accordance with the instructions on the enclosed proxy card or the voting instruction form received from any broker, bank or other nominee that may hold shares of MONY common stock on your behalf. Please act as soon as possible so that your shares of MONY common stock can be voted at the special meeting.

Q: What happens if I do not return a proxy card or otherwise vote by proxy?

A: If you fail to return your proxy card or cast your vote by proxy by using the telephone or the Internet and you do not vote in person at the special meeting, it will have the same effect as voting against the merger. You are urged to act promptly in returning your proxy.

Q: May I attend the meeting and vote in person?

A: Yes. You may vote in person by ballot at the special meeting if you own shares of MONY common stock registered in your own name. If you bring a legal proxy from your broker, bank or other nominee and present it at the special meeting, you also may vote in person at the special meeting if your shares of MONY common stock are held in street name through a broker, bank or other nominee. You should contact the person responsible for your account to make such arrangements. Please note that stockholders may be asked to present photo identification for admittance to the special meeting.

Q: May I change my vote after I have mailed my signed proxy card or otherwise voted by proxy?

A: Yes. You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either advise the Corporate Secretary of MONY in writing, deliver a proxy card dated after the date of the proxy you wish to revoke, submit a later dated proxy instruction by telephone or via the Internet or

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attend the special meeting and vote your shares of MONY common stock in person. Merely attending the special meeting will not constitute revocation of your proxy. If you have instructed a broker, bank or other nominee to vote your shares, you must follow the directions received from the broker, bank or other nominee to change your instructions.

Q: If my shares are held in street name by my broker, banker or nominee will my broker vote my shares for me?

A: Your broker, banker or nominee will not vote your shares of MONY common stock without specific instructions from you. You should instruct your broker, banker or nominee to vote your shares of MONY common stock by following the instructions provided to you by such firm. You should also contact the person responsible for your account to make certain that your shares of MONY common stock are voted. Without instructions, your shares of MONY common stock will not be voted, which will have the effect of a vote against the merger. Please make certain to return your proxy card for each separate account you maintain to ensure that all of your shares of MONY common stock are voted.

Q: Who is soliciting my proxy?

A: The board of directors of MONY is soliciting your proxy. Directors, officers and other employees of MONY may participate in soliciting proxies by mail, telephone, facsimile, personal interview or e-mail. In addition, D. F. King & Co., Inc. is aiding MONY in the solicitation of proxies.

Q: Should I send in my stock certificates now?

A: No. Detailed instructions with regard to the surrender of your certificates representing shares of MONY common stock, together with a letter of transmittal, will be mailed to you promptly following completion of the merger. You should not submit your certificates representing shares of MONY common stock to MONY or the paying agent until you have received these materials. The paying agent will send payment for your shares of MONY common stock promptly after the paying agent receives your certificates representing shares of MONY common stock and other required documents.

Q: Where can I learn more about MONY?

A: MONY files annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission. You may read and copy any reports, statements or other information that MONY files with the SEC at the SEC s Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. These SEC filings are also available to the public at the Internet site maintained by the SEC at http://www.sec.gov.

Q: Whom should I contact if I have questions?

A: If you would like additional copies, without charge, of this proxy statement or if you have questions about the merger, including the procedures for voting your shares, you should contact D. F. King & Co., Inc., which is assisting us in the solicitation of proxies, as follows:

D. F. King & Co., Inc.

48 Wall Street

New York, New York 10005

Toll-Free: (800) 488-8075

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THE SPECIAL MEETING OF MONY STOCKHOLDERS

Time, Place and Purpose of the Special Meeting

The special meeting of MONY stockholders will be held on **[•]**, 2003 at **[•]** a.m. local time, at **[•]**. The purpose of the special meeting is to consider and vote on the proposal to adopt the merger agreement.

MONY s board of directors, by unanimous vote and after careful consideration, (i) has approved the merger agreement, including the merger and the other transactions contemplated thereby, (ii) has determined that the terms of the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of MONY and its stockholders and (iii) recommends that MONY stockholders vote FOR adoption of the merger agreement.

Who Can Vote at the Special Meeting

The holders of record of MONY common stock as of the close of business on **[•]**, 2003, which is the record date for the special meeting, are entitled to receive notice of and to vote at the special meeting. If you own shares of MONY common stock that are registered in someone else s name, for example, a broker, you need to direct that person to vote those shares or obtain an authorization from them and vote the shares yourself at the meeting. On the record date, there were **[•]** shares of MONY common stock issued and outstanding held by approximately **[•]** stockholders of record.

Vote Required

Holders of a majority of the issued and outstanding shares of MONY common stock entitled to be cast as of the record date, represented in person or by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Once a share is represented at the special meeting, it will be counted for the purpose of determining a quorum and any adjournment of the special meeting, unless the holder is present solely to object to the special meeting. However, if a new record date is set for an adjourned meeting, then a new quorum will have to be established.

The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the issued and outstanding shares of MONY common stock entitled to vote thereon. Each share of MONY common stock is entitled to one vote. Failure to vote your proxy by telephone or via the Internet, or to return a properly executed proxy card or to vote in person will have the same effect as a vote AGAINST adoption of the merger agreement.

Under the rules of the New York Stock Exchange, brokers who hold shares in street name for customers have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, brokers are precluded from exercising their voting discretion with respect to approval of non-routine matters, such as adoption of the merger agreement and, as a result, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote those shares, referred to generally as broker non-votes. Abstentions and properly executed broker non-votes will be treated as shares that are present and entitled to vote at the special meeting for purposes of determining whether a quorum exists and will have the same effect as votes AGAINST adoption of the merger agreement.

Director and Executive Officer Voting

As of October 6, 2003, approximately 3.2% of the issued and outstanding shares of MONY common stock were held by directors and executive officers of MONY and their affiliates. MONY has been advised by its directors and executive officers that they intend to vote all of their shares in favor of the proposal to adopt the merger agreement. See Security Ownership Security Ownership of Directors and Executive Officers.

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Voting by Proxy

This proxy statement is being sent to you on behalf of the MONY board of directors for the purpose of requesting that you allow your shares of MONY common stock to be represented and voted at the special meeting or any adjournment thereof by the persons named in the enclosed proxy card. All shares of MONY common stock represented at the meeting by proxies voted by telephone or via the Internet or by properly executed proxy cards will be voted in accordance with the instructions indicated on that proxy. If you submit a proxy by telephone or via the Internet or by signing and returning a proxy card without giving voting instructions, your shares will be voted FOR the proposal as recommended by MONY s board of directors. **The board recommends a vote FOR adoption of the merger agreement.**

The persons named in the proxy card will use their own judgment to determine how to vote your shares of MONY common stock regarding any matters not described in this proxy statement that are properly presented at the special meeting or any adjournment thereof. MONY does not know of any matter to be presented at the meeting or any adjournment thereof other than the proposal to adopt the merger agreement.

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either advise the Corporate Secretary of MONY in writing, deliver a proxy dated after the date of the proxy you wish to revoke, submit a later dated proxy instruction by telephone or via the Internet or attend the special meeting and vote your shares in person. Merely attending the special meeting will not constitute revocation of your proxy.

If your shares of MONY common stock are held in street name, you will receive instructions from your broker, bank or other nominee that you must follow to have your shares voted. Your broker or bank may allow you to deliver your voting instructions by telephone or via the Internet.

MONY will pay the cost of this proxy solicitation. Directors, officers and other employees of MONY may participate in soliciting proxies by mail, telephone, facsimile, personal interview or e-mail. None of these persons will receive additional or special compensation for soliciting proxies. MONY will, upon request, reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions. MONY has engaged D. F. King & Co., Inc. to assist in the solicitation of proxies for the special meeting and will pay D. F. King & Co., Inc. a fee estimated not to exceed $300,000 plus reimbursement of expenses.

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THE MERGER

The following discussion summarizes the material terms of the merger. While we believe that the description covers the material terms of the merger, this summary may not contain all of the information that is important to you. We urge stockholders to read this proxy statement, the merger agreement and the other documents referred to herein carefully for a more complete understanding of the merger.

Background of the Merger

Since MONY s demutualization in 1998, MONY s policy has been to meet confidentially with qualified third parties that express potential interest in pursuing a business combination or other strategic transaction with MONY. As part of this policy, Michael I. Roth, MONY s Chairman and Chief Executive Officer, and other authorized representatives of MONY have had discussions, from time-to-time, with representatives of third parties regarding a potential business combination or other strategic transaction. From 2001 through early 2003, Mr. Roth had meetings with senior representatives, usually chief executive officers, of approximately ten other companies to explore potential strategic transactions, including possible mergers and acquisitions of MONY. In exploring opportunities with third parties, MONY was careful to maintain confidentiality and to proceed in a manner that it believed would maximize stockholder value and not disrupt MONY s business and operations. In particular, MONY was concerned about the potential effect that a leak could have on its sales force and relationships with other distributors. Notwithstanding the several meetings and discussions that Mr. Roth and MONY s financial advisors, including Credit Suisse First Boston LLC, had conducted with other parties, none of these parties, except AXA Financial, indicated any interest in a transaction with MONY that the MONY board of directors believed was worthy of pursuing.

In 2001, as a result of the decline in the capital markets, an increase in competition and other factors, MONY s profitability declined precipitously. In response, senior management of MONY took steps to improve MONY s operating results through a variety of measures, including expense reductions. In this regard, from mid-May through mid-September, 2001, two separate groups of senior level managers met frequently and intensively to plan a reorganization of MONY s field force and home office staff, in both New York City and Syracuse, in order to reduce MONY s operating expenses substantially. Among the outcomes of this effort were two major reductions in force in October 2001 and January 2002. As its results for 2002 continued to lag behind MONY s business plan, MONY initiated a third major reduction in force in December 2002 to reduce its expense base further.

Despite efforts by MONY s senior management to improve MONY s operating results through expense reductions, in late 2002, Fitch and Standard & Poor s, two ratings agencies, each lowered MONY s senior debt credit ratings to BBB+ and MONY Life s financial strength ratings to A+. Also in 2002, two other ratings agencies, Moody s and A.M. Best, put MONY Life on negative outlook and lowered their ratings of MONY s senior debt to Baa2 and bbb+ respectively.

In late 2002, as it became increasingly clear that it would be difficult for MONY to meet its return on equity targets and maintain its senior debt and insurer financial strength ratings, MONY s senior executives consulted with MONY s outside financial advisors regarding potential strategic alternatives, including mergers and acquisitions of MONY.

In evaluating the potential strategic alternatives available to MONY, in 2002 and early in 2003, Mr. Roth and, at the direction of Mr. Roth, MONY s financial advisors, including Credit Suisse First Boston, had discussions with selected third parties, including AXA Financial, to explore the possibility of a business combination or other strategic transaction involving MONY.

In November 2002, the MONY board of directors met with management of MONY and Credit Suisse First Boston to review and discuss potential strategic alternatives available to MONY to maximize stockholder value and to mitigate the risks to MONY and its stockholders of continuing to operate as an independent public

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company. At this meeting, management of MONY and Credit Suisse First Boston reviewed, and the MONY board of directors considered, among other things, the potential risks and benefits associated with four potential strategies: Remain Independent ; Focus on Distribution/Outsource Manufacturing ; Merger of Equals ; and Sale of MONY. During the meeting, the board of directors requested that management explore and consider potential strategic alternatives to maximize stockholder value, including those outlined by management of MONY and Credit Suisse First Boston. In the weeks following the November meeting, members of MONY s senior management team met with Credit Suisse First Boston again to review and discuss strategic alternatives, as well as the discussions and contacts with third parties.

On December 4, 2002, Mr. Roth met with Christopher Condron, President and Chief Executive Officer of AXA Financial, to discuss generally their respective businesses.

At a meeting of the board of directors of MONY on January 15, 2003, Mr. Roth again updated the board of directors on MONY s consideration of various potential strategic alternatives and reported on the discussion that he had had with Mr. Condron on December 4, 2002. Mr. Roth also reviewed with the MONY board of directors the discussions he and MONY s financial advisers had had from time-to-time with potential acquirors and strategic partners previously identified by senior management and Credit Suisse First Boston. After discussing the process and the strategic alternatives, the MONY board of directors instructed Mr. Roth and the MONY senior management team to continue the process of evaluating these alternatives.

At a meeting on January 31, 2003, Mr. Roth and Mr. Condron agreed that it might be in the best interests of their respective companies and stockholders to explore the possibility of a business combination of MONY and AXA Financial.

Around this time, Mr. Roth had a conversation with Stanley Tulin, Vice Chairman and Chief Financial Officer of AXA Financial. They discussed the possibility of an acquisition of MONY by AXA Financial. Mr. Tulin told Mr. Roth that, subject to the satisfactory completion of due diligence and approval of AXA Financial s board of directors, AXA Financial might be prepared to acquire MONY at a price level of approximately $26.00 per share, representing a premium of approximately 20% over MONY s recent trading prices around the time of such conversation. Mr. Roth stated that, if AXA Financial wanted to make an offer that MONY s board of directors would find compelling at that time, the price would have to be higher.

On February 11, 2003, MONY and AXA Financial executed a confidentiality agreement in connection with their consideration of a potential business combination. At no time did AXA Financial have the exclusive right to negotiate with MONY with respect to a potential business combination. Over the next several months, MONY provided AXA Financial with substantial non-public information relating to the business and operation of MONY and made MONY personnel available to respond to questions that AXA Financial had about MONY s business.

On February 19, 2003, MONY formally engaged Credit Suisse First Boston to continue acting as its financial advisor in connection with MONY s continuing review of strategic alternatives.

At a meeting of Mr. Roth and Mr. Condron on March 12, 2003, Mr. Condron informed Mr. Roth that, based on the results of its limited due diligence to date, AXA Financial was interested in continuing to pursue the possibility of a business combination with MONY.

