

Patient Safety Technologies, Inc  
Form 10-K/A  
November 09, 2007

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

**FORM 10-K/A  
Amendment No. 1**

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

**OR**

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 001-09727

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

**Delaware**  
(State of Incorporation)

**13-3419202**  
(I.R.S. Employer Identification Number)

**27555 Ynez Road, Suite 330, Temecula, CA 92591**  
(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (951) 587-6201**  
**Securities registered pursuant to Section 12(b) of the Act:**

| <u>Title of each class</u>               | <u>Name of each exchange on which registered</u> |
|--|--|
| Common Stock, par value \$0.33 per share | N/A  |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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Indicate by check mark, if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer

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

As of May 8, 2007, 9,937,059 shares of the issuer's Common Stock were outstanding. The aggregate market value of the voting stock held by non-affiliates on May 8, 2007 was approximately \$10,229,000 based on the average of the bid and asked prices of the issuer's common stock in the over-the-counter market on such date as reported by the OTC Bulletin Board.

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Explanatory Note

Patient Safety Technologies, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which was originally filed on May 16, 2007 (the “Original Filing”).

The purpose of this Amendment is to provide additional information required in Item 5 of Part II and Item 11 of Part III, of Form 10-K. This Amendment amends and restates in their entirety only the cover page, Item 5 of Part II, and Item 11 of Part III. This Amendment does not affect any other parts of or exhibits to the Original Filing, and those unaffected parts or exhibits are not included in this Amendment.

Except as expressly stated herein, this Amendment continues to speak as of the date of the Original Filing and the Company has not updated the disclosure contained herein to reflect events that have occurred since the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Company’s other filings, if any, made with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including any amendments to those filings, if any.

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**PART II**  
**FORM 10-K**  
**FOR PATIENT SAFETY TECHNOLOGIES, INC.**  
**FOR YEAR-ENDED DECEMBER 31, 2006**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Stock Transfer Agent**

Transfer Online, Inc., 317 SW Alder Street, 2<sup>nd</sup> Floor, Portland, OR 97204 (Telephone (503) 227-2950) serves as transfer agent for the Company’s common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

**Market Prices**

The Company’s common stock has been quoted on the OTC Bulletin Board since February 16, 2007 under the symbol PSTX. Prior thereto, the Company’s common stock was traded on the American Stock Exchange under the symbol “PST.” The following table sets forth the range of the high and low selling price of the Company’s common stock during each quarter of the last two fiscal years, as reported by the American Stock Exchange.

| Fiscal Quarter                   | Fiscal 2006 |         | Fiscal 2005 |         |
|----------------------------------|-------------|---------|-------------|---------|
|                                  | High        | Low     | High        | Low     |
| First Quarter Ended March 31     | \$ 4.70     | \$ 2.27 | \$ 7.33     | \$ 4.18 |
| Second Quarter Ended June 30     | \$ 4.30     | \$ 2.60 | \$ 6.23     | \$ 3.20 |
| Third Quarter Ended September 30 | \$ 3.25     | \$ 1.45 | \$ 3.90     | \$ 2.90 |
| Fourth Quarter Ended December 31 | \$ 3.97     | \$ 0.57 | \$ 4.64     | \$ 3.21 |

Our common stock is subject to Rules 15g-1 through 15g-9 under the Securities Exchange Act of 1934, as amended, which impose certain sales practice requirements on broker-dealers who sell our common stock to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of \$1,000,000 or an annual income exceeding \$200,000 individually or \$300,000 together with their spouses). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to the sale.

**Stock Performance Graph**

The following graph compares the performance of our common stock over the five preceding fiscal years to the weighted average performance over the same period of the stock of companies included in the NASDAQ Composite Index and the Dow Jones Health Care Titans 30 Index. The graph assumes \$100 was invested at the close of trading on December 31, 2001 in our common stock and in each of the indices and that all dividends were reinvested. The stockholder return shown on the graph below should not be considered indicative of future stockholder returns, and we will not make or endorse any predictions of future stockholder returns.

