Patient Safety Technologies, Inc
Form 10-Q/A
September 13, 2005

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

FORM 10-Q/A
Amendment No. 2

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER:

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

Delaware	**13-3419202**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

100 Wilshire Boulevard, Suite 1500
Santa Monica, California 90401
(Address of principal executive offices)

Registrant's telephone number, including area code:(310) 752-1442

With Copies To:
Marc J. Ross, Esq.
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New York, New York 10018
(212) 930-9700

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.
Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: On April 22, 2005, there were 5,404,783 shares outstanding of the Registrant's common stock, $0.33 par value.

PATIENT SAFETY TECHNOLOGIES, INC.

FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2005

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARIES

Condensed Balance Sheets (Unaudited)

		March 31, 2005		December 31, 2004*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	10,741	$	846,404
Marketable securities		4,435,433		3,487,719
Other current assets		269,452		255,510
TOTAL CURRENT ASSETS		4,715,626		4,589,633
Property, plant and equipment, net		34,818		23,657
Intangible assets, net		4,657,497		
Long-term investments		2,385,959		2,320,953
TOTAL ASSETS	$	11,793,900	$$	6,934,243
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Notes payable	$	839,469	$$	892,530
Accounts payable and accrued liabilities		1,137,833		939,568
Marketable securities, sold short				1,075,100
Due to broker		2,564,749		460,776
TOTAL CURRENT LIABILITIES		4,542,051		3,367,974
STOCKHOLDERS' EQUITY				
Convertible preferred stock, $1 par value, cumulative 7% dividend:				
1,000,000 shares authorized; 10,950 issued and outstanding at March 31, 2005 and December 31, 2004 (Liquidation preference $1,095,000)		10,950		10,950
Common stock, $0.33 par value: 25,000,000 shares authorized; 6,826,017 shares issued and 5,374,278 shares outstanding as of March 31, 2005; 6,128,067		2,252,586		2,022,262

shares issued and 4,670,703 shares outstanding at December 31, 2004				
Paid-in capital		19,176,731		13,950,775
Accumulated deficit		(11,597,835)		(9,800,885)
		9,842,432		6,183,102
Deduct: 1,451,739 and 1,457,364 shares of common stock held in treasury, at cost, at March 31, 2005 and December 31, 2004, respectively		(2,590,583)		(2,616,833)
TOTAL STOCKHOLDERS' EQUITY		7,251,849		3,566,269
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	11,793,900	$$	6,934,243

* Restated to include the impact of share-based compensation expense

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

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PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARIES

Condensed Statements of Operations
(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
REVENUES	$ —	$ —
EXPENSES		
Salaries and employee benefits	1,210,950	128,901
Professional fees	556,971	57,000
Rent		18,075
Insurance	19,551	17,038
Taxes other than income taxes	22,035	12,764
Interest expense	27,318	8,926
Amortization of patents	27,078	
General and administrative	257,770	50,144
Operating expenses	2,121,673	292,848
Operating loss	(2,121,673)	(292,848)
Interest, dividend income and other, net	28,602	165
Realized gains (losses) on investments, net	(34,728)	49,478
Unrealized gains (losses) on marketable securities, net	343,587	102,759
Net loss	(1,784,212)	(140,446)
Preferred dividends	(12,738)	(19,164)
Net loss attributable to common shareholders	$ (1,796,950)	$ (159,610)
Basic and diluted net loss per common share	$ (0.37)	$ (0.05)
Weighted average common shares outstanding	4,910,963	3,060,300