On March 18, 2003, the MONY board of directors gathered for an off-site dinner and reviewed and discussed, among other things, the process of evaluating strategic alternatives. During dinner, it was communicated to Mr. Roth by the independent directors that they believed that the best way to maximize value for MONY s stockholders was to enter into a business combination with a third party, assuming that a satisfactory price could be obtained, rather than to continue to operate MONY as an independent entity. The independent directors based this view on their belief that continuing to operate MONY as an independent company would subject MONY s stockholders to additional financial and operating performance risk and the prospect of further ratings agency downgrades, with the resulting likelihood that the share price of MONY common stock would decline. At the dinner and at a meeting of the MONY board of directors the next day, Mr. Roth reported on his recent conversations with Mr. Condron and his previous discussions with representatives of other parties. The MONY board of directors again instructed Mr. Roth and the senior management of MONY to continue exploring available strategic alternatives, including a potential business combination with AXA Financial.

On March 31, 2003, Mr. Condron advised Mr. Roth that, based on its preliminary due diligence to that date, and subject to the approval of AXA Financial s board of directors, AXA Financial would be willing to consider a transaction to acquire MONY for cash, at a price level of approximately $27.00 per share of MONY common stock. Based on the closing share price for MONY common stock on March 31, 2003 of $20.90 per share, this price reflected a premium of approximately 29% over the then current market price of MONY common stock.

Between the end of March and late April, 2003, AXA Financial continued to conduct due diligence in order to evaluate MONY s business and operations and to determine the price it might be willing to pay for MONY in a business combination. MONY made senior personnel available to respond to AXA Financial s inquiries and set up a data room containing the documents that AXA Financial had requested. In this regard, on April 13, 2003, Mr. Roth had a telephone conference with Mr. Condron and Mr. Tulin to discuss, among other things, the change-in-control employment agreements, commonly referred to as the CIC agreements, for senior executives of MONY, which, among other things, provide severance payments and benefits to the executives upon a termination of their employment by MONY without cause or a voluntary termination of employment by the executives for good reason, in either case following a change in control. They discussed, in general terms, the potential payments under the CIC agreements and the potential cost to an acquiror of those payments in the event of a business combination with MONY. Mr. Roth told Messrs. Condron and Tulin that MONY had been working with Ernst & Young LLP to quantify the potential cost of those payments. They agreed that AXA Financial would continue to work with MONY and Ernst & Young LLP to review the calculations, and to consider possible opportunities to reduce the potential cost of the CIC agreements to AXA Financial, including making certain changes to the CIC agreements.

On April 15, 2003, Mr. Condron visited MONY s corporate headquarters in New York City to meet with Mr. Roth and other members of the MONY senior management team to discuss generally MONY s business and operations.

On April 22, 2003, Mr. Roth met with Henri de Castries, Chairman of the Management Board of AXA and Chairman of the Board of AXA Financial, and Mr. Condron. At this meeting, Messrs. de Castries and Condron told Mr. Roth that, based on the results of its due diligence to date, including its preliminary evaluation of the CIC agreements, AXA Financial would be willing to offer to acquire MONY for between $25.00 and $26.00 in cash per share of MONY common stock, subject to the approval of AXA Financial s board of directors. Mr. Roth informed Messrs. de Castries and Condron that he believed this offer was inadequate.

The next day, Mr. Roth again met with Mr. Condron to explore the basis for AXA Financial s proposal and whether AXA Financial might be willing to increase the price it was willing to pay for MONY. Mr. Condron stated that, subject to satisfactory completion of its due diligence and the approval of AXA Financial s board of directors, AXA Financial was prepared to offer to acquire MONY for $26.50 per share in cash.

On May 2, 2003, Mr. Roth had a telephone conversation with Mr. Condron during which Mr. Condron presented Mr. Roth with an offer, subject to the approval of AXA Financial s board of directors, to acquire MONY for $26.50 per share, in either cash or AXA American Depositary Receipts. In addition, if the consideration were to be a fixed number of AXA American Depositary Receipts for each share of MONY

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common stock, Mr. Condron offered to give MONY the right to terminate the merger agreement in the event that, at the closing of the merger, the value of the AXA American Depositary Receipts to be exchanged for each share of MONY common stock in the transaction was less than $15.00.

On May 5, 2003, the MONY board of directors met with members of the MONY senior management team, as well as representatives of Dewey Ballantine LLP, MONY s legal counsel, and Credit Suisse First Boston. Mr. Roth and representatives of Credit Suisse First Boston explained to the MONY board of directors the offer from AXA Financial that was presented to Mr. Roth on May 2, 2003, and again reviewed and discussed with the board of directors MONY s prospects and strategic alternatives. Mr. Roth also again reviewed with the board of directors the prior discussions he had had with representatives of other companies regarding a potential transaction with MONY, which he had discussed with the board of directors at prior meetings.

On May 13, 2003, MONY s board of directors met again with representatives of MONY s senior management team and its legal and financial advisors. The board of directors again considered the AXA Financial offer of May 2, 2003, and the potential alternatives to a transaction with AXA Financial, including the feasibility of, and the risks associated with, MONY s continued operation as an independent public company. The board of directors also discussed matters related to the CIC agreements with the senior executives, including the potential payments to be made to those executives in the event of a transaction with AXA Financial. At the conclusion of the meeting, the board of directors instructed Mr. Roth to proceed with the negotiation of a definitive merger agreement for the board of directors consideration at a subsequent meeting.

Over the course of the next week, representatives of MONY and its legal and financial advisors negotiated a merger agreement with representatives of AXA Financial and its advisors. During these discussions, AXA Financial stated that, subject to the completion of its due diligence and the approval of the AXA Financial board of directors, it remained prepared to acquire MONY for $26.50 per share. During these discussions, AXA Financial also stated that it wanted to structure the transaction as a stock-for-stock merger pursuant to which each outstanding share of MONY common stock would be exchanged for such number of AXA American Depositary Receipts as had a value of $26.50, based on the closing price of such AXA American Depositary Receipts as of the day immediately preceding the merger agreement. Based on the closing price of AXA American Depositary Receipts on the 20 trading days immediately preceding May 15, 2003, AXA Financial proposed that each outstanding share of MONY common stock would be converted into the right to receive 1.8 AXA American Depositary Receipts in order to achieve a value of $26.50 per share of MONY common stock.

In addition, during this time, representatives of AXA Financial and its advisors continued business, legal and financial due diligence of MONY, and MONY and its legal and financial advisors conducted due diligence on AXA Financial and AXA. Among other things, the parties discussed the CIC agreements with senior executives of MONY and their effect on the price AXA Financial was prepared to offer for MONY, and preliminarily agreed on certain measures to reduce the potential cost of the agreements to AXA Financial.

On the morning of May 21, 2003, the transaction committee of the AXA Financial board of directors held a meeting and approved the proposed merger agreement between MONY and AXA Financial.

On the morning of May 21, 2003, Mr. Roth had a conversation with Mr. Tulin. Mr. Roth and Mr. Tulin agreed that the purchase price in the merger would be $26.50 per share and that the exchange ratio to produce this value would be fixed based on the volume weighted average trading price of AXA American Depositary Receipts during that day.

On the evening of May 21, 2003, MONY s board of directors met to consider the proposed merger agreement between MONY and AXA Financial. Representatives of MONY s senior management team, as well as representatives of MONY s legal and financial advisors made presentations to the MONY board of directors concerning the merger agreement and the proposed transaction. At this meeting, representatives of Dewey Ballantine LLP reviewed with the MONY board of directors the terms of the proposed merger agreement and the fiduciary duties of the MONY board of directors to the MONY stockholders in connection with the proposed transaction. In addition, the MONY board of directors was advised that, based upon the $26.50 purchase price agreed to between Mr. Roth and Mr. Tulin that morning and the volume weighted average trading price of AXA American Depositary Receipts on May 21, 2003, each outstanding share of MONY common stock would be converted into the right to receive 1.92 AXA American Depositary Receipts. This represented a value of $26.50 per share, based on the volume weighted average trading price of $13.80 of AXA American Depositary Receipts on May 21, 2003, and $26.92 based on the closing share price of $14.02 of such AXA American Depositary Receipts on May 21, 2003. The MONY board of directors was also advised that Mr. Roth and Mr. Tulin had agreed that MONY would have a right to terminate the merger agreement in the event that the value of the AXA American Depositary Receipts delivered to holders of MONY common stock at the closing of the merger based on the exchange ratio was less than $17.00, subject to AXA Financial s right to increase the exchange ratio by the amount necessary to produce a value of $17.00, and that AXA Financial would have the right to terminate the merger agreement in the event that the value of the AXA American Depositary Receipts delivered to holders of MONY common stock at the closing of the merger based on the exchange ratio was more than $37.00, subject to MONY s right to decrease the exchange ratio by an amount necessary to produce a value of $37.00.

Following these presentations, the MONY board of directors engaged in extensive discussions about the AXA Financial proposal. During those discussions, members of the board of directors expressed concern about the risk that, pursuant to the terms of the proposed transaction, MONY s stockholders would be exposed to fluctuations in the trading price of AXA American Depositary Receipts until the closing of the transaction a risk that was compounded by the possibility that there could be an extended period of time between the signing of the merger agreement and the closing of the merger due to the regulatory approvals and other conditions that would need to be satisfied before the merger could be completed. In this regard, members of the MONY board of directors noted the significant fluctuations in the trading prices of AXA American Depositary Receipts during the preceding two years and that the consideration payable to MONY stockholders at the closing of the merger could be as low as $17.00 per share of MONY common stock if the market price of AXA American Depositary Receipts were to decline significantly. Members of the MONY board of directors also expressed concern that the risk of fluctuations in the trading price of AXA American Depositary Receipts was exacerbated by currency risk since AXA was an international company and a significant portion of its earnings were denominated in foreign currencies. In addition, the MONY board of directors discussed, generally, whether MONY stockholders would want to receive AXA American Depositary Receipts in exchange for their MONY common stock and the potential confusion among stockholders as to what the AXA American Depositary Receipts represent. The MONY board of directors also extensively discussed the CIC agreements, including the potential payments to the executives in the event of a transaction with AXA Financial followed by termination of their employment under the circumstances described in the CIC agreements.

During the meeting, the MONY board of directors asked Mr. Roth to prepare for the board s review an updated analysis of MONY s prospects, as well as the risks to MONY s stockholders, if MONY continued as an independent public company. Later that evening, Mr. Roth informed Mr. Condron that the MONY board of directors was continuing to consider MONY s strategic alternatives, but was not willing to accept AXA Financial s current offer principally due to concerns regarding the potential volatility of AXA s American Depositary Receipts.

On June 9, 2003, MONY s board of directors again met with representatives of Credit Suisse First Boston and Richard Daddario, MONY s Chief Financial Officer. Mr. Daddario reviewed MONY s historical and current financial performance and presented an updated analysis of MONY s prospects as an independent public company. At the meeting, MONY s independent directors also discussed the CIC agreements, including the potential payments in the event of a change in control. In addition, Credit Suisse First Boston provided further information to the MONY board of directors about AXA.

At a meeting on June 11, 2003, the corporate governance and nominating committee of MONY s board of directors, a committee comprised entirely of independent directors, decided to recommend that the independent

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members of MONY s board of directors review the CIC agreements with a view that these agreements would not be renewed or would be amended. The committee also recommended that the independent directors retain independent legal advisors and executive compensation consultants to assist them in this review.

At a meeting held on June 13, 2003, MONY s independent directors retained Gibson, Dunn & Crutcher LLP as independent legal advisors, and Frederic W. Cook & Co., as independent executive compensation consultants, to assist with the independent directors review of the CIC agreements. Shortly thereafter, MONY s independent directors also engaged Ernst & Young LLP to assist them in connection with the review of the CIC agreements.

During the next several weeks, the independent directors and their advisors conducted a detailed review and analysis of the CIC agreements, the payments potentially due under the CIC agreements and the potential cost of those payments. MONY s independent directors and, at times, a committee of these independent directors, met on several occasions with their advisors to review their analyses and recommendations, and also held discussions with Mr. Roth about potential modifications to the CIC agreements. Together with their independent advisors, the independent directors developed a proposal for amended CIC agreements that would substantially reduce the cost of these agreements.

At a meeting of the MONY board of directors on July 3, 2003, Mr. Roth indicated that he would be willing to accept an amended CIC agreement proposed by the board of directors, and would be willing to recommend that the other executives accept amendments to their agreements as well. The MONY board of directors resolved that the existing CIC agreements not be renewed upon the expiration of the then-current term on December 31, 2003, and directed that MONY and its advisors cease all discussions with any third parties relating to the sale of MONY or any other transaction that would result in a change in control of MONY under the agreements until such time as the existing agreements expired or the amended CIC agreements were entered into.

MONY notified each of the senior executives that their existing CIC agreement would not be renewed for 2004, and each executive was offered the amended CIC agreement prepared and approved by the independent directors and their advisors. By the end of July, on the recommendation of Mr. Roth, all of the executives had signed the amended CIC agreements. On August 14, 2003, MONY described the amendment of the CIC agreements in its quarterly report filed on Form 10-Q, and attached the amended agreements as exhibits to that filing.

The amended CIC agreements made a number of changes to the prior CIC agreements, as a result of which the potential payments to individual executives were reduced by approximately one-third to one-half of the potential payments under the prior CIC agreements. Among other changes, the amended CIC agreements reduced the severance pay multiples for most of the executives, removed long-term incentive plan payments from the calculation of severance pay and provided that outstanding long-term incentive plan cycles would be paid out only on a pro-rata basis. The amended CIC agreements also removed provisions of the prior CIC agreements for four of the executive officers applicable upon a covered termination that would have treated them as satisfying the age requirement for retiree medical benefits and, in the case of one such executive, enhanced early retirement pension benefits. The potential cost of the agreements was further reduced because the decrease in the payments also reduced the amounts that would be subject to the federal income tax rules relating to change-in-control payments, resulting in a reduction in the liability for gross-up payments under the agreements and an increase in the relative amounts that would be tax deductible. The amended agreements also modified the definition of good reason for certain of the executives in a manner that was favorable to MONY. In addition, the amended agreements required that the executives comply with certain restrictive covenants following termination of employment, including with respect to noncompetition with MONY s business and nonsolicitation of its employees. The term of the CIC agreements was extended to December 31, 2004, subject to annual renewal thereafter.