<sup>1</sup> \$100 invested on 12/31/01 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

### **Dividends**

The Company paid nil, \$19,163, and \$76,650 in dividends to preferred stockholders during 2006, 2005 and 2004, respectively, and has not paid any dividends to common stockholders during the past three years. Dividends to preferred stockholders are cumulative and paid at the rate of 7% a year. We currently have no intention of paying dividends on our common stock.

### **Stockholders**

As of May 8, 2007, there were approximately 634 holders of record of the Company's common stock. The Company has 25,000,000 shares of common stock authorized, of which 9,937,059 were issued and outstanding at May 8, 2007. The Company has 1,000,000 shares of convertible preferred stock authorized, of which 10,950 were issued and outstanding at May 8, 2007.

### **Equity Compensation Plans**

For a summary of equity compensation plans under which the Company's common stock is authorized for issuance as of the fiscal year ended December 31, 2006 refer to Part III, Item 12.

### **Recent Sales of Unregistered Securities**

On January 12, 2006, ASG entered into a Secured Promissory Note with Steven J. Caspi in the principal amount of \$1,000,000. As additional consideration for entering into the secured promissory note, Mr. Caspi received warrants to purchase 30,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price of \$4.50 per share. The issuance of the above warrants to Mr. Caspi was exempt from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "*Securities Act*"), and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Caspi represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On February 8, 2006, we entered into a Secured Promissory Note with AGB Acquisition Fund in the principal amount of \$687,000. As an inducement for entering into the secured promissory note AGB Acquisition Fund received warrants to purchase 20,608 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$3.86. The issuance of the above warrants to AGB Acquisition Fund was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Caspi represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On February 13, 2006, the Company issued 175,000 warrants to purchase shares of common stock at \$3.95 per share to a consultant. The warrants vested immediately and have a three-year life. The warrants were valued at \$405,000 and were expensed during the three months ended March 31, 2006. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

On March 15, 2006 the Company, Automotive Services Group, ASG and Darell W. Grimsley, Jr. entered into a Unit Purchase Agreement for Automotive Services Group to purchase a 50% equity interest (the "**Membership Interest**") in ASG from Mr. Grimsley. As consideration for the Membership Interest the Company issued Mr. Grimsley 200,000 shares of the Company's common stock. Mr. Grimsley will continue to act as Chairman and Chief Executive Officer of Automotive Services Group. The issuance of the above shares to Mr. Grimsley was exempt from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Grimsley represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On May 19, 2006, the Company issued 32,120 warrants to purchase shares of common stock at \$3.50 per share to a consultant. The warrants vested immediately and have a one-year life. The warrants were valued at approximately \$31,000 and are being expensed over the warrant term. These securities will be issued pursuant to Section 4(2) of the Securities Act. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

On June 6, 2006 we entered into a Secured Convertible Promissory Note with Alan Morelli in the principal amount of \$1,100,000. As an inducement for entering into the secured convertible promissory note, Mr. Morelli received warrants to purchase 401,460 shares of our common stock. On August 17, 2006, we sold shares of our common stock at \$1.25 per share thereby requiring modifications to Mr. Morelli's secured convertible promissory note and warrant. These modifications resulted in an adjustment to the conversion price of the Morelli Note from \$2.74 to \$1.25 per share, an adjustment to the exercise price of the Morelli Warrant, and an increase in the number of shares of common stock available to purchase upon exercise of the Morelli Warrant from 401,460 to 976,351. The warrants are exercisable for a period of five years and have an adjusted exercise price equal to \$1.25. The issuance of these securities to Mr. Morelli was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Morelli represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On July 12, 2006 we entered into a Convertible Promissory Note with Charles J. Kalina, III in the principal amount of \$250,000. As an inducement for entering into the secured promissory note, Mr. Kalina received warrants to purchase 85,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$2.69. The issuance of these securities to Mr. Kalina was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Kalina represented that he is an accredited investor and that he is able to bear the economic risk of his investment.