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

PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARIES

Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended			
		March 31, 2005		**March 31, 2004**
Cash flows from operating activities:				
Net loss	$	(1,784,212)	$	(140,446)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation		546		
Amortization of patents		27,078		
Realized (gains) losses on investments, net		34,728		(49,478)
Unrealized gain on marketable securities		(343,587)		(102,759)
Stock based compensation		1,224,101		
Changes in operating assets and liabilities:				
Purchases of marketable investment securities, net		(1,727,528)		5,324
Other assets		(13,942)		5,543
Accounts payable and accrued liabilities		198,265		58,043
Due to broker		2,103,973		
Total adjustments		1,503,634		(83,327)
Net cash used in operating activities		(280,578)		(223,773)
Cash flows from investing activities:				
Purchase of property and equipment		(11,707)		
Purchase of SurgiCount		(432,398)		
Proceeds from sale of long-term investments				117,608
Purchases of long-term investments		(65,006)		
Net cash (used in) provided by investing activities		(509,111)		117,608
Cash flows from financing activities:				
Proceeds from exercise of stock options		26,250		
Payments of preferred dividends		(19,163)		(19,164)
Decrease in note payable		(53,061)		
Net cash used in financing activities		(45,974)		(19,164)
Net decrease in cash and cash equivalents		(835,663)		(125,329)
Cash and cash equivalents at beginning of period		846,404		224,225
Cash and cash equivalents at end of period	$	10,741	$	98,896
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	19,574	$	76
Issuance of common stock and warrants in connection with SurgiCount acquisition	$	4,232,178	$	—
Dividends accrued	$	12,738	$	19,163

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

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements – Unaudited
March 31, 2005

1. DESCRIPTION OF BUSINESS

Until March 31, 2005, Patient Safety Technologies, Inc. (***"PST"***, or the ***"Company"***) (formerly known as Franklin Capital Corporation) was a Delaware corporation that elected to be a Business Development Company (***"BDC"***) under the Investment Company Act of 1940, as amended. On March 30, 2005, stockholder approval was obtained to withdraw the Company's election to be treated as a BDC and on March 31, 2005, the Company filed an election to withdraw its election with the Securities and Exchange Commission. Through its operating subsidiaries, the Company is currently involved in providing capital and managerial assistance to early stage companies in the medical products, health care solutions, financial services and real estate industries.

Currently, the Company has three wholly-owned operating subsidiaries: (1) SurgiCount Medical, Inc., a California corporation; (2) Patient Safety Consulting Group, LLC, a Delaware Limited Liability Company; and (3) Franklin Capital Properties, LLC, a Delaware Limited Liability Company.

The Company, including its operating subsidiaries, is engaged in the acquisition of controlling interests in companies and research and development of products and services focused on the health care and medical products field, particularly the patient safety markets, as well as the financial services and real estate industries. SurgiCount Medical, Inc., a provider of patient safety devices, Patient Safety Consulting Group, LLC, a healthcare consulting services company, and Franklin Capital Properties, LLC, a real estate development and management company, enhance the Company's ability to focus its efforts in each targeted industry.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and disclosures required by accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The accounting estimates that require management's most difficult and subjective judgments are the valuation of the non-marketable equity securities. The actual results may differ from management's estimates.

The interim condensed consolidated financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. The condensed consolidated interim financial statements should be read in connection with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Certain amounts reported in the previous period have been reclassified to conform to the current presentation reflecting the Company's withdrawal of its election to be treated as a BDC.

Investments

Marketable Securities. The Company's investment in marketable securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period included in earnings.

Available-for-Sale Investments. Investments designated as available-for-sale include both marketable equity and debt (including redeemable preferred stock) securities. Investments that are designated as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains and losses on the sale or exchange of equity securities and declines in value judged to be other than temporary are recorded in realized gains (losses) on investments, net.

Equity Method. Included in long-term investments are investments in companies in which the Company has a 20% to 49% interest. These investments are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses.