In late July 2003, Mr. Condron telephoned Mr. Roth to discuss his interest in renewing discussions with MONY, in September 2003, concerning a potential business combination. Mr. Roth stated that he would be willing to resume discussions in September, 2003.

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On August 12 and 13, 2003, representatives of MONY met with representatives of four ratings agencies. As a result of these conversations, MONY s management became convinced that it was likely that one or more of the ratings agencies would downgrade MONY s ratings due to, among other things, the ratings agencies concerns about MONY s earnings and debt service coverage ratios. Three of the four ratings agencies stated that their ratings committees would meet in September to review MONY s ratings in light of MONY s earnings performance. Mr. Roth informed the ratings agencies that he expected discussions with a potential strategic partner to resume in September 2003.

On September 3, 2003, Mr. Roth and Mr. Condron met to discuss in detail a potential business combination. Mr. Condron told Mr. Roth that, subject to the satisfactory completion of its due diligence and the approval of the AXA Financial board of directors, AXA Financial was prepared to make a cash offer of $29.50 per share for each outstanding share of MONY common stock. Mr. Roth then noted that since the time of their prior discussions in May 2003, MONY had amended its CIC agreements, resulting in significantly lower potential payments under those agreements. Mr. Roth stated that he believed AXA Financial should increase the price to be paid to MONY s stockholders in the potential transaction by the potential cost savings under the amended CIC agreements that was in excess of the potential cost savings under the prior CIC agreements that had been preliminarily agreed with AXA Financial in May. Mr. Condron agreed that AXA Financial would review the additional cost savings associated with the amended CIC agreements and, in principle, that the additional savings would be added to the price that AXA Financial would be willing to pay for each outstanding share of MONY common stock. Mr. Roth estimated that an additional $1.50 per share should be added to the offer price to reflect the savings from the changes in the CIC agreements, for a total price of $31.00 per share.

Over the next week, representatives of MONY and its legal, financial and executive compensation advisors provided additional information to AXA Financial concerning the modifications to the CIC agreements and the additional reductions in the cost of the potential payments under the agreements. In addition, representatives of AXA Financial and its advisors also performed additional business, legal and financial due diligence of MONY.

In a telephone conversation on September 10, 2003, Mr. Condron informed Mr. Roth that AXA Financial estimated the value of the additional reductions in the potential cost of the CIC agreements to be approximately $1.20 per share. During the conversation, Mr. Roth advised Mr. Condron that AXA Financial s bid would have to be $31.00 per share in cash. Mr. Condron told Mr. Roth that based on that cost reduction and other considerations, and subject to the approval of AXA Financial s board of directors, AXA Financial would be prepared to offer $31.00 per share for all of the outstanding shares of MONY common stock.

Over the next several days, representatives of MONY and AXA Financial, as well as representatives of their legal advisors, finalized the definitive merger agreement for the proposed transaction, including a provision permitting MONY to declare a dividend from its Adjusted Net Earnings, as defined in the merger agreement, not to exceed $0.45 per share of MONY common stock. As described below in MONY s Reasons for the Merger the MONY board of directors believes there is a substantial risk that MONY s stockholders may receive little or no further dividend.

During this time, AXA Financial insisted, as a condition of the transaction, that four of MONY s executives, Messrs. Roth, Foti, Levine and Daddario, enter into agreements with MONY and AXA Financial to limit the maximum amounts of severance and other payments that could be made under their respective amended CIC agreements to the amounts utilized by AXA Financial in estimating the value of the reductions in the potential cost of the CIC agreements. On September 17, 2003, the parties entered into the agreements that provided for these limitations.

On September 16, 2003, the MONY board of directors held a meeting to consider adjustments to certain incentive compensation arrangements applicable in 2003 for the executives covered by the CIC agreements, as well as for other employees of MONY. Representatives of MONY s advisors reviewed with the MONY board of directors the terms of the proposed adjustments. Also in attendance and advising the independent directors were

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Gibson, Dunn & Crutcher LLP, their independent legal advisor, and Frederic W. Cook & Co., their independent executive compensation consultants. In considering the proposed adjustments, the MONY board of directors reviewed the substantial cost savings to MONY that resulted from the executives decision to enter into the amended CIC agreements in replacement of the then-existing CIC agreements, and the resulting enhancement of stockholder value in the merger, the development by the executives of a favorable sale transaction for MONY at the request of the MONY board of directors, and the dedication and performance of senior management throughout the sale process. See Interests of MONY s Directors and Executive Officers in the Merger.

On the morning of September 17, 2003, the MONY board of directors held a meeting to consider the proposed transaction. Representatives of MONY and its legal and financial advisors reviewed with the MONY board of directors the proposed transaction. In particular, representatives of Dewey Ballantine LLP reviewed with the MONY board of directors the terms of the proposed merger agreement and the fiduciary duties of the MONY board of directors to the MONY stockholders in connection with the proposed transaction. Also, representatives of Credit Suisse First Boston reviewed with the MONY board of directors its financial analysis of the merger consideration. After a thorough discussion regarding the proposed transaction, the MONY board of directors adjourned the meeting to consider the matter further.

The AXA Financial board of directors held a meeting and approved the proposed transaction during the morning of September 17, 2003.

Later in the afternoon on September 17, 2003, the MONY board of directors reconvened the meeting. At this time, Credit Suisse First Boston rendered to the MONY board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion dated September 17, 2003, to the effect that, as of that date and based on and subject to the matters stated in the opinion, the proposed merger consideration was fair, from a financial point of view, to the holders of MONY common stock, other than AXA Financial and its affiliates. At this meeting, the MONY board of directors approved resolutions of the compensation committee of the board of directors with respect to incentive compensation arrangements applicable in 2003 for executives and other employees. See Interests of MONY s Directors and Executive Officers in the Merger. At the conclusion of the meeting, the MONY board of directors unanimously approved the merger agreement, including the merger and the other transactions contemplated by the merger agreement, determined that the terms of the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of MONY and its stockholders and recommended that MONY stockholders vote FOR adoption of the merger agreement.

Later on September 17, 2003, MONY and AXA Financial executed the merger agreement and publicly announced the proposed transaction.

On September 18, 2003, each of the four ratings agencies upgraded their outlook on MONY due to their favorable assessment of a potential transaction.

MONY s Reasons for the Merger

MONY s board of directors consulted with senior management and MONY s financial and legal advisors and considered a number of factors, including those set forth below, in reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement and to recommend that MONY s stockholders vote FOR adoption of the merger agreement.

MONY s knowledge of the current, and its beliefs about the prospective, environment in which it operates, including domestic and global economic conditions, competition in its business segments and the impact of these factors on MONY s opportunities as a stand-alone entity or in a strategic transaction.

The strategic options available to MONY and MONY s assessment that none of these options, including remaining independent, is likely to present an opportunity that is equal or superior to the proposed merger or to create value for MONY stockholders that is equal to or greater than that created by the proposed merger.

MONY s financial condition, results of operations and business and earnings prospects if it were to remain independent, including the significant decrease in the holding company s cash, MONY s return on equity remaining significantly below industry averages and MONY s interest coverage ratios remaining significantly below the level that the ratings agencies consider appropriate for MONY s current rating, as well as the meaningful risk that MONY would not achieve the expected results.

The fact that, because of the strain on statutory capital resulting from new life insurance and annuity sales without sufficient income from life insurance operations to support such sales, in the past year MONY has had to invest over $50 million of holding company funds in MONY Life to support its capital and, in the foreseeable future, MONY expects to continue to have to make sizable investments in the life operations without offsetting income from those operations.

The prospect that, absent the proposed merger, the ratings agencies would, in the immediate future, downgrade MONY s senior debt credit ratings and MONY Life s financial strength ratings and, the effect that such a downgrade would have on MONY Life, including (i) potentially causing it either (a) to lose business to competitors, especially in light of the fact that MONY Life s distribution is heavily dependent on third-party channels, or (b) to pay higher gross concessions to its distributors to maintain premium volume, resulting in lower profits, (ii) creating a significant risk of policy surrenders to MONY Life, thereby reducing revenue and requiring a write-down of deferred acquisition costs and (iii) undermining its relationships with its distributors and, thus, its attractiveness to third parties as a potential acquisition candidate.

The need for scale, which the MONY board of directors concluded MONY did not have, especially (i) in the variable products and asset management businesses and (ii) in a company with a career agency sales force, to produce competitive rates of return on capital employed; the resulting conclusion that MONY s variable products businesses and career agency distribution system would be worth more to AXA Financial than they are worth to MONY as an independent public company; and MONY s judgment that a sale to AXA Financial would, therefore, maximize the value MONY s stockholders would receive for those components of MONY s business.

MONY s belief that the market price of MONY common stock in the months immediately preceding the September 17, 2003 public announcement of the proposed merger reflected the possibility of a future acquisition by an acquiror able to achieve significant financial synergies, given the widespread speculation that MONY would be acquired in the near future.

MONY s small stock market float and the consequent difficulty that MONY s large stockholders would have in selling their holdings in the public market, over a relatively short period of time, without depressing the market price of MONY common stock, were MONY to remain an independent public company.

The terms of the merger agreement, which provide MONY with an ability to respond to, and to accept, an unsolicited offer that is superior to the merger, if necessary to comply with the MONY board of directors fiduciary duties to the MONY stockholders under applicable law, and which contain termination payment provisions that could have the effect of discouraging alternative proposals for a business combination between MONY and a third party but which are customary for transactions of this size and type.

The history of discussions with other potential acquirors, the knowledge of the MONY board of directors that there was widespread speculation in the marketplace that MONY was a takeover target and the MONY board of directors conclusion that it is unlikely that a higher value can be achieved for MONY stockholders by means of a transaction with any other party, combined with the likelihood that, given MONY s ability under the merger agreement, as described immediately above, to respond to and accept an unsolicited offer that is superior to the merger, any other party that is willing and able to pay a price higher than $31.00 per share would come forward before the MONY stockholders vote on the proposed transaction.

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The MONY board of directors belief that, given the potential consolidation savings and other economies that AXA Financial could achieve in a merger with MONY, AXA Financial is either unique or among a very small number of potential acquirors that would be able to extract greater synergies than most insurance companies and justify paying a full price per share for MONY s common stock.

The belief of the MONY board of directors that AXA Financial was significantly better positioned than other potential acquirors of MONY due to (i) AXA s large size and AXA Financial s ability to consummate the transaction without a financing condition, (ii) AXA s high price/earnings ratio, which permitted the transaction to be accretive to its earnings more quickly than would be the case for other potential acquirors, (iii) the similarity of AXA Financial s operations to those of MONY, including the fact that AXA Financial has long experience with a career agency sales force similar to MONY Life s sales force, (iv) the fact that Equitable Life is domiciled in New York State, MONY Life s state of domicile, and the impact of that fact on the ability to obtain regulatory approval for the transaction as quickly as possible and (v) AXA s history as an active acquiror experienced in acquisition integration.

The financial presentation of Credit Suisse First Boston LLC, and the opinion, dated September 17, 2003, of Credit Suisse First Boston to the MONY board of directors, to the effect that as of that date and based upon and subject to the matters stated in such opinion, the $31.00 per share merger consideration was fair, from a financial point of view to the holders of MONY common stock, other than AXA Financial and its affiliates, discussed further below under Opinion of MONY s Financial Advisor. The full text of this opinion is attached to this proxy statement as Annex B.

The closing conditions included in the merger agreement, including regulatory consents and the likelihood that the merger would be approved by the requisite regulatory authorities and that the merger agreement would be adopted by MONY s stockholders.

The interests of directors and certain executive officers of MONY that are different from, or in addition to, the interests of MONY stockholders generally, as described under Interests of MONY s Directors and Executive Officers in the Merger.

In addition to taking into account the foregoing factors, MONY s board of directors also considered the following potentially negative factors in reaching its decision to approve the merger agreement.

The possibility that MONY would be substantially more profitable than expected or that another acquiror would be willing to pay a higher price in the future.

The possible effect of the public announcement of the transaction on the continuing commitment of MONY s agents and management pending the MONY stockholder vote.

The risk, which the MONY board of directors believes is substantial, that, given the agreed-upon restriction on the MONY board of directors ability to declare and pay a dividend, MONY s stockholders may receive little or no further dividend. See The Merger Agreement Dividend from Adjusted Net Earnings.

The fact that the merger will be a taxable transaction to MONY stockholders.

The fact that, because MONY stockholders are receiving cash for their shares of MONY common stock, they will not participate in any potential future growth of either MONY or AXA Financial.

The potential public perception, based on the prices at which MONY s common stock has traded over the last several months, that the short-term premium reflected in the $31.00 per share to be paid in the proposed transaction over recent trading prices of MONY common stock is not as high as premiums in some other transactions that some investors may argue, but the

MONY board of directors does not believe, are comparable to the proposed transaction.

The potential impact of the transaction on MONY s employees, including the possibility that jobs will be eliminated.

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The foregoing discussion of the information and factors considered by MONY s board of directors, while not exhaustive, includes the material factors considered by the MONY board of directors. In view of the variety of factors considered in connection with its evaluation of the merger, MONY s board of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight or values to any of these factors, and individual directors may have given different weights to different factors. The MONY board of directors considered all of the factors as a whole and considered the factors in their totality to be favorable to and to support the decision to approve the merger agreement and to recommend that MONY s stockholders adopt the merger agreement.