In August 2006, we entered into subscription agreements with two unaffiliated accredited investors, pursuant to which we sold 200,000 shares of the Company's common stock, \$0.33 par value per share, at a price of \$1.25 per share. We received gross proceeds of approximately \$250,000 from the sale of our common stock to the accredited investors. Pursuant to the subscription agreement, we granted the accredited investors piggy back registration rights to register the resale of the shares of common stock. The sale was made in a private placement exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder.

On September 8, 2006 we entered into a Convertible Promissory Note with Steven J. Caspi in the principal amount of \$1,495,000. As an inducement for entering into the secured promissory note, Mr. Caspi received warrants to purchase 250,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$1.25. The issuance of these securities to Mr. Caspi was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Caspi represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

Between September 15, 2006 and November 1, 2006, the Company issued 70,694 shares of Common Stock to two employees and a consultant. The Common Stock was issued for accrued salaries and services. The Common Stock was valued at approximately \$190,000. These shares were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

On November 1, 2006 we entered into a Convertible Promissory Note with Michael G. Sedlak in the principal amount of \$71,000. As an inducement for entering into the secured promissory note, Mr. Sedlak received warrants to purchase 20,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$1.25. The issuance of these securities to Mr. Sedlak was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Sedlak represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On November 1, 2006 we entered into a Convertible Promissory Note with James Sveinson in the principal amount of \$102,000. As an inducement for entering into the secured promissory note, Mr. Sveinson received warrants to purchase 20,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$1.25. The issuance of these securities to Mr. Sveinson was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Sveinson represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On November 3, 2006 we entered into a Convertible Promissory Note with Charles J. Kalina, III in the principal amount of \$400,000. As an inducement for entering into the secured promissory note, Mr. Kalina received warrants to purchase 100,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$1.25. The issuance of these securities to Mr. Kalina was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Caspi represented that he is an accredited investor and that he is able to bear the economic risk of his investment.

On November 13, 2006 we entered into a Promissory Note with Herbert Langsam, a Director of the Company, in the principal amount of \$100,000. As an inducement for entering into the secured promissory note, Mr. Langsam received warrants to purchase 50,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$1.25. The issuance of these securities to Mr. Langsam was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Mr. Langsam represented that he is an



accredited investor and that he is able to bear the economic risk of his investment.

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On November 18, 2006, the Company issued 12,500 warrants to purchase shares of common stock at \$2.00 per share to a consultant. The warrants vested immediately and have a three-year life. The warrants were valued at approximately \$2,000 and were expensed at the time of issuance. These securities will be issued pursuant to Section 4(2) of the Securities Act. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

Between November 30, 2006 and December 15, 2006, the Company entered into a subscription agreement and sold an aggregate of 238,000 shares of its Common Stock and warrants to purchase an aggregate of up to 119,000 shares of its Common Stock in a private placement transaction to certain accredited investors. The warrants are exercisable for a period of three years, have an exercise price equal to \$2.00, and 50% of the warrants are callable upon the occurrence of any one of a number of specified events when, after any such specified occurrence, the average closing price of the Company's common stock during any period of five consecutive trading days exceeds \$4.00 per share. The Company received aggregate gross proceeds of \$298,000. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On December 26, 2006 we entered into a Promissory Note with Maroon Creek Capital, LP ("**Maroon**"), a California limited partnership, in the principal amount of \$81,000. As an inducement for entering into the secured promissory note, Maroon received warrants to purchase 30,000 shares of the Company's common stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$2.00. The issuance of these securities to Maroon was exempt from registration requirements pursuant to Section 4(2) of the Securities Act and Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities and Maroon represented that it is an accredited investor and that it is able to bear the economic risk of his investment.