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

Stock-Based Compensation

Prior to January 1, 2005, the Company accounted for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by Statement of Financial Accounting Standards (***"SFAS"***) No. 123, *Accounting for Stock-Based Compensation*. In December 2004, SFAS No. 123(R), "*Share-Based Payment*," which addresses the accounting for employee stock options, was issued. SFAS 123(R) revises the disclosure provisions of SFAS 123 and supercedes APB Opinion No. 25. SFAS 123(R) requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. This statement is effective for the Company as of the beginning of the first interim or annual reporting period that begins after January 1, 2006. The Company elected to adopt SFAS 123(R) as of January 1, 2005 using the modified retrospective application method as provided by SFAS 123(R) and accordingly, financial statement amounts for the prior periods in which the Company granted employee stock options have been restated to reflect the fair value method of expensing prescribed by SFAS 123(R). During the year ended December 31, 2004, the entire amount of equity compensation expense required to be recognized under the modified retrospective application method was $5,094 relating to stock option grants that occurred in the second quarter of 2004. During the three months ended March 31, 2005, the Company had stock-based compensation expense included in reported net loss of $552,542. All options that we granted in 2005 and 2004 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:

	Three months ended March 31, 2005	2004
Weighted average risk free interest rates	3.75%	3.0%
Weighted average life (in years)	3.0	0.1
Volatility	83%	102%
Expected dividend yield	0%	0%
Weighted average grant-date fair value per share of options granted	$ 2.92	

3. LOSS PER COMMON SHARE

Loss per common share is based on the weighted average number of common shares outstanding. The Company complies with SFAS No. 128, *"Earnings Per Share,"* which requires dual presentation of basic and diluted earnings per share on the face of the statements of operations. Basic loss per share excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if convertible preferred stock or debentures, 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.

Since the effects of outstanding options, warrants and convertible preferred stock conversion are antidilutive in all periods presented it has been excluded from the computation of loss per common share.

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

4. EQUITY TRANSACTIONS

On March 30, 2005, stockholders' approval was obtained to (i) decrease the authorized number of shares of Common Stock from 50,000,000 shares to 25,000,000 shares, (ii) decrease the authorized number of shares of Preferred Stock from 10,000,000 shares to 1,000,000 shares and (iii) to reduce the par value of the Common Stock from $1.00 per share to $0.33 per share and effect a three-for-one split of the Common Stock.

Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented. In addition, all per share and weighted average share amounts have been restated to reflect this stock split.

During the three months ended March 31, 2005, the Company issued 5,625 shares of common stock held in treasury upon exercise of options under the Company's 1997 Stock Incentive Plan.

5. ACQUISITION

In February 2005, the Company invested $4,035,600, excluding acquisition costs, to acquire 100% of the common stock of SurgiCount Medical, Inc. (***"SurgiCount"***). SurgiCount's operating results from the closing date of the acquisition, February 25, 2005, through March 31, 2005, are included in the condensed consolidated financial statements.

At closing, the purchase price, including acquisition costs was determined to be $4,684,576, comprised of $340,000 in cash payments and 600,000 shares of the Company's common stock valued at $3,695,600 issued to SurgiCount's equity holders. Additionally, the Company incurred approximately $112,398 in direct costs and issued 150,000 warrants, valued at $536,578, to purchase the common stock of the Company to consultants providing advisory services for the Merger. The value assigned to the stock portion of the purchase price is $6.16 per share based on the average closing price of the Company's common stock for the five days beginning two days prior to and ending two days after February 4, 2005, the date of the Agreement and Plan of Merger and Reorganization (the "Merger"). In addition, in the event that prior to the fifth anniversary of the closing of the Merger the cumulative gross revenues of SurgiCount exceed $500,000 the Company is obligated to issue an additional 50,001 shares of the Company's common stock to certain SurgiCount shareholders. Should the cumulative gross revenues exceed $1,000,000 during the five-year period the additional shares would be increased by 50,001, for a total of 100,002 additional shares. Such amount is not included in the aggregate purchase price and will be recorded when and if issued.

The entire purchase price, including acquisition costs, has been allocated to SurgiCount's patents, with an approximate useful life of 14.4 years, on a preliminary basis and may change as additional information becomes available.