As noted above, one of the factors considered by the MONY board of directors was MONY s ability under the terms of the merger agreement to respond to an unsolicited offer under certain circumstances. As is customary in transactions like the merger, the merger agreement provides the MONY board of directors with an ability to comply with its fiduciary duties by responding to, and accepting, an unsolicited offer that is financially superior to the merger, subject, in certain circumstances, to the payment of a termination fee to AXA Financial. Since the announcement of the merger agreement, MONY has not received any proposals with respect to any possible business combination. On October 3, 2003, the Chief Executive Officer of MONY received a personal letter from the Chief Executive Officer of a third party who, in 2001, had expressed an interest in a possible business combination with MONY. The letter conveyed best wishes for success in closing the merger with AXA Financial and expressed confidence that the transaction would be consummated. The letter went on to indicate that in the unlikely event that the transaction did not close, MONY should not hesitate to contact the third party. Before MONY s demutualization, the same party had made a proposal to acquire MONY, following due diligence, at a price that MONY regarded as wholly inadequate and which proved to be at a significant discount to MONY s market capitalization following demutualization.

Recommendation of MONY s Board of Directors

MONY s board of directors, by unanimous vote and after careful consideration, (i) has approved the merger agreement, including the merger and the other transactions contemplated thereby, (ii) has determined that the terms of the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of MONY and its stockholders and (iii) recommends that MONY stockholders vote FOR adoption of the merger agreement.

Opinion of MONY s Financial Advisor

Credit Suisse First Boston LLC acted as MONY s exclusive financial advisor in connection with the merger. MONY selected Credit Suisse First Boston based on Credit Suisse First Boston s experience, reputation and familiarity with MONY. Credit Suisse First Boston is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

In connection with Credit Suisse First Boston s engagement, MONY requested that Credit Suisse First Boston evaluate the fairness, from a financial point of view, of the consideration provided for in the merger to the holders of MONY common stock, other than AXA Financial and its affiliates. On September 17, 2003, at a meeting of the MONY board of directors held to evaluate the merger, Credit Suisse First Boston delivered to the MONY board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion dated September 17, 2003, the date of the merger agreement, to the effect that, as of that date, and based on and subject to the matters described in its opinion, the per share merger consideration to be received by holders of MONY common stock was fair, from a financial point of view, to such holders, other than AXA Financial and its affiliates.

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The full text of Credit Suisse First Boston s written opinion, dated September 17, 2003, to the MONY board of directors, which sets forth the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as Annex B and is incorporated into this proxy statement by reference. Holders of MONY common stock are encouraged to read this opinion carefully and in its entirety. Credit Suisse First Boston s opinion is addressed to the MONY board of directors and relates only to the fairness, from a financial point of view, of the merger consideration to be received by the holders of MONY common stock, other than AXA Financial and its affiliates, in the merger. It does not address any other aspect of the proposed merger or any related transaction and does not constitute a recommendation to any MONY stockholder as to any matter relating to the proposed merger. The summary of Credit Suisse First Boston s opinion in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Credit Suisse First Boston reviewed certain publicly available business and financial information relating to MONY, as well as the merger agreement. Credit Suisse First Boston also reviewed certain other information relating to MONY, including financial forecasts, provided to or discussed with Credit Suisse First Boston by MONY and met with the management of MONY to discuss the business and prospects of MONY. Credit Suisse First Boston considered certain financial and stock market data of MONY and compared those data with similar data for other publicly-traded companies in businesses similar to MONY and considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions that have been effected or announced. Credit Suisse First Boston also considered other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the information that it reviewed or considered and relied on that information being complete and accurate in all material respects. With respect to financial forecasts for MONY, Credit Suisse First Boston was advised by MONY s management and assumed that the forecasts were reasonably prepared on bases reflecting the best currently available estimates and judgments of MONY s management as to the future financial performance of MONY. Credit Suisse First Boston also assumed, with MONY s consent, that the proposed merger would be consummated upon the terms and subject to the conditions set forth in the merger agreement without amendment, modification or waiver of any material terms thereof.

Credit Suisse First Boston is not an actuary and its services did not include actuarial determinations or evaluations by it or an attempt to evaluate actuarial assumptions. In that regard, Credit Suisse First Boston made no analyses of, and expressed no opinion as to, the adequacy of the policy and other insurance reserves of MONY and relied upon information furnished to it by MONY as to such adequacy.

In addition, Credit Suisse First Boston was not requested to, and did not, make an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of MONY, nor was Credit Suisse First Boston furnished with any evaluations or appraisals. Credit Suisse First Boston s opinion was necessarily based on information available to it, and financial, economic, market and other conditions as they existed and could be evaluated, on the date of Credit Suisse First Boston s opinion. Credit Suisse First Boston s opinion did not address the relative merits of the merger as compared to other transactions or business strategies available to MONY, and also did not address MONY s underlying business decision to engage in the merger. Credit Suisse First Boston was not requested to, and did not, solicit third party indications of interest in acquiring all or any part of MONY. Except as described above, MONY imposed no other limitations on Credit Suisse First Boston with respect to the investigations made or procedures followed in rendering its opinion.

In preparing its opinion to the MONY board of directors, Credit Suisse First Boston performed a variety of financial and comparative analyses, including those described below. The summary of Credit Suisse First Boston s analyses described below is not a complete description of the analyses underlying its opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Credit Suisse First Boston made qualitative judgments as to the significance and relevance of each analysis and factor that it considered. Accordingly, Credit Suisse First Boston believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Credit Suisse First Boston considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of MONY. No company, transaction or business used in Credit Suisse First Boston s analyses as a comparison is identical to MONY or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in Credit Suisse First Boston s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Credit Suisse First Boston s analyses and estimates are inherently subject to substantial uncertainty.

Credit Suisse First Boston s opinion and financial analyses were only one of many factors considered by the MONY board of directors in its evaluation of the proposed merger and should not be viewed as determinative of the views of the MONY board of directors or management with respect to the merger or the merger consideration.

The following is a summary of the material financial analyses underlying Credit Suisse First Boston s written opinion dated September 17, 2003 delivered to the MONY board of directors in connection with the merger. The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse First Boston s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse First Boston s financial analyses.

In performing its analyses, Credit Suisse First Boston used financial forecasts for MONY based on internal estimates of MONY s management. MONY management provided Credit Suisse First Boston with a base case forecast for MONY on a stand-alone basis. In light of MONY s comparatively low return on average equity, commonly referred to as ROE, under the base case forecast, when compared to other publicly traded U.S. life insurance companies, MONY s management also developed certain adjustments to the base case forecast and MONY s historical financial statements to reflect the potential purchase accounting adjustments that an acquiror might make upon the acquisition of MONY. Such adjustments would not be available to MONY on a stand-alone basis. Specifically, these adjustments assumed a write-down occurring on January 1, 2003 of all MONY s goodwill and 50% of MONY s deferred acquisition cost asset of $1.226 billion as of June 30, 2003 and elimination of the associated amortization on a straight-line basis over a 10-year period. These adjustments improved projected 2003 ROE from 0.8% under the base case forecast to 3.9% and projected 2004 ROE from 2.0% under the base case forecast to 5.4%. These adjustments are not necessarily indicative of the nature or extent of any adjustments that AXA Financial might make upon the consummation of the merger.

In the following summary, adjusted estimated earnings refers to estimated earnings for MONY for a given period based on the base case forecast, with the adjustments described above. Similarly, adjusted book value refers to book value of MONY as of a given date, with the adjustments described above. Book values for MONY for purposes of these adjustments include the effect of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, commonly referred to as FAS 115.

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Implied Valuation Multiples and Premiums

In preparing its opinion, Credit Suisse First Boston reviewed and considered certain valuation multiples implied by the $31.00 per share merger consideration, as shown in the following table:

Implied Multiples at $31.00 per Share of MONY Common Stock

	Research Analysts Consensus	Base Case Management Estimates	Adjusted Base Case Management Estimates
Price / 2003E Earnings	99.8x	89.6x	25.9x
Price / 2004E Earnings	63.6x	35.6x	18.0x
Price / GAAP Book Value at June 30, 2003	0.72x	NA	1.02x
Price / Adjusted Statutory Book Value at December 31, 2002	NA	2.11x	2.11x

Under the column labeled Research Analysts Consensus, the earnings data were based on publicly available research analysts estimates, while the GAAP book value represents actual book value as of June 30, 2003 as reported by MONY. Under the column labeled base case management estimates, the earnings data reflect MONY s management s base case forecast as described above. Under the column labeled adjusted based case management estimates, the earnings data reflect the base case forecast, with the adjustments described above, while the GAAP book value reflects actual book value as of June 30, 2003 as reported by MONY, with the adjustments described above. The adjusted statutory book value is the adjusted statutory book value of MONY Life as of December 31, 2002 according to A.M. Best, adjusted for MONY management s estimates of holding company items, which consist of adding $200 million for the value of The Advest Group, Inc., adding holding company cash and other cash of $280 million, treating $216 million of surplus notes as capital and subtracting long-term debt of $876 million.

Credit Suisse First Boston also considered various premiums implied by the $31.00 per share merger consideration, including the premiums to the closing price of MONY common stock as of September 11, 2003, to the 52-week high price of MONY common stock and to the 52-week average price of MONY common stock. This analysis indicated the following implied premiums:

Implied Premiums at $31.00 per Share of MONY Common Stock

Premium to Closing Price on September 11, 2003	7.3%
Premium to 52-Week High as of September 11, 2003	7.3%
Premium to 52-Week Average as of September 11, 2003	25.5%

Selected Companies Analysis

Using publicly available information, Credit Suisse First Boston reviewed the financial, operating and stock market data and the trading multiples of the following selected publicly traded corporations in the life insurance industry:

AmerUs Group Co.

Jefferson-Pilot Corporation

John Hancock Financial Services, Inc.

Kansas City Life Insurance Company

Lincoln National Corporation

MetLife, Inc.

Principal Financial Group, Inc.

Protective Life Corporation

Prudential Financial, Inc.

Stancorp Financial Group, Inc.

The Phoenix Companies, Inc.

Torchmark Corporation

UnumProvident Corporation

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Credit Suisse First Boston compared the market values of the selected companies as multiples of estimated calendar year 2004 earnings and book value as of June 30, 2003, excluding the effect of FAS 115. Market values were calculated by multiplying the September 11, 2003 stock price for the relevant company by the number of weighted average fully-diluted shares outstanding for the latest quarter based on the relevant company s most recent quarterly report on Form 10-Q. Estimated calendar year 2004 earnings for the selected companies were based on publicly available research analysts estimates. This comparison resulted in the following high, mean, median and low multiples:

	Multiples Derived from Estimated 2004 Earnings	Multiples Derived from June 30, 2003 Book Value
High	16.3x	2.09x
Mean	10.6x	1.28x
Median	10.5x	1.32x
Low	8.1x	0.55x

Credit Suisse First Boston then applied a range of selected multiples derived from the selected companies of (i) 10.5x to 11.5x to the estimated adjusted calendar year 2004 earnings for MONY and (ii) 0.70x to 0.90x to the adjusted book value for MONY as of June 30, 2003. This analysis indicated the following implied per share equity reference ranges for MONY common stock, as compared to the per share merger consideration in the merger of $31.00:

	Implied Per Share Equity Reference Range
Based on Estimated Adjusted 2004 Earnings	$17.91 - $19.62
Based on Adjusted June 30, 2003 Book Value	$21.08 - $27.11
Average	$19.50 - $23.36

Precedent Transactions Analysis

Using publicly available information, Credit Suisse First Boston reviewed the implied transaction value multiples paid in the following 71 selected transactions in the life insurance industry that were announced during either 1995 to 1997 or 1998 to 2003:

Transactions Announced During 1995 to 1997

Target	Acquiror		
Alexander Hamilton Life InsuranceT-SIZE: 10pt; FONT-FAMILY: times new roman">	(299,594)	147,158	
Deferred revenue		(1,101,770)	(1,682,326)
Net cash used in operating activities		(2,766,721)	(2,205,686)
Investing activities:			
Purchase of property and equipment		(203,959)	(472,226)

Net cash used in investing activities		(203,959)		(472,226)
Financing activities:				
Proceeds from issuance of convertible preferred stock		—		5,000,000
Payments for preferred stock issuance costs		—		(471,955)
Proceeds from issuance of common stock		7,112,500		—
Capital lease principle payments		—		(15,556)
Payments for common stock issuance costs		(285,777)		—
Payments of preferred stock series A dividends		(38,325)		(38,325)
Payments of convertible preferred stock series B dividends		(631)		—
Transfer to restricted cash in connection with tax escrow account		—		(651,223)
Net cash provided by financing activities		6,787,767		3,822,941
Net increase in cash and cash equivalents		3,817,087		1,145,029
Cash and cash equivalents at beginning of period		1,896,034		3,446,726
Cash and cash equivalents at end of period	$	5,713,121	$	4,591,755
Supplemental disclosures of cash flow information:				
Cash paid during the period for taxes	$	3,773	$	16,113
Non cash investing and financing activities:				
Issuance of convertible preferred stock for accounts payable	$	—	$	1,000,000
Dividends accrued	$	—	$	45,028
Reduction of fixed assets based on write-off of capital lease	$	—	$	62,048
Payment of Series B preferred dividends in preferred B shares	$	210,500	$	—
Issuance of common shares previously earned	$	26,674	$	—

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

Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

1. DESCRIPTION OF BUSINESS

Patient Safety Technologies, Inc. (the "Company", “us”,“we”) is a Delaware corporation. The Company’s operations are conducted through its wholly-owned operating subsidiary, SurgiCount Medical, Inc. (“SurgiCount”), a California corporation.