On December 31, 2006, the Company issued 56,340 warrants to purchase shares of common stock at \$1.25 per share to the Company's placement agent, Ault Glazer & Co., LLC, (the "**Placement Agent**"). The warrants vested immediately and have a five-year life. The warrants were valued at approximately \$62,000 and were expensed at the time of issuance. These securities will be issued pursuant to Section 4(2) of the Securities Act. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

On December 31, 2006, the Company issued 19,040 warrants to purchase shares of common stock at \$2.00 per share to the Company's Placement Agent. The warrants vested immediately and have a five-year life. The warrants were valued at approximately \$17,000 and were expensed at the time of issuance. These securities will be issued pursuant to Section 4(2) of the Securities Act. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

Between January 1, 2007 and April 6, 2007, the Company issued 79,138 shares of Common Stock to various employees, directors, consultants and creditors. The Common Stock was issued for services and payment of accrued interest. The Common Stock was valued at approximately \$131,000. These shares were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

On January 29, 2007, the Company entered into a subscription agreement and sold an aggregate of 800,000 shares of its Common Stock and warrants to purchase an aggregate of up to 300,000 shares of its Common Stock in a private placement transaction to A Plus, an accredited investor. The warrants are exercisable for a period of five years, have an exercise price equal to \$2.00, and 50% of the warrants are callable upon the occurrence of any one of a number of specified events when, after any such specified occurrence, the average closing price of the Company's common stock during any period of five consecutive trading days exceeds \$4.00 per share. The Company received gross proceeds of \$500,000 in cash and will receive \$500,000 in product over the course of the next twelve (12) months. These

securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On January 29, 2007, the Company entered into a subscription agreement with several unaffiliated accredited investors in a private placement exempt from the registration requirements of the Securities Act. The Company issued and sold to these accredited investors an aggregate of 104,000 shares of its common stock and warrants to purchase an additional 52,000 shares of its common stock. The warrants are exercisable for a period of five years, have an exercise price equal to \$2.00, and 50% of the warrants are callable upon the occurrence of any one of a number of specified events when, after any such specified occurrence, the average closing price of the Company's common stock during any period of five consecutive trading days exceeds \$4.00 per share. These issuances resulted in aggregate gross proceeds to the Company of \$130,000. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On January 30, 2007, the Company issued 8,320 warrants to purchase shares of common stock at \$2.00 per share to the Company's Placement Agent. The warrants vested immediately and have a five-year life. The warrants were valued at approximately \$8,000 and were expensed at the time of issuance. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

Between March 7, 2007 and April 5, 2007, the Company entered into a subscription agreement with several accredited investors in a private placement exempt from the registration requirements of the Securities Act. The Company issued and sold to these accredited investors an aggregate of 2,000,000 shares of its common stock and warrants to purchase an additional 1,000,000 shares of its common stock. The warrants are exercisable for a period of five years, have an exercise price equal to \$2.00, and 50% of the warrants are callable upon the occurrence of any one of a number of specified events when, after any such specified occurrence, the average closing price of the Company's common stock during any period of five consecutive trading days exceeds \$4.00 per share. These issuances resulted in aggregate gross proceeds to the Company of \$2,500,000. We are required to use our reasonable best efforts to cause the registration statement to become effective within 120 days after the Closing Date, April 5, 2007. If the registration statement has not been filed on or prior to the 120th day after the Closing Date, we will issue, as liquidated damages, to the purchasers of the 2,000,000 shares of our Common Stock and the warrants to purchase 1,000,000 shares of our Common Stock warrants with a term of five years and an exercise price of \$2.00 per share to purchase shares of our Common Stock equal to 2.5% of the number of shares of Common Stock purchased by the purchasers. We intend to use the net proceeds from this private placement transaction primarily for general corporate purposes and repayment of existing liabilities. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On April 5, 2007, the Company issued 89,600 warrants to purchase shares of common stock at \$2.00 per share to the Company's Placement Agent. The warrants vested immediately and have a five-year life. The warrants were valued at approximately \$81,000 and were expensed at the time of issuance. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933. These warrants were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act.

**PART III**  
**FORM 10-K**  
**FOR PATIENT SAFETY TECHNOLOGIES, INC.**  
**FOR YEAR-ENDED DECEMBER 31, 2006**

**Item 11. Executive Compensation.**

**COMPENSATION DISCUSSION AND ANALYSIS**

We designed the compensation program for our named executive officers to attract, motivate, and retain key executives who drive the Company's success. We seek to employ the best executive talent in our line of business. We want to reward our executives for business achievements and satisfaction of corporate objectives. Additionally, the overall executive compensation program, taken as a whole, should align the interests of the executives with the stockholders' interests. We achieve these objectives through a compensation package that:

- provides competitive total compensation consisting primarily of cash and stock,
- allows our officer's to participate in the benefit programs that we offer to all full-time employees,
  - provides certain officer's to receive additional fringe benefits,
- differentiates rewards based on the officer's contributions to company performance, and
- encourages our named executive officers to act as owners with an equity interest in Patient Safety.