The following pro forma data summarizes the results of operations for the periods indicated as if the SurgiCount acquisition had been completed as of the beginning of each period presented. The pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of each period presented or that may be obtained in future periods:

	Three months ended March 31,			
		2005		**2004**
Revenue		—		—
Net loss	$	(1,885,000)	$	(235,000)
Basic and diluted net loss per common share	$	(0.38)	$	(0.08)

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Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at March 31, 2005 and December 31, 2004 are comprised of the following:

	March 31, 2005	December 31, 2004
Professional fees - legal	$ 518,131	$ 351,867
Accrued purchase price on investment	165,240	165,240
Officer's severance	83,283	160,142
Accrued interest	120,177	112,432
Professional fees - other	72,500	52,950
Accrued - other	178,502	96,937
	$ 1,137,833	$ 939,568

7. MARKETABLE SECURITIES

Marketable securities at March 31, 2005 and December 31, 2004 are comprised of the following:

	March 31, 2005	December 31, 2004
U.S. Treasuries	$ 2,476,718	$ 2,016,406
IPEX, Inc.	1,101,000	
Other Equities	857,715	1,471,313
	$ 4,435,433	$ 3,487,719

IPEX, Inc.

At March 31, 2005, the Company held 575,000 shares of common stock and warrants to purchase 220,000 shares of common stock at $1.50 per share and warrants to purchase 220,000 shares of common stock at $2.00 per share of IPEX, Inc. (***"IPEX"***), formerly Administration for International Credit & Investments, Inc, valued at $1,101,000. IPEX's common stock is traded on the OTC Bulletin Board, which reported a closing price, at March 31, 2005, of $1.80. The Company valued its investment in IPEX based upon the March 31, 2005 closing price of $1.80 per share. Thus, the 575,000 shares of common stock were valued at $1,035,000 and the 220,000 warrants with an exercise price of $1.50 per share were valued at $66,000. No value was attributed to the 220,000 warrants with an exercise price of $2.00 per share. The warrants are exercisable for a period of five years and are callable by IPEX in certain instances. IPEX operates an electronic market for collecting, detecting, converting, enhancing and routing telecommunication traffic and digital content. Members of the exchange anonymously exchange information based on route quality and price through a centralized, web accessible database and then route traffic. IPEX's fully-automatic, highly scalable Voice over Internet Protocol routing platform updates routes based on availability, quality and price and executes the capacity request of the orders using proprietary software and delivers them through IPEX's system. IPEX invoices and processes payments for its members' transactions and offsets credit risk through its credit management programs with third parties.

8. LONG-TERM INVESTMENTS

Long-term investments is primarily comprised of the following:

Alacra Corporation

At March 31, 2005, the Company had an investment in shares of Series F convertible preferred stock of Alacra Corporation, valued at $1,000,000. The Company has the right to have the Series F convertible preferred stock redeemed by Alacra for face value plus accrued dividends on December 31, 2006. Alacra, based in New York, is a global provider of business and financial information. Alacra provides a diverse portfolio of fast, sophisticated online services that allow users to quickly find, analyze, package and present mission-critical business information. Alacra's customers include more than 750 financial institutions, management consulting, law and accounting firms and other corporations throughout the world.

DigiCorp.

At March 31, 2005, the Company held 4,001,027 shares, or 41%, of the common stock of DigiCorp recorded at its cost of $563,211, or approximately $0.14 per share. Digicorp's common stock is traded on the OTC Bulletin Board, which reported a closing price, at March 31, 2005, of $0.25. The Company accounts for its investment in Digicorp under the equity method of accounting. The Company's proportionate share of income or losses from this investment is recorded in interest, dividend income and other, net.

Excelsior Radio Networks, Inc.