The Company’s operating focus is the development, marketing and sales of products and services focused in the medical patient safety markets. The SurgiCount Safety-Sponge ® System is a patented system of bar-coded surgical sponges, SurgiCounter™ scanners, and software applications integrated to form a comprehensive counting and documentation system. This system is designed to reduce the number of retained surgical sponges unintentionally left inside of patients during surgical procedures by allowing faster and more accurate counting of surgical sponges.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable sections of Regulation S-X and certain information and disclosures have been condensed or omitted in accordance with accounting principles generally accepted in the United States of America for interim reporting. The condensed consolidated interim financial information is unaudited but reflects all normal adjustments that are, in the opinion of management, necessary to make the financial statements not misleading. The condensed consolidated balance sheet as of December 31, 2010 was derived from the Company’s audited financial statements. The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 (as amended). Results of the three months and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the twelve months December 31, 2011.

Principles of Consolidation

The accompanying condensed consolidated interim financial statements include the accounts of the Company and its subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2011 presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

Use of Estimates

The condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates and assumptions include, but are not limited to, assessing the following: the valuation of accounts receivable and inventory, impairment of goodwill and other intangible assets, the fair value of stock-based compensation, derivative liabilities, valuation allowance related to deferred tax assets, warranty obligations, provisions for returns and allowances and the determination of assurance of the collection of revenue arrangements.

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Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

Revenue Recognition

Revenue related to surgical products is recognized when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, collectability is reasonably assured and risk of loss transfers, usually when products are shipped. Advanced payments are classified as deferred revenue and recognized as product is shipped to the customer. Reimbursements received related to scanners and related equipment provided to hospitals are recognized on a straight-line basis over the expected term of the related customer contract, while the cost of the scanners and related equipment is carried in hardware equipment within property, plant and equipment and depreciated as a component of cost of revenue over its estimated useful life. Generally, the expected term of the customer contracts and the estimated useful life of the scanners are both 3 years. Provisions for estimated future product returns and allowances are recorded in the period of the sale based on the historical and anticipated future rate of returns. Revenue is recorded net of any rebates given to the buyer.

Income Taxes

The Company currently has net operating loss carryforwards to offset income taxes. The Company has provided for a valuation allowance for all realated deferred tax assets as of June 30, 2011.

Recent Accounting Pronouncements

Newly Adopted Accounting Standards

In December 2010, the FASB issued an update to existing guidance on the calculation of impairment of goodwill. This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For these reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The Company adopted this guidance on January 1, 2011, and will evaluate the impact, if any, on its consolidated financial statements if events occur or circumstances change that would more likely than not reduce the fair value of the Company or its assets below their carrying amounts. No events have occurred since December 31, 2010, that would trigger further impairment testing of the Company's intangible assets with finite lives subject to amortization.

In June 2011, the FASB updated the accounting guidance on alignment of disclosures for GAAP and the International Financial Reporting Standards, or IFRS, by updating Topic 820 entitled "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS", relating to presentation of fair value measurements reported in financial statements. The updated guidance requires companies to align fair value measurement and disclosure requirements between GAAP and IFRS. The updated guidance is effective beginning in our fiscal 2012 year and earlier adoption is not permitted. The adoption of this guidance is not expected to have a material impact on our financial position or results of operations.

Other accounting standards and exposure drafts, such as exposure drafts related to revenue recognition, lease accounting, loss contingencies, comprehensive income and fair value measurements, that have been issued or proposed by the FASB or other standards setting bodies that do not require adoption until a future date, are being evaluated by the Company to determine whether adoption will have a material impact on the Company's consolidated financial statements.

3. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share is determined by dividing the earnings (loss) applicable to common stockholders by the weighted average number of common shares outstanding. Basic loss per common share excludes dilution and is computed by dividing loss attributable to common stockholders by the weighted-average common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if convertible preferred stock or notes, options and warrants were to be exercised or converted or otherwise resulted in the issuance of common stock that then shared in the earnings of the entity.

For the six months ended June 30, 2010, the shares associated with the convertible preferred stock, convertible note, warrants and options that have a value in excess of the average stock price during the six month period ending June 30, 2010 are included in calculating diluted earnings per share. Because the effects of outstanding options, warrants and the conversion of convertible preferred stock are anti-dilutive, shares of common stock underlying these instruments have been excluded from the computation of loss per common share for the three months ended June 30, 2011 and 2010.

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Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Basic				
(Loss) income available to common stockholders	$ (293,571)	$ (76,056)	$ (1,046,072)	$ 298,327
Weighted average common shares outstanding (basic)	33,517,845	23,456,063	28,857,952	23,456,063
Basic (loss) income per common share	$ (0.01)	$ (0.00)	$ (0.04)	$ 0.01
Diluted				
(Loss) income available to common stockholders	$ (293,571)	$ (76,056)	$ (1,046,072)	$ 298,327
Weighted average common shares outstanding	33,517,845	23,456,063	28,857,952	23,456,063
Assumed issuance of restricted stock	—	—	—	75,000
Assumed exercise of options	—	—	—	695,335
Assumed exercise of warrants	—	—	—	169,209
Assumed conversion of debt	—	—	—	500,000
Common and potential common shares	33,517,845	23,456,063	28,857,952	24,895,607
Diluted (loss) income per common share	$ (0.01)	$ (0.00)	$ (0.04)	$ 0.01
Potentially dilutive securities outstanding at period end excluded from diluted computation as they were anti-dilutive	20,627,232	8,241,917	20,627,232	7,933,917

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	As of June 30, 2011	As of December 31, 2010
Computer software and equipment	$ 1,206,105	$ 1,100,003
Furniture and equipment	60,804	57,143
Hardware for customer use	1,506,284	1,417,948
Property and equipment, gross	2,773,193	2,575,094
Less: accumulated depreciation	(1,840,552)	(1,595,261)
Property and equipment, net	$ 932,641	$ 979,833

Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

Depreciation expense for the three and six months ended June 30, 2011 was $121 thousand and $251 thousand, of which $109 thousand and $215 thousand was recorded as hardware cost of revenue, respectively. Depreciation expense for the three and six months ended June 30, 2010 was $135 thousand and $278 thousand of which $71 thousand and $127 thousand was recorded as hardware cost of revenue, respectively.

5. DEFERRED REVENUE

Deferred revenue consists of the following:

	As of			
		June 30, 2011		December 31, 2010
Cardinal Health advance payment on purchase order	$	-	$	1,079,434
Scanner reimbursement revenue		375,950		398,286
Total	$	375,950	$	1,477,720

In connection with the execution of the Supply and Distribution Agreement in November 2009 between the Company and Cardinal Health, Inc. (“Cardinal Health”), Cardinal Health issued a $10.0 million stocking purchase order for products used in our Safety-Sponge® System that called for deliveries of stocking inventory over a 12-month period (the “Forward Order”). Cardinal Health paid us $8.0 million as partial pre-payment of the Forward Order, and agreed to pay $2.0 million directly to A Plus, to pay for product when A Plus invoices the Company. Cardinal Health also agreed to place a second $5.0 million stocking purchase order prior to the end of the third quarter of 2010, based on whether the Company achieved certain conditions, including a minimum targeted customer sales threshold. Both Cardinal Health and the Company jointly agreed in late 2010 not to go forward with this second stocking purchase order. Cardinal Health also agreed to maintain normal ordering patterns and volumes for purchasing our Safety-Sponge® products throughout 2010 and 2011, and not use any of the inventory delivered under the Forward Order to meet immediate hospital demand. In late 2010 Cardinal Health requested to change the product mix of the Forward Order. The Company agreed to this change. However, because the products Cardinal Health requested were not immediately available, Cardinal agreed to take delivery of the remaining inventory on a modified schedule. As of June 30, 2011 we had delivered the entire $10.0 million of the Forward Order. The net effect is we recognized $8.9 million of revenue related to the Forward Order in 2010 and for the three and six months ended June 30, 2011 we recognized $0.5 million and $1.1 million, respectively.

In March 2011, we and Cardinal Health signed an amendment to the Supply and Distribution agreement (the “Amended Supply and Distribution Agreement”). The Amended Supply and Distribution Agreement revised a number of terms and conditions of the previous agreement, including but not limited to extending the termination date of the agreement from November 19, 2014 to December 31, 2015 and adding certain terms and provisions regarding setting target inventory levels and defining a formula for determining what excess inventory is of our products held by Cardinal Health. Cardinal Health has agreed to not sell any of the Forward Order inventory until 2012, and we have agreed to a methodology for how Cardinal Health will sell this inventory to our customers, so there is a more orderly release throughout 2012 that more reasonably minimizes its impact to the Company’s revenue and cash flow during 2012. In addition, the Amended Supply and Distribution Agreement gives the Company the right to buy-back at cost any inventory of our products held by Cardinal Health that exceeds 60 days worth of sales. All other terms remain the same.

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Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

6. STOCKHOLDERS' EQUITY

Common Stock Private Placement

On March 29, 2011 and March 30, 2011, the Company closed a private placement financing raising $7.1 million through the issuance of 9.48 million shares of the Company's $0.33 par value common stock at a selling price of $0.75 per share. The buyers of the common stock (the "Buyers") were accredited investors under Rule 501(a) of Regulation D of the Securities Act of 1933, and included Kinderhook Partners, L.P. ("Kinderhook"), A Plus International ("A Plus") and certain members of management. Wenchen ("Wayne") Lin, a member of our Board of Directors ("Board") is founder and significant beneficial owner of A Plus. Kinderhook is an investment fund based in Fort Lee, NJ.

In connection with the private placement, the Company also entered into a Registration Rights Agreement with the Buyers, pursuant to which the Company agreed to register share of the common stock issued, as well as any other shares of common stock held by the Holders on the closing date, along with future common shares for the Holders of the Series B Convertible Preferred Stock (collectively the "Holders"). The required registration statement became effective on August 12, 2011 and the Company has agreed to use commercially reasonable efforts to maintain effectiveness for three years after registration statement becomes effective.

Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

7. WARRANTS

The following table summarizes warrants to purchase common stock activity for the six months ended June 30, 2011:

	Number of warrants		Range of Exercise Price
Warrants outstanding December 31, 2010	7,294,919	$	0.75 - 4.50
Issued	—		—
Cancelled/Expired	(1,681,752)	$	0.75 - 4.50
Warrants outstanding June 30, 2011	5,613,167	$	0.75 - 4.00

At June 30, 2011, stock purchase warrants will expire as follows:

	# of Warrants		Range of Exercise Price
2011	465,000	$	0.75-2.00*
2012	818,000	$	1.40-2.00
2013	1,934,959	$	0.75-1.40*
2014	1,890,000	$	1.82-4.00
2015	505,208	$	1.25
Total	5,613,167		0.75-4.00

* Included are certain warrants which contain anti-dilution rights if the Company grants or issues securities for less than exercise price.

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Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

8. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined in ASC 820 as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are to be considered from the perspective of a market participant that holds the assets or owes the liability. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical or similar assets and liabilities.

Level 2: Quoted prices for identical or similar assets and liabilities in markets that are not active or observable inputs other than quoted prices in active markets for identical or similar assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial Instruments Measured at Fair Value on a Recurring Basis

ASC 820 requires disclosure of the level within the fair value hierarchy used by the Company to value financial assets and liabilities that are measured at fair value on a recurring basis. At June 30, 2011, the Company had a total of 940,434 outstanding warrants to purchase common shares of its stock that are classified as warrant derivative liabilities with a fair value of $767 thousand. The warrants are valued using Level 3 inputs because there are significant unobservable inputs associated with them.

The Company estimates the fair value of these warrants and embedded conversion features using the Monte Carlo simulation option price model. In applying the Monte Carlo simulation model, the Company used the following assumptions to value its derivative liabilities during the six months ended June 30, 2011:

	For the six months ended June 30, 2011
Annual dividend yield	—
Expected life (years)	0.25-1.91
Risk-free interest rate	0.03%-0.45%
Expected volatility	85%

The following table reconciles the warrant derivative liability measured at fair on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2011:

December 31, 2010	$ 991,682
Transfers in	—
Transfers out	—

Realized gain included in earnings	(224,622)
June 30, 2011	$ 767,060

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Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

9. STOCK OPTION PLANS

The following tables set forth information on our equity compensation plans. All equity compensation plans have been approved by our stockholders.

All options that the Company granted during the six months ended June 30, 2011 were granted at the per share fair market value on the grant date. Vesting of options differs based on the terms of each option. The Company utilized the Black-Scholes option pricing model and the assumptions used for each period are as follows:

	Six Months Ended June 30, 2011	
	2011	2010
Weighted average risk free interest rate	2.56%	2.76%
Weighted average life (in years)	6.08	6.0
Weighted average volatility	92.3%	123%
Expected dividend yield	0%	0%
Weighted average grant-date fair value per share of options granted	$ 0.62	$ 1.39

A summary of stock option activity for the six months ended June 30, 2011 is presented below:

Outstanding Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (1)
Balance at December 31, 2010	7,971,949	$ 1.11	7.35	$ 799,169
Options Granted	130,000	$ 0.81	9.74	-
Exercised	-	-	-	-
Forfeited	(1,580,417)	$ 0.90	-	-
Cancelled	-	-	-	-
Balance at June 30, 2011	6,521,532	$ 1.16	7.30	$ 3,102,335
Options exercisable as of June 30, 2011	3,600,983	$ 1.36	5.69	$ 1,452,630
Unvested as of June 30, 2011	2,920,549	$ 0.91	9.27	$ 1,649,705

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $1.45 of the Company's Common stock at June 30, 2011.

Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

The total grant date fair value of stock options granted during the three and six months ended June 30, 2011 was $7 thousand and $81 thousand, respectively. The total grant date fair value of stock options granted during the three and six months ended June 30, 2010 was $0 and $834 thousand, respectively. For the three and six months ended June 30, 2011 stock based compensation was $187 thousand and $336 thousand, respectively. For the three and six months ended June 30, 2010, stock based compensation was $447 thousand and $736 thousand, respectively, that included $55 thousand for 75,000 shares of restricted stock authorized but not issued to a consultant.