We view, for compensation purposes, our competitors for executive talent as companies in the health care industry.

*Determining Executive Compensation*

The independent members of the Board approve the compensation of our named executive officers. The Compensation Committee makes a recommendation to the independent directors for annual compensation (including salary, bonus and stock-based compensation) of our named executive officers. These recommendations are based on:

Chief executive officer

- The chief executive officer's historical earnings,
- a market competitive assessment of similar roles at other companies,
- the earnings of other named executive officers, and
- an evaluation of the chief executive officer's performance for the fiscal year.

Named executive officers (other than the chief executive officer).

- The executive's historical earnings,
- a market competitive assessment of similar roles at other companies,
- internal comparisons to the compensation of other executives,

· evaluations of performance for the fiscal year, and

- the chief executive officer's recommendations for each named executive officer's base pay, and bonus amounts.

The evaluation is based on the success of the named executive officer in achieving his performance commitments, which include financial, strategic and company culture/leadership goals. The Board approves the named executive officers salary, bonus and stock-based compensation in the first quarter of the fiscal year after the relevant performance information is available.

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### **The components of our executive compensation program**

Our executive compensation program consists of three elements: base pay; cash bonus and grants of fair market value of either restricted stock or options to purchase shares of our common stock. We use this mix of programs for a variety of reasons:

- As a package, these types of programs are typically offered by the types of companies from which we would seek executive talent.
- As a package, these particular programs provide both a current and a long term incentive for the executive officers, thereby aligning the executives' interests with shareholders.
- These programs, as a package, provide the executives with short and long term rewards; this serves as a retention, as well as a motivational, device for the executives..

We also provide our named executive officers with a package of fringe benefits on the same basis that is provided to all full-time benefits eligible employees. These benefits include such items as health insurance and group term life insurance. We provide certain executives with an additional benefit of an automobile allowance, which is provided for in their employment contracts.

We believe that the package of executive compensation programs that we offer is competitive; we are able to attract and retain the executive talent that we need to successfully run our business. We currently believe that the long term incentive component of our executive compensation program, which uses fair market value stock options and grants of restricted common stock, provides executives with an incentive as well as putting a portion of their compensation at risk if our share price declines.

We believe that our named executive officers should have formalized employment contracts. The existence of a contract gives the Company, and the named executive officer structure as to the other's expectations from the employment relationship. We also believe that the level of security that an employment contract provides to the executive is an important retention tool; we feel that many of the companies with whom we compete for executive talent offer such agreements, and that we would be at a competitive disadvantage if we did not have them. The salient terms of the employment agreements for the named executive officers are discussed in the "Employment Agreements" section.

### **Our process for setting executive pay**

The Compensation Committee's focus is to determine the compensation of the chief executive officer and to review the proposals of the chief executive officer regarding the compensation for other named executive officers. In 2006, the Compensation Committee made the final decision on all aspects of named executive officer pay. In 2007, the Compensation Committee will present recommendations to the entire Board of Directors for their approval.

Our executive compensation process begins with the chief executive officer's submission of each executive's total pay package to the Compensation Committee for its determination. We maintain a pay structure with ranges for each type of compensation (base pay, bonus, equity grant) for the named executive officers. We have developed this structure based on our knowledge of our industry.

Our process for determining the value of each component of executive pay functioned in the following manner for 2006:

Base pay: Base compensation for all of our named executive officers is provided for in their respective employment agreements, and the Company has the ability to make annual increases to the base pay level. Looking at information from other reporting companies, the chief executive officer makes a recommendation for executive base pay increases to the Compensation Committee. The Compensation Committee reviews the information provided by the chief executive officer and its supporting data, and makes a determination of annual base pay increases.