During the period from August 12, 2003 through October 22, 2004, the Company liquidated its investment in Excelsior Radio Networks, Inc. (***"Excelsior"***). The Company sold a total of 1,476,804 shares and warrants to purchase 87,111 shares of Excelsior common stock. Certain of these sales are subject to potential adjustment whereby the Company would receive additional proceeds in the event of certain circumstances. However, no value has been ascribed to this right.

Investments in Real Estate

At March 31, 2005, the Company had several real estate investments, recorded at its cost of $772,748. These investments are included in long-term investments. The Company holds its real estate investments in Franklin Capital Properties, LLC (***"Franklin Properties"***). Franklin Properties primary focus is on the acquisition and management of income producing real estate holdings. Franklin Properties' real estate holdings consist of eight vacant single family buildings and two multi-unit buildings in Baltimore, Maryland, approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas, and various loans secured by real estate in Heber Springs, Arkansas. Franklin Properties intends to renovate the single family and multi-unit buildings and engage in an active rental program.

9. NOTE PAYABLE

The Company initially purchased Excelsior on August 28, 2001. As part of the purchase price paid by the Company for its investment in Excelsior, the Company issued a $1,000,000 note to Winstar. This note was due February 28, 2002 with interest at 3.54% but has a right of offset against certain representations and warranties made by Winstar. The due date of the note has been extended indefinitely until the lawsuit discussed in Note 13 is settled. During 2005, approximately $53,000 of legal expenses were offset against the amount due.

10. STOCK OPTION PLANS

On September 9, 1997, the Company's stockholders approved two Stock Option Plans: a Stock Incentive Plan (***"SIP"***) to be offered to the Company's consultants, officers and employees (including any officer or employee who is also a director of the Company) and a Non-Statutory Stock Option Plan (***"SOP"***) to be offered to the Company's "outside" directors, (i.e., those directors who are not also officers or employees of The Company'). As of March 31, 2005, there were no outstanding options to purchase the Company's Common Stock and no options available for future issuance under either the SIP or the SOP.

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

In December 2004, the Board of Directors of the Company approved the 2005 Stock Option and Restricted Stock Plan (the ***"2005 SOP"***) and the Company's stockholders approved the Plan in March 2005. The Plan reserves 1,319,082 shares of common stock for grants of incentive stock options, nonqualified stock options, and restricted stock awards to employees, non-employee directors and consultants performing services for the Company. Options granted under the Plan have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options expire 10 years from the date of grant. Restricted stock awards granted under the Plan are subject to a vesting period determined at the date of grant. As of March 31, 2005, the Company has granted 266,490 shares of restricted stock of which 97,950 are vested. For the three months ended March 31, 2005, the Company recorded compensation expense of approximately $579,189, related to these shares of restricted stock.

The following is a summary of the status of the Stock Option Plans:

	Shares	**Outstanding Options**	
	Available for Grant	**Number of Shares**	**Weighted Average Exercise Price**
December 31, 2003	**22,500**	**61,875**	$ 3.80
Grants	(78,750)	78,750	$ 0.50
Exercises		(78,750)	$ 0.50
Cancellations	56,250	(56,250)	$ 3.71
December 31, 2004	—	**5,625**	$ 4.67
Adoption of 2005 SOP	1,319,082		
Exercises		(5,625)	$ 4.67
Restricted Stock Awards	(266,490)		
Grants	(621,000)	621,000	$ 5.27
March 31, 2005	**431,592**	**621,000**	$ 5.27
Options exercisable at:			
December 31, 2003		61,875	$ 3.80
December 31, 2004		5,625	$ 4.67
March 31, 2005		189,250	$ 5.27

The outstanding options, all of which are issued under the 2005 SOP, have a remaining contractual life of approximately 10 years.

11. WARRANTS

On November 3, 2004, the Company entered into a Subscription Agreement with several accredited investors (the ***"Investors"***), relating to the issuance and sale by the Company of shares of its common stock (the ***"Shares"***) and five-year warrants (the ***"Warrants"***) to purchase additional shares of its common stock (the ***"Warrant Shares"***) in one or more closings of a private placement (the ***"Private Placement"***).