As of June 30, 2011, there was $2.1 million of unrecognized compensation costs related to outstanding employee stock options. This amount is expected to be recognized over a weighted average period of 3.1 years. To the extent the forfeiture rate is different from what the Company anticipated, stock-based compensation related to these awards will be different from the Company's expectations.

10. RELATED PARTY TRANSACTIONS

A Plus International, Inc.

During the three and six months ended June 30, 2011 the Company had purchases of approximately $1.3 million and $1.9 million in connection with the manufacture of surgical products by A Plus used in the Safety-Sponge® System. At June 30, 2011, the Company's accounts payable included $1.1 million owed to A Plus in connection with the purchase of surgical products used in the Safety-Sponge® System.

Please also see discussion under "Common Stock Private Placement" in Note 6 Stockholders Equity.

11. MAJOR CUSTOMERS, SUPPLIERS, SEGMENT AND RELATED INFORMATION

Major Customers

During the three and six months ended June 30, 2011, due to its exclusive distribution agreement with Cardinal Health, the Company had one customer (Cardinal Health) that represented in excess of 99% of total revenue, compared with 97% and 98% for the same respective periods in 2010. At both June 30, 2011 and December 31, 2010, Cardinal Health accounted for approximately 99%, of our accounts receivable.

Suppliers

The Company relies on a related party third-party supplier, A Plus, to supply the surgical sponges and towels used in its Safety-Sponge® System. The Company also relies on a number of third parties to manufacture certain other components of its Safety-Sponge® System. If A Plus or any of the Company's other third-party manufacturers cannot, or will not, manufacture its products in the required volumes, on a cost-effective basis, in a timely manner, or at all, the Company will have to secure additional manufacturing capacity. Any interruption or delay in manufacturing could have a material adverse effect on the Company's business and operating results.

Furthermore, all products obtained from A Plus are manufactured in China. As such, the supply of product from A Plus is subject to various political, economic, and other risks and uncertainties inherent in importing products from this country, including among other risks, export/import duties, quotas and embargoes, domestic and international customs and tariffs, changing taxation policies, foreign exchange restrictions, and political conditions and governmental regulations.

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Patient Safety Technologies, Inc.
Notes to Condensed Consolidated Interim Financial Statements

12. COMMITMENTS AND CONTINGENCIES

Operating Leases

In September, 2010, the Company entered into a 36 month lease agreement for approximately 5,600 square feet of office space in Irvine, CA which expires December 31, 2013. Monthly lease payments for the remaining lease term of this lease are approximately $9 thousand. In January 2010, previous management temporarily relocated our headquarters to 5 Caufield Place, Suite 102, Newtown, PA 18940, where they entered into a sublease on December 31, 2009 for 5,670 square feet of office space for approximately $11 thousand per month. In November 2010, we entered into a sub-sublease with a sub lessee to take over the space where they agreed to sub-sublease the space through the remaining term of our sublease or through to April 30, 2013, paying approximately $8 thousand per month.

Contingent Tax Liability

In 2009, during the process of preparing the Company's federal tax returns for prior years, the Company's management found there had been errors in reporting income to the recipients and the respective taxing authorities, related to stock grants made to those certain employees and consultant recipients. In addition, the Company determined that required tax withholding relating to these stock grants had not been made, reported or remitted, as required in fiscal years 2006 and 2007. Due to the Company's failure to properly report this income and withhold/remit required amounts, the Company may be held liable for the amounts that should have been withheld plus related penalties and interest. The Company had estimated its contingent liability based on the estimated required federal and state withholding amounts, the employee and employer portion of social security taxes as well as the possible penalties and interest associated with the error. Although the Company's liability may ultimately be reduced if it can prove that the taxes due on this income were paid on a timely basis by some or all of the recipients, the estimated liability including estimated interest and penalties, accrued by the Company is based on the assumption that it would be liable for the entire amounts due to the uncertainty with respect to whether or not the recipients made such payments.

During the quarter ended June 30, 2011, the Company reduced the tax contingent liability by $223 thousand as the Company determined that it is improbable that it could be held liable for this amount owed related to the 2006 and 2007 tax years, which resulted in a $223 thousand gain recorded as other income. The Company had also previously agreed to set aside restricted cash in an escrow account for satisflying any potential liability. Given the tax liability is improbable we anticipate having the $223 thousand of restricted cash released from the escrow account during the third quarter of 2011. As of June 30, 2011, the contingent tax liability was $0, reflecting that the Company no longer had any liability for the taxes not withheld.

Legal Proceedings

The Company discloses material loss contingencies deemed to be reasonably possible and accrues for loss contingencies when, in consultation with the Company's legal advisors, the Company concludes that a loss is probably and reasonably estimable. Except as otherwise indicated, the possible losses relating to the matters described below are not reasonably estimable. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. The actual outcome of such matters could differ materially from management's estimates.

On October 15, 2001, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit against the Company, Sunshine Wireless, LLC ("Sunshine"), and four other defendants affiliated with Winstar Communications, Inc. This lawsuit alleged that the Winstar defendants conspired to commit fraud and breached their fiduciary duty to the plaintiffs in connection with the acquisition of the plaintiff's radio production and distribution business. The complaint further alleged that the Company and Sunshine joined the alleged conspiracy. On February 25, 2003, the case against the Company and Sunshine was dismissed. However, on October 19, 2004, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. exercised their right to appeal. On June 1, 2005, the United States Court of Appeals for the Second Circuit affirmed the February 25, 2003 judgment of the district court dismissing the claims against the Company.

On July 28, 2005, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed another lawsuit against the Company, Sunshine and four other defendants affiliated with Winstar. That lawsuit attempted to collect a federal default judgment of $5 million entered against two entities, Winstar Radio Networks, LLC and Winstar Global Media, Inc., by attempting to enforce the judgment against the Company and others under the doctrine of de facto merger. The action was tried before a Los Angeles County Superior Court judge, without a jury, in 2008. On August 5, 2009, the Superior Court issued a statement of decision in the Company's favor, and on October 8, 2009, the Superior Court entered judgment in the Company's favor, and judged plaintiffs' responsible for $2,708.70 of the Company's court costs. On November 6, 2009, the plaintiffs filed a notice of appeal in the Superior Court of the State of California, County of Los Angeles Central District. On June 15, 2011, the Court of Appeal of the State of California, Second Appellate District ruled in our favor affirming the trial courts' ruling. The plaintiffs have since requested their case be heard at the California Supreme Court. The Company has engaged appellate counsel, and management believes the plaintiff's case to be without merit and intends to continue to defend the case vigorously. As loss is not deemed to be probable, no accruals have been made as of June 30, 2011.

13. SUBSEQUENT EVENTS

Management has evaluated events subsequent to June 30, 2011 through the date that the accompanying financial statements were filed with the Securities and Exchange Commission for transactions and other events which may require adjustment of and/or disclosure in such financial statements. Management has no subsequent events to report.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated interim financial statements and the related notes thereto appearing elsewhere in this quarterly report on Form 10-Q and our audited consolidated financial statements and related notes thereto and the description of our business appearing in our annual report on Form 10-K for the year ended December 31, 2010 (as amended).   This discussion contains forward-looking statements that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements."

Overview

We focus on the development, marketing and sale of products designed to improve patient outcomes and reduce costs in the healthcare industry. We conduct our business through our wholly owned subsidiary, SurgiCount Medical, Inc. Our proprietary Safety-Sponge® System is a patented solution designed to eliminate one of the most common errors in surgery, retained surgical sponges, and the human and economic costs associated with this surgical mistake. The Safety-Sponge® System consists of a line of uniquely identified surgical sponges and towels and a turnkey hardware and software offering integrated to form a comprehensive accounting and documentation system. We estimate that over 50 million of our Safety-Sponges® have been successfully used in more than 2.5 million surgical procedures. We sell our Safety-Sponge® System to hospitals through our direct sales force and by leveraging the sales and marketing capabilities of our distribution partners. Our proprietary line of surgical sponges and towels are manufactured for us by our exclusive manufacturer, A Plus, a leading China-based manufacturer of disposable medical and surgical supplies. Our sponge and towel products are distributed through Cardinal Health, who provides us sales, marketing and logistics support and the fulfillment of our products to our end user hospitals by both delivering our products directly to our end user hospitals and where appropriate through alternative distributors. Although not necessarily proportionally related to future revenue, growth in the number of hospitals using our products is a good indicator of our underlying business. Once implemented, the vast majority of our user hospitals use the Safety-Sponge® System across all of their relevant surgical and OB/GYN procedures.

Subsequent to the resignation of our previous President and Chief Executive Officer and four other board members, during the third quarter of 2010 newly appointed management implemented a comprehensive restructuring program focused on a number of initiatives, including the reduction of operating expenses and other initiatives designed to achieve positive operating income and operating cash flow. Restructuring activities included the elimination of certain job positions, lowering executive and employee cash compensation levels, refining and enforcing expense and travel policies and initiating expense measurement systems and increasing accountability across various functional areas. As a result of a number of factors, primarily the continued growth of the Company's revenue from both delivery of Cardinal Health's stocking inventory (as discussed in "Cardinal Health Supply Agreement" below) and the increased number of hospitals using the Company's products, combined with the impact on operating expenses from the restructuring initiative, the Company reported positive operating income during the quarter ended September 30, 2010, the first period of positive reported operating income in the history of the Company's ownership of SurgiCount since 2005 and the first reporting period under newly appointed management.

During the second quarter of 2011, the number of institutions using our products surpassed 70 and the Company lost no customers. This compares to approximately 52 institutions using our products at the end of the second quarter of 2010. We generated revenue of $2.6 million and $3.8 million during the three months ended June 30, 2011 and 2010, respectively. Our three months ended June 30, 2011 and 2010 revenue included approximately $0.5 million and $2.3 million respectively, of revenue from the fulfillment of a $10.0 million stocking order in accordance with the terms of our exclusive distributor arrangement with Cardinal Health. Excluding revenue recognized from the fulfillment of the Forward Order, during the six months ended June 30, 2011 and 2010 we generated approximately $3.5 million and

$2.8 million, respectively. Under certain circumstances the Forward Order inventory held by Cardinal Health could negatively impact our future 2012 revenue and cash flows. Please refer to our section in this Form 10-Q below in the section called “Factors Affecting Future Results— Cardinal Health Supply Agreement” for more information on the potential impact of the Forward Order.

13D Event and Subsequent Restructuring

On April 9, 2010 our current President and Chief Executive Officer, co-founder of our wholly-owned operating subsidiary SurgiCount Medical and co-inventor of our Safety-Sponge® System, Brian E. Stewart, filed a Form 13D with the Securities and Exchange Commission (“SEC”) on behalf of himself and certain other stockholders of the Company. The stockholders represented included two of the Company’s existing directors and the other co-founder of SurgiCount Medical and co-inventor of the Safety-Sponge® System and collectively represented a sufficient number of shares of the Company’s stock outstanding to demand that the Company call a special meeting of stockholders with the express purpose of affecting significant and immediate change by removing five of the then standing directors of the board, including the then President and Chief Executive Officer. As a direct result of this stockholder driven effort, on June 24, 2010, the five designated members of the board of directors resigned and Brian E. Stewart was appointed as President and Chief Executive Officer and as a Director of the Company.

Factors Affecting Future Results

Cardinal Health Supply Agreement

In November 2006, we began an exclusive distribution relationship with Cardinal Health to supply hospitals with our sponge and towel products that have adopted our Safety-Sponge® System. This original agreement had a term of 36 months, and automatically renewed for successive 12 month periods unless terminated early in accordance with its terms.

In November 2009, we renewed our distribution relationship with Cardinal Health through the execution of a new Supply and Distribution Agreement. This new agreement had a five-year term to 2014 and named Cardinal Heath as the exclusive distributor in the United States, Puerto Rico, and Canada of the current products used in our proprietary Safety-Sponge® System. Though Cardinal Health is our exclusive distributor in these geographical areas, the terms of our agreement with Cardinal Health do not limit the sales of our products to only direct customers of Cardinal Health. Our products are available to every hospital that wishes to purchase them through their existing distribution relationships, whether that is with Cardinal Health or a competitor. In the event an end user hospital customer of ours does not have a distribution relationship with Cardinal Health, Cardinal Health distributes our products directly to the alternative distributor that works with that hospital.

In connection with the execution of the new agreement in November 2009, Cardinal Health issued the $10.0 million stocking purchase order for products used in our Safety-Sponge® System that called for deliveries of that stocking inventory over a 12-month period (which is the Forward Order described above under Overview section). Cardinal Health paid us $8.0 million as partial pre-payment of the Forward Order, and agreed to pay $2.0 million directly to A Plus to pay for product when A Plus invoices the Company for the Forward Order. Cardinal Health also agreed to place a second $5.0 million stocking purchase order prior to the end of the third quarter of 2010, based on whether the Company achieved certain conditions, including a minimum targeted customer sales threshold. Both Cardinal Health and the Company jointly agreed in late 2010 not to go forward with this second stocking purchase order. Cardinal Health also agreed to maintain normal ordering patterns and volumes for purchasing our Safety-Sponge® products throughout 2010 and not to use any of the inventory delivered under the Forward Order to meet immediate hospital demand. In late 2010 Cardinal Health requested to change the product mix of the Forward Order. We agreed to this change, however because the products Cardinal Health requested were not immediately available, and Cardinal Health agreed to take delivery of the remaining inventory on a modified schedule. As of June 30, 2011, we had fully delivered the entire $10 million of product under the Forward Order.