The Compensation Committee awarded the following base pay increases to the named executive officers; the increases were effective on January 1, 2007 for our chief executive and chief financial officer and May 1, 2007 for the President of SurgiCount Medical.

| Named Executive Officer   | Annualized<br>2006<br>Base | Annual<br>Increase | Annualized<br>2007<br>Base | Percentage<br>Increase |
|---|----------------------------|--------------------|----------------------------|------------------------|
| William Horne, Chief Executive and Chief Financial Officer                    | \$ 150,000                 | \$ 100,000         | \$ 250,000                 | 66.7%                  |
| Bill Adams, President and Chief Executive Officer of SurgiCount Medical, Inc. | \$ 300,000                 | \$ 0               | \$ 300,000                 | 0%                     |
| Richard Bertran, President of SurgiCount Medical, Inc.                        | \$ 200,000                 | \$ 50,000          | \$ 250,000                 | 25%                    |
| Lynne Silverstein, Executive Vice President                                   | \$ 120,000                 | \$ 0               | \$ 120,000                 | 0%                     |
| James Schafer, Director of Manufacturing of SurgiCount                        | \$ 100,000                 | \$ 0               | \$ 100,000                 | 0%                     |

The Chief Executive and Chief Financial Officer received the largest raise because further analysis by the Compensation Committee indicated that the position was underpaid and the Compensation Committee wanted to establish an equitable level of base pay amounts for our three senior executives.

**Annual bonus:** Our annual bonus program for executives is administered in the following manner. Our Compensation Committee determines the amount of bonuses, if any, for each of our named executive officers. To the extent bonuses are made they are on a completely discretionary basis at the reasonable and good faith discretion of the Compensation Committee, based upon the financial performance of the Company. During 2006 the Compensation Committee did not award any bonuses.

**Equity grants:** In certain circumstances, the Compensation Committee may award equity grants to named executive officers. The reasons for these grants include:

- an incentive to join the Company, based on compensation that is being forfeited through the termination of previous employment,
- to encourage retention of critical talent,
- as a strategic investment in someone deemed critical to the Company's leadership, and
- to reward outstanding performance

The chief executive officer recommends the equity grant, if any, to a named executive officer. The Compensation Committee considers the chief executive officer's recommendation and makes a final decision based on the factors listed above. Equity grants that were made to named executive officers during 2006 were in connection with employment contracts executed by our Chief Executive and Financial Officer and the President and Chief Executive Officer of SurgiCount Medical. The equity grant during 2006 to our Chief Executive and Chief Financial Officer was

in the form of time-vested restricted stock issued pursuant to an employment agreement. The equity grant during 2006 to our President and Chief Executive Officer of SurgiCount Medical was in the form of non-qualified stock options upon joining the Company. All other equity grants during 2006 to our named executive officers were made, based upon the recommendation of our former chief executive officer, to retain key executives. All of the options granted in 2006 were valued at fair market value as of the date of grant (as further explained below). One-fourth of the grant to our President and Chief Executive Officer of SurgiCount Medical will vest annually over a three year period beginning on the first anniversary of the date of grant, April 18, 2007. The remaining one-fourth will vest upon the occurrence of certain defined events. All other options granted in 2006 to our other named executive officers were vested at the time of grant.

In connection with the award of equity grants, the Principal Executive Officer provides the Compensation Committee with a proposal for equity grants as part of the employment contract process. The amount of the grant is based on the equity grant ranges for the position which the Company maintains. The Compensation Committee reviewed the Principal Executive Officer's proposal and the underlying information, and makes its determination as to the grant.

We establish the exercise price for our options in the following manner:

For a new hire, the Compensation Committee approves the grant and establishes the price based on the Company's closing price on the day of Compensation committee approval; however, if the executive has not yet started employment as of the date of Compensation Committee approval, the price is set as the Company's closing price on the executive's first day of work.

For a new contract for a current executive, the Compensation Committee approves the grant and establishes the price based on the Company's closing price on the day of Compensation