During the period November 3, 2004 through December 21, 2004, the Company held a series of four closings of the Private Placement. In conjunction with the closings the Company issued and sold to the Investors an aggregate of 1,517,700 Shares and Warrants to purchase an aggregate of up to 758,841 Warrant Shares pursuant to the terms of the

Subscription Agreement. At March 31, 2005, the Warrants weighted average exercise price was $3.86 with a remaining contractual life of 4.6 years.

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

In March 2005, the Company issued 177,000 warrants (including 150,000 capitalized as part of the acquisition of the SurgiCount patents) to purchase shares of common stock at $5.27 per share to various consultants. The warrants are immediately exercisable and have a five-year life. The warrants were valued at $633,163 and, depending on the nature of the consulting services received by the Company, were either capitalized or expensed. Warrants were valued using the Black-Scholes valuation model assuming expected dividend yield, risk-free interest rate, expected life and volatility of 0%, 3.75%, five years and 83%, respectively. As of March 31, 2005, all warrants issued to the consultants remain outstanding.

12. RELATED PARTY TRANSACTIONS

Tuxis Corporation

On March 16, 2005, Ault Glazer filed a Schedule 13D with the SEC relating to its holdings in Tuxis Corporation ("Tuxis"). Tuxis, a Maryland corporation, currently is registered under the 1940 Act as a closed-end management investment company. Tuxis previously received Board of Directors and shareholder approval to change the nature of its business so as to cease to be an investment company and on May 3, 2004, filed an application with the SEC to de-register. At March 16, 2005, the Company directly held 36,000 shares and indirectly, by virtue of its relationship with Ault Glazer, held 98,000 shares of Tuxis common stock, which represented approximately 3.66% and 9.96%, respectively, of the total outstanding shares. At December 31, 2004, Tuxis had reportable net assets of approximately $9.1 million.

13. COMMITMENTS AND CONTINGENCIES

On October 15, 2001, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit (the ***"Leve Lawsuit"***) against the Company, Sunshine Wireless, LLC (***"Sunshine"***), and four other defendants affiliated with Winstar Communications, Inc. (***"Winstar"***). 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. The initial 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 alleges that the Company and Sunshine joined the alleged conspiracy. The plaintiffs seek recovery of damages in excess of $10,000,000, costs and attorneys' fees. An unfavorable outcome in an appeal, together with an unfavorable outcome in the lawsuit, may have a material adverse effect on the Company's business, financial condition and results of operations. The Company believes the lawsuit is without merit and intends to vigorously defend itself. These condensed consolidated financial statements do not include any adjustments for the possible outcome of this uncertainty.

14. SEGMENT REPORTING

The Company reports selected segment information in its financial reports to shareholders in accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information."* The segment information provided reflects the three distinct lines of business within the Company's organizational structure: medical products, which consists of SurgiCount, a provider of patient safety devices, health care solutions, which consists of Patient Safety Consulting Group, LLC, and financial services and real estate, which consists of Franklin Capital Properties, LLC. Unallocated corporate expenses are centrally managed at the corporate level and not reviewed by the Company's chief operating decision maker in evaluating results by segment.

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

Transactions between segments are not common and are not material to the segment information. Some business activities that cannot be classified in the aforementioned segments are shown under “corporate”.