In March 2011, we and Cardinal Health signed an amendment to the Supply and Distribution agreement (the "Amended Supply and Distribution Agreement"). The Amended Supply and Distribution Agreement revised a number of terms and conditions of the previous agreement, including but not limited to extending the termination date of the agreement from November 19, 2014 to December 31, 2015 and adding certain terms and provisions regarding setting target inventory levels and defining a formula for determining what excess inventory is of our products held by Cardinal Health. Cardinal Health has agreed to not sell any of the Forward Order inventory until 2012, and we have agreed to a methodology for how Cardinal Health will sell this inventory to our customers, so there is a more orderly release throughout 2012 that more reasonably minimizes its impact to the Company's revenue during 2012. In addition, the Amended Supply and Distribution Agreement gives the Company the right to buy-back at cost any inventory of our products held by Cardinal Health that exceeds 60 days worth of sales. All other terms remain the same.

Because of the delivery of $1.1 million of the Forward Order inventory during the first two quarters 2011, our reported revenue for the six months ended June 30, 2011 of $4.5 million represented more revenue than what we otherwise would have recognized had we filled only orders from Cardinal Health for strictly filling routine customer demand. During the second quarter of 2011 we recognized $2.1 million of revenue from the delivery of inventory to Cardinal Health for fulfilling routine customer demand, however this revenue does not necessarily reflect actual current hospital customer demand for our products, as this revenue is impacted by a number of factors, including but not limited to Cardinal Health's inventory management practices including how much inventory it chooses to maintain throughout its distribution warehouse system and the timing of how it chooses to order product (through recurring standing purchase orders, planned inventory reductions, etc) and its expectations regarding the timing of when new customers will start ordering product.

Should Cardinal Health have any excess inventory on January 1, 2012 and begin selling the excess inventory it holds to partially meet routine customer demand, our reported revenue and cash flows will be negatively affected. The magnitude this negative impact could have on our 2012 revenue and cash flows will depend on a number of factors, including but not limited to, how much excess inventory Cardinal Health actually has on hand in 2012, whether the Company chooses to purchase some or all of this excess inventory, and what our actual revenue growth rates are during 2011 and 2012. Actual revenue during 2011 and 2012 will depend on a number of factors, including but not limited to, actual end-user demand and Cardinal Health's estimates of what inventory levels it needs to meet that demand. Management has no immediate plans to repurchase Cardinal Health's excess inventory. However the Company will consider this option should an appropriate opportunity arise. While we have not provided any estimates of 2011 or 2012 revenue growth, in order to prevent a significant negative impact to 2012 reported revenue and cash flows, (i) the Company would need to experience substantial growth in the number of hospitals using its products during 2011 and 2012, (ii) the Company would need to buy back any excess inventory from Cardinal Health or (iii) Cardinal Health would need to decide not to use its excess inventory to partially meet routine customer demand. If the Company were to buyback excess inventory from Cardinal Health, it also could have a significant negative impact to our earnings, financial position and liquidity.

Revenue Subject to Significant Variation Due to Cardinal Health's Ordering Patterns, and Expectations of the Size and Timing of New Customer Hospital Implementations.

Our exclusive distribution agreement with Cardinal Health results in all of our revenue coming from orders placed by Cardinal Health. Cardinal Health has discretion in the timing and quantities with the orders they place, subject only to the limits contained in our agreements with them. As a result, our revenue may not necessarily correlate with the actual growth of our underlying customer base. In addition, our revenue can be materially impacted by the size of new customer hospital systems being implemented and the expected timing of those implementations by us and our distribution partners. Size of hospital systems connotes the number of actual hospitals that are a part of the hospital system and the number of surgical procedures that are performed at each hospital. Implementations with our large hospital system customers like the Mayo Clinic in Rochester or the Cleveland Clinic in 2009 had a material impact on our reported revenue and revenue growth for the year 2009. The timing of when these larger hospital system implementations are expected to occur also have a significant impact on our annual reported revenue, as both we and our distribution partners attempt to ensure adequate inventory on hand to accommodate them. The decision process that our distribution partner Cardinal Health uses in determining when to place orders is complex and subject to significant judgment. If those judgments prove incorrect or are inconsistent with our business needs or expectations, our revenue may be materially adversely impacted. For example, some of the factors that go into these judgments include, but are not limited to: (i) the size of some new pending and possible customers, (ii) the distribution agreements new pending and possible hospital customers have with their distribution partners, (iii) the multiple formats our products need to be available in (Single Sterile and Bulk Non Sterile), and (iv) the location of the manufacturing facilities of our China based manufacturing partner and the lead times needed in manufacturing our products. Although growth in the number of customer hospitals is a relevant general indicator of growth in our business and customer acceptance of our products, it is not necessarily proportional to revenue because of the factors that impact revenue growth, including the number of actual customers represented by the hospitals using our products, the number of procedures such hospitals actually perform, the timing of orders of our products and the other factors described in this quarterly report on Form 10-Q.

Reduction in Hardware Revenue – Effect on Revenue and Cost of Revenue.

Prior to the third quarter of 2009, our business model included selling our SurgiCounter™ scanners and related software used in our Safety-Sponge® System to most hospitals that adopted our system. Beginning with the third quarter of 2009, we modified our business model and began to provide our SurgiCounter™ scanners and related software to all hospitals at no cost when they adopt our Safety-Sponge® System. Because we no longer engage in direct SurgiCounter™ scanner sales and generally anticipate only to recognize revenue associated with our SurgiCounter™ scanners in connection with reimbursement arrangements we have with Cardinal Health under our agreement with them, SurgiCounter™ scanners no longer represent a significant source of revenue for our company. In 2010 and 2009, surgical sponge revenue accounted for 99% and 94.0% of our revenue, respectively and hardware revenue accounted for 1% and 6.0%, respectively. In addition to its effect on our revenue, this change also affected our costs of revenue because rather than recognizing the full product cost for all SurgiCounter™ scanners at the time of shipment in our cost of revenue, we now recognize only the depreciation expense for those SurgiCounter™ scanners provided to hospital clients. This business model change led to an improvement in our gross margin in the year ended December 31, 2009, and further improvement in 2010. However going forward, we anticipate that there will be a negative impact on our gross margins from increased depreciation expense in our cost of revenue from the growing number of scanners that we give to customers in the field, which will temporarily cause our gross margins to trend lower. This negative impact on gross margin from scanner depreciation will eventually be offset and ultimately completely eliminated by sponge and towel revenue growth, as it increases and dilutes the negative impact from depreciation.

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Sources of Revenue and Expenses

Revenue

We generate revenue primarily from the sale of surgical sponges used in our Safety-Sponge® System to our exclusive distributor, Cardinal Health, who then sells directly and through sub-distributors to hospitals that have adopted our Safety-Sponge® System. We expect hospitals that adopt our Safety-Sponge® System to commit to its use and thus provide a recurring source of revenue from ongoing sales of surgical sponges and other products used in our system. Generally, the expected term of the customer contracts and the estimated useful life of the scanners are both 3 years. We recognize revenue from the sale of surgical sponges upon shipment to our distributor because most of our surgical sponge sales are to our distributor, FOB shipping point. Note that because of the way our revenue cycle works there is typically a lag between the time we begin incurring costs associated with our new customer arrangements and when we begin generating revenue from such arrangements.

Cost of revenue

Our cost of revenue consists primarily of our direct product costs for surgical sponges and products from our exclusive third-party manufacturer. We also include a reserve expense for obsolete and slow moving inventory in cost of revenue. In addition, when we provide scanners to hospitals for their use (rather than sell), we include only the depreciation expense of the scanners in cost of revenue (not the full product cost). We estimate the useful life of the scanners to be three years. However, on rare occasions, if we sell the scanners to hospitals, our cost of revenue includes the full product cost when shipped.

Research and development expenses

Our research and development expenses consist of costs associated with the design, development, testing and enhancement of our products. We also include salaries and related employee benefits, research-related overhead expenses and fees paid to external service providers in our research and development expenses. There was a reclassification starting in 2010 of certain personnel-related expenses to sales and marketing expenses.

Sales and marketing expenses

Our sales and marketing expenses consist primarily of salaries and related employee benefits, sales commissions and support costs, professional service fees, travel, education, trade show and marketing costs.

General and administrative expenses

Our general and administrative expenses consist primarily of salaries and related employee benefits, professional service fees, expenses related to being a public entity, and depreciation and amortization expense.

Total other income (expense)

Our total other income (expense) primarily reflects changes in the fair value of warrants classified as derivative liabilities. Under applicable accounting rules (discussed below under "—Critical Accounting Policies—Warrant Derivative Liability"), we are required to make estimates of the fair value of our warrants each quarter, and to record the change in fair value each period in our statement of operations. As a result, changes in our stock price from period to period result in other income (when our stock price decreases) or other expense (when our stock price increases) on our income statement.

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Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures in the financial statements. Critical accounting policies are those accounting policies that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on financial condition or operating performance. While we base our estimates and judgments on our experience and on various other factors that we believe to be reasonable under the circumstances, actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies used in the preparation of our financial statements require significant judgments and estimates. For additional information relating to these and other accounting policies, see Note 2 to our condensed consolidated interim financial statements.

Warrant Derivative Liability

Under applicable accounting guidance, an evaluation of outstanding warrants is made to determine whether warrants issued are required to be classified as either equity or a liability. Because certain warrants we have issued in connection with past financings contain certain provisions that may result in an adjustment to their exercise price, we classify them as derivative liabilities, and accordingly, we are then required to estimate the fair value of such warrants, at the end of each fiscal quarter. We use the Monte Carlo Simulation option pricing model to estimate such fair value, which requires the use of numerous assumptions, including, among others, expected life (turnover), volatility of the underlying equity security, a risk-free interest rate and expected dividends. The use of different values by management in connection with these assumptions in the Monte Carlo Simulation option pricing model could produce substantially different results. Because we record changes in the fair value of warrants classified as derivative liabilities in total other income (expense), materially different results could have a material effect on our results of operations.

Goodwill

Our goodwill represents the excess of the purchase price over the estimated fair values of the net tangible and intangible assets of SurgiCount Medical, Inc., which we acquired in February 2005. We review goodwill for impairment at least annually in the fourth quarter, as well as whenever events or changes in circumstances indicate its carrying value may not be recoverable. We are required to perform a two-step impairment test on goodwill. In the first step, we will compare the fair value to its carrying value. If the fair value exceeds the carrying value, then goodwill will not be considered impaired and we are not required to perform further testing. If the carrying value exceeds the fair value, then we must perform the second step of the impairment test in order to determine the implied fair value of goodwill and record an impairment loss equal to the difference. Determining the implied fair value involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. To the extent additional events or changes in circumstances occur, we may conclude that a non-cash goodwill impairment charge against earnings is required, which could have an adverse effect on our financial condition and results of operations.

Stock-Based Compensation

We recognize compensation expense in an amount equal to the estimated grant date fair value of each option grant, or stock award over the estimated period of service and vesting. This estimation of the fair value of each stock-based grant or issuance on the date of grant involves numerous assumptions by management. Although we calculate the fair value under the Black Scholes option pricing model, which is a standard option pricing model, this model still requires the use of numerous assumptions, including, among others, the expected life (turnover), volatility of the underlying equity security, a risk free interest rate and expected dividends. The model and assumptions also attempt to account for changing employee behavior as the stock price changes and capture the observed pattern of increasing rates of exercise as the stock price increases. The use of different values by management in connection with these assumptions in the Black Scholes option pricing model could produce substantially different results.

Impairment of Long-Lived Assets

Our management reviews our long-lived assets with finite useful lives for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We recognize an impairment loss when the sum of the future undiscounted net cash flows expected to be realized from the asset is less than its carrying amount. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Considerable judgment is necessary to estimate the fair value of the assets and accordingly, actual results could vary significantly from such estimates. Our most significant estimates and judgments relating to the long-lived asset impairments include the timing and amount of projected future cash flows.

Accounting for Income Taxes

Deferred income taxes result primarily from temporary differences between financial and tax reporting. Deferred tax assets and liabilities are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates. Future tax benefits are subject to a valuation allowance when management is unable to conclude that our deferred tax assets will more-likely-than-not be realized from the results of operations. Our estimate for the valuation allowance for deferred tax assets requires management to make significant estimates and judgments about projected future operating results. If actual results differ from these projections or if management's expectations of future results change, it may be necessary to adjust the valuation allowance.

We have measured and recorded uncertain tax positions in accordance with rules that took effect on such date that prescribe a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Accordingly, we now only recognize (or continue to recognize) tax positions meeting the more-likely-than-not recognition threshold (or that met such threshold on the effective date). Accounting for uncertainties in income tax positions involves significant judgments by management. If actual results differ from management's estimates, we may need to adjust the provision for income taxes.

Recent Accounting Pronouncements

For a discussion regarding recent accounting pronouncements, see Note 2 to our condensed consolidated interim financial statements, appearing elsewhere in this quarterly report on Form 10-Q.

Results of Operations

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

During the second quarter of 2011, the number of hospitals using our products surpassed 70 and the Company lost no customers. This compares to approximately 52 hospitals using our products at the end of the second quarter of 2010. Although not necessarily proportional to future revenue, the number of hospitals using our products is a good indicator of our underlying business.

Revenue

Total revenue for the three months ended June 30, 2011 was $2.6 million, which included $0.5 million of revenue from the delivery to our exclusive distributor, Cardinal Health, as part of a $10.0 million Forward Order (see Factors Affecting Future Results – Cardinal Health Supply Agreement). Excluding the effect of this inventory stocking arrangement, revenue for the quarter ended June 30, 2011 would have been $2.1 million. This compares with total revenue for the three months ended June 30, 2010 of $3.8 million, which included approximately $2.3 million of revenue from the delivery under the Forward Order. Excluding the effect of the Forward Order, revenue for the three months ended June 30, 2010 would have been $1.4 million.