Segment information for the three months ended March 31, 2005, and 2004 is as follows:

	Three Months Ended	
Medical Products	**March 31, 2005**	**March 31, 2004**
Revenue	—	—
Net loss	$ (220,730)	—
Total Assets	$ 4,657,497	—
Health Care Solutions		
Revenue	—	—
Net loss	$ (127,725)	—
Total Assets	—	—
Financial Services and Real Estate		
Revenue	—	—
Net income	$ 75,164	$ 152,402
Total Assets	$ 6,805,884	$ 3,057,121
Corporate		
Revenue	—	—
Net loss	$ (1,510,921)	$ (292,848)
Total Assets	$ 330,519	$ 99,344
Total		
Revenue	—	—
Net loss	$ (1,784,212)	$ (140,446)
Total Assets	$ 11,793,900	$ 3,156,465

15. SUBSEQUENT EVENTS

On April 5, 2005, the Company entered into a consulting agreement with Health West Marketing Incorporated, a California corporation ("Health West"). Under the agreement, Health West agreed to help the Company establish a comprehensive manufacturing and distribution strategy for the Company's Safety-Sponge™ System worldwide. The initial term of the agreement is for a period of two years. After the initial two-year term, the agreement will terminate unless extended by the parties for one or more additional one-year periods.

In consideration for Health West's services, the Company agreed to issue Health West 42,017 shares of the Company's common stock, to be issued as follows: (a) 10,505 shares were issued upon signing the agreement; (b) if Health West helps the Company structure a comprehensive manufacturing agreement with A Plus Manufacturing by July 5, 2005, then the Company will issue Health West an additional 15,756 shares; and (c) if Health West helps the Company develop a regional distribution network to integrate the Safety-Sponge™ System into the existing acute care supply chain by February 5, 2006, then the Company will issue Health West the remaining 15,756 shares. As incentive for entering into the agreement, the Company agreed to issue Health West a callable warrant to purchase 150,000 (post 3:1 forward stock split) shares of the Company's common stock at an exercise price of $5.95, exercisable for 5 years.

In addition, the Company agreed to issue a callable warrant to purchase 25,000 (post 3:1 forward stock split) shares of the Company's common stock at an exercise price of $5.95, exercisable upon meeting specified milestones. In the event of the death of Bill Adams, who is Health West's Chief Executive Officer, the agreement will automatically terminate. The Company may terminate the agreement at any time upon delivery to Health West of notice of a good faith determination by the Company's Board of Directors that the agreement should be terminated for cause or as a result of disability of Mr. Adams. Health West may voluntarily terminate the agreement only after expiration of the initial two-year term upon providing 30 days prior written notice to the Company.

Patient Safety Technologies, Inc., and Subsidiaries
Notes to Condensed Consolidated Financial Statements (continued)

On April 7, 2005, the Company issued a $1,000,000 principal amount promissory note (the ***"Note"***) to Bodnar Capital Management, LLC, in consideration for a loan from Bodnar Capital Management, LLC to the Company in the amount of $1,000,000. Steven J. Bodnar is a managing member of Bodnar Capital Management, LLC. Mr. Bodnar, through Bodnar Capital Management, LLC, is a principal stockholder of the Company. The principal amount of the Note and interest at the rate of 6% per annum is payable on May 31, 2006. The obligations under the Note are collateralized by all real property owned by the Company.

On April 22, 2005, the Company entered into a subscription agreement pursuant to which the Company sold to an investor 20,000 shares of the Company's common stock and warrants to purchase an additional 20,000 shares of the Company's common stock. The warrants are exercisable for a period of five years, have an exercise price equal to $6.05, and 50% of the warrants are callable. In the event the closing sale price of the Company's common stock equals or exceeds $7.50 for at least five consecutive trading days, the Company, upon 30 days prior written notice, may call the callable warrants at a redemption price equal to $0.01 per share of common stock then purchasable pursuant to such warrants. Notwithstanding, such notice, the warrant holder may exercise the callable warrant prior to the end of the 30-day notice period. The Company received gross proceeds of $100,000 from the sale of stock and warrants. The sale was made in a private placement exempt from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder.

On April 28, 2005, the Company purchased 0.61 acres of vacant land in Springfield, Tennessee from a related party. The purchase price consisted of approximately $90,000 in cash, 20,444 shares of common stock and 10,221 warrants to purchase common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this form 10-Q. This form 10-Q contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and we cannot assure you that these projections included in these