The $0.5 million of second quarter revenue that related to filling the Forward Order stocking arrangement represented the final sales under this $10 million arrangement. Our revenue to Cardinal Health during the second quarter 2011 excluding the Forward Order totaled $2.1 million and was more closely aligned with where management believes customer demand levels are for our sponges and towels as compared to non-Forward Order revenue to Cardinal Health during previous quarters. As discussed in the section "Factors Effecting Future Revenue", historically there have been a number of factors within Cardinal Health's control that have affected our level of non-Forward Order revenue to Cardinal Health, resulting in making it difficult to measure what the real customer demand levels are. The $2.1 million of non-Forward Order revenue during the second quarter 2011 was closer to what management estimates the quarterly customer demand is for our products at present and in the near future, and for the remainder of 2011 we anticipate that our orders from Cardinal Health will continue to be more inline with immediate end user demand as they were in the second quarter.

Cost of revenue

Cost of revenue of $1.3 million decreased by $0.5 million or 28% for the three months ended June 30, 2011 as compared to cost of revenue of $1.8 million for the same period in 2010. This decrease was mostly the result of lower Forward Order revenue of $0.5 million during the second quarter of 2011 as compared to Forward Order revenue of $2.3 million during the second quarter of 2010. In addition, our cost of revenue in the second quarter 2011 was impacted by a growing amount of scanner hardware depreciation resulting from the change in our revenue mix of no longer primarily selling the hardware used with our Safety-Sponge® System (see Factors Effecting Future Results "—Reduction in Hardware Revenue"). Our cost of revenue as a percentage of revenue increased to 50% during the second quarter 2011 as compared to 48% in the second quarter 2010. This increase in reported cost of revenue was primarily attributable to higher non cash depreciation expense included in our cost of revenue during the second quarter of 2011 as compared to the second quarter of 2010, reflecting a larger amount of hardware purchased by the Company to support new hospital implementations. Our cost of revenue during the second quarter 2011 included depreciation expense and other related equipment costs totaling $109 thousand, while our second quarter 2010 cost of revenue included depreciation and other related equipment costs totaling $71 thousand. The gross margins realized from the sale of recurring disposable sponge and towel products, the vast majority of our revenue, was 54% and 56% during the second quarters of 2011 and 2010, respectively, reflecting a modest cost increase by A Plus that became effective in January 2011.

Gross profit

Gross profit totaled $1.3 million for the three months ended June 30, 2011, a decrease of $0.7 million, or 36%, compared to gross profit of $2.0 million during the same period in 2010. The primary reason for the decrease in gross profit during the second quarter 2011 as compared to the same quarter in 2010 was lower Forward Order revenue to Cardinal Health. Forward Order revenue during the quarter ended June 30, 2011 was $0.5 million, which generated gross profit of $0.3 million, as compared to Forward Order revenue during the quarter ended June 30, 2010 of $2.3 million, which generated gross profit of $1.2 million. In addition, our gross profit for the quarter ended June 30, 2011 as compared to the quarter ended June 30, 2010 was negatively impacted by higher depreciation expense from growth in the number of scanners given to customers, as well as the impact of A Plus increasing our costs for sponges and towels effective in January 2011.

Operating expenses

Operating expenses totaled $1.7 million for the quarter ended June 30, 2011, a decrease of $1.3 million, or 44%, compared to $3.0 million of operating expenses during the same period in 2010. This reduction in operating expenses primarily reflects the impact of comprehensive restructuring implemented by our current management during the third quarter of 2010. This restructuring focused on a number of cost reduction initiatives, which included reducing headcount and operating expenses in an effort to achieve operating income as well as positive operating cash flow. Restructuring activities included the elimination of certain job positions, lowering executive and employee cash compensation levels, refining and enforcing expense and travel policies and initiating monitoring systems over spending and increasing accountability across all functional areas.

Research and development expenses

Research and development expenses totaled $24 thousand for the quarter ended June 30, 2011, a decrease of $74 thousand, or 75%, compared to $98 thousand during the same period in 2010. The decrease year over year primarily reflected current management's restructuring activities initiated during the third quarter of 2010.

Sales and marketing expenses

Sales and marketing expenses totaled $0.7 million for the quarter ended June 30, 2011, a decrease of $0.2 million, or 19%, compared to $0.8 million during the same period in 2010. The lower sales and marketing expenses in the second quarter of 2011 as compared to the prior year quarter primarily reflects management's restructuring activities initiated during the third quarter of 2010.

General and administrative expenses

General and administrative ("G&A") expenses totaled $1.0 million for the quarter ended June 30, 2011, representing a decrease of $1.1 million, or 53%, compared to G&A expenses of $2.1 million during the same period in 2010. The lower G&A expenses in the second quarter 2011 as compared the second quarter of 2010 was primarily the result of the comprehensive restructuring and cost reduction initiative implemented by current management during the third quarter of 2010.

Total other income (expense)

We reported other income of $0.2 million for the quarter ended June 30, 2011, compared to other income of $0.9 million for the quarter ended June 30, 2010. The largest change between the second quarter of 2011 and the second quarter of 2010 was the mark to market adjustment for the change in fair value of our warrant derivative liability. During the quarter ended June 30, 2011, our mark to market adjustment for our warrant derivative liability was a gain of $14 thousand, while the change for the quarter ended June 30, 2010 was a gain of $1.0 million or a difference of over $0.9 million. As discussed above under "Critical Accounting Policies", certain warrants issued from past financings are required to be recorded as a derivative liability and not as equity. Each reporting period we record increases and decreases in the estimated fair value of these warrants based on fluctuations in the price of our common stock and the number of warrants outstanding. When our stock price increases, it creates a larger liability resulting in other losses, while decreases in our stock price causes the liability to decrease resulting in other income. During the second quarter of 2010 our stock price decreased significantly resulting in the large gain, while at the end of the second quarter of 2011 our stock price change was less significant and there were fewer warrants outstanding as of June 30, 2011 resulting in the modest $14 thousand gain. Also there was a gain of $223 recognized related to the reduction of our contingent tax liability.

Provision for Income Taxes

We had a $0 thousand tax expense for the three months ended June 30, 2011, compared to a $33 thousand tax benefit for the same period in 2010.

Net income (loss)

We had a net loss of $294 thousand for the three months ended June 30, 2011 compared to a net loss of $76 thousand for the same period in 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Revenue

Total revenue for the six months ended June 30, 2011 of $4.5 million, included $1.1 million of product shipped to Cardinal Health under the Forward Order, representing the final shipments under this stocking arrangement (see

“Factors Affecting Future Results —Cardinal Health Supply Agreement”). Total revenue during the six months ended June 30, 2011 excluding the Forward Order revenue was $3.5 million, an increase of 25% as compared to $2.8 million during the same six month period in 2010. This increase in revenue reflected 35% growth experienced in the number of new customer hospitals as compared to the number of hospitals at the end of second quarter last year. In addition, our exclusive distributor, Cardinal Health, began ordering more product during the second quarter of 2011 that more closely aligned with current routine customer demand levels. Revenue for surgical sponges and towels during the six months ended June 30, 2011 accounted for 99% of revenue, while revenue for hardware accounted for only 1%, reflecting our change in strategy implemented during 2010 of providing scanners to customers at zero cost instead of selling them.

Cost of revenue

Cost of revenue for the six months ended June 30, 2011 of $2.3 million, reflected a decrease of $0.5 million or 19%, as compared to cost of revenue of $2.9 million during the same six month period in 2010. This decrease was due to lower cost of revenue related to Forward Order revenue during the six months ended June 30, 2011, which was $1.1 million or 71% lower than the cost of revenue during the same six month period in 2010. This decrease reflected the fact the final sales to Cardinal under the $10 million Forward Order arrangement occurred during the six months ended June 30, 2011, and most of this stocking order had been filled throughout 2010, leaving only $1.1 million of revenue ($500 thousand of cost of revenue) to be shipped during the first six months of 2011. The cost of revenue related to non-Forward Order revenue was $1.9 million during the six months ended June 30, 2011, which was an increase of $600 thousand compared to the $1.3 million cost of revenue during the same period in 2010, reflecting our revenue growth as described above.

Gross profit

Gross profit of $2.2 million for the six months ended June 30, 2011, was a decrease of $1.0 million, or 32%, compared to $3.3 million during the same six month period in 2010. The primary reason for this decrease in gross profit was lower Forward Order revenue of $1.1 million recognized during the six months ended June 30, 2011 as compared to $3.4 million of revenue during the same six month period in 2010. In addition, we experienced higher costs related to scanners, resulting from increased depreciation expense from giving more scanners to customers at no cost instead of selling them. Gross profit on Forward Order revenue for the six months ended June 30, 2011 of $600 thousand was $1.2 million or 65% lower than the $1.8 million of gross profit on Forward Order revenue during the same six month period in 2010. This decrease in gross profit related to Forward Order revenue which we filled mostly during 2010, and completed the final remaining shipments in 2011. Total gross margin was 49% for the six months ended June 30, 2011, compared to 53% for the same six month period in 2010, which was primarily attributed to increased scanner depreciation expense from giving scanners to customers at no cost, as well the impact of a cost increase that became effective January 1, 2011 on our purchases of sponges and towels by our exclusive manufacturer, A Plus. This cost increase mostly reflected the higher cost of cotton and to a lesser extent, changes in the U.S. dollar exchange rate with the Chinese Yuan.

Operating expenses

We had total operating expenses of $3.4 million for the six months ended June 30, 2011, which includes research and development, sales and marketing and G&A, a decrease of $2.2 million, or 39%, compared to $5.7 million for the same six month period in 2010. This decrease in operating expense was due to the comprehensive restructuring implemented by current management during the third quarter of 2010, which was focused on a number of initiatives to reduce operating expenses and achieve operating income and positive cash flow. Restructuring activities included the elimination of certain job positions, lowering executive and employee cash compensation levels, refining and enforcing expense and travel policies and initiating expense controls and increased accountability across all functional areas.

Financial Condition, Liquidity and Capital Resources

We had cash and cash equivalents of $5.7 million at June 30, 2011 compared to $1.9 million at December 31, 2010, and we had total current liabilities of $3.2 million at June 30, 2011 compared to $6.0 million at December 31, 2010. As of June 30, 2011, we had positive working capital of $4.6 million, which was reduced by $375 thousand for a deferred revenue liability relating to hardware reimbursement payments from Cardinal Health, and $767 thousand represented a warrant derivative liability, both of which are non-cash based liabilities. We believe our sources of funding are sufficient to satisfy our anticipated cash requirements through at least the next 12 months. Although management does not have any plans to do so, we may seek additional financing to fund future growth for periods beyond the next 12 months, through future offerings of equity or agreements with strategic partners to help fund our growth and the development of future products and technologies. However, we can offer no assurances that we will be able to obtain additional funding on acceptable terms, if at all. Management continually evaluates our liquidity needs and whether to increase capital resources. See Item 1A “Risk Factors” in our Annual Report on Form 10-K for additional information that could impact our future liquidity and capital resources.

On March 29, 2011 and March 30, 2011, we closed a private placement financing raising $7.1 million in gross proceeds through the issuance of 9.48 million shares of our $0.33 par value common stock at a selling price of $0.75 per share. The proceeds from the offering have been, and will continue to be used for general corporate purposes, including paying down existing company liabilities and to invest in new initiatives to increase market penetration of our Safety-Sponge® System to hospitals throughout the U.S. and world-wide.

Operating activities

We used $2.8 million of net cash from operating activities during the six months ended June 30, 2011. This included payments totaling $2.2 million to our contract manufacturer, A Plus, to pay for past due amounts owed to them from previous periods, which we paid immediately upon receiving proceeds from our private placement which closed on March 29, 2011 and March 30, 2011. Non-cash adjustments to reconcile net income to net cash used in operating activities, including balance changes in operating assets and liabilities, used a total of $2.0 million of cash for the six months ended June 30, 2011. The significant non-cash adjustments primarily reflected a $1.1 million decrease in our deferred revenue liability relating to our final shipments to Cardinal Health in filling the Forward Order, along with decreases of $223 thousand in our contingent tax liability and $225 thousand in our warrant derivative liability.

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Investing activities

We used $204 thousand of net cash in investing activities during the six months ended June 30, 2011, primarily for the purchase of scanners and related hardware used in our Safety-Sponge® System.

Financing activities

We generated $6.8 million of net cash from financing activities in the six months ended June 30, 2011, primarily from the net proceeds of our $7.1 million private placement, offset by the payment of preferred stock dividends and other stock issuance costs.

Off-Balance Sheet Arrangements

As of June 30, 2011, we had no off-balance sheet arrangements.

Commitments and Contingencies

As of June 30, 2011, other than our office leases and employment agreements with key executive officers, we had no material commitments other than the liabilities reflected in our condensed consolidated interim financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2011. During the most recently completed fiscal quarter, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended) identified in the evaluation described in this paragraph that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)*
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)*
32.1*	Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code*

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* Filed herewith.

Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to the Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

	PATIENT SAFETY TECHNOLOGIES, INC.
Date: August 15, 2011	By: /s/ Brian E. Stewart Brian E. Stewart, President and Chief Executive Officer
Date: August 15, 2011	By: /s/ David Dreyer David Dreyer, Executive Vice President, Chief Financial Officer, and Secretary

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Brian E. Stewart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Patient Safety Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15((f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

By: /s/ Brian E. Stewart
Name: Brian E. Stewart
Title: Chief Executive Officer
(Principal Executive Officer)

Date: August 15, 2011

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, David Dreyer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Patient Safety Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15((f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

By: /s/ David Dreyer
Name: David Dreyer
Title: Chief Financial Officer
(Principal Financial and Accounting
Officer)

Date: August 15, 2011

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Patient Safety Technologies, Inc. (the “Company”) for the fiscal quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Brian E. Stewart, as Chief Executive Officer of the Company, and David Dreyer, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian E. Stewart
Name: Brian E. Stewart
Title: Chief Executive Officer
Date: August 15, 2011

/s/ David Dreyer
Name: David Dreyer
Title: Chief Financial Officer
Date: August 15, 2011

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being “filed” as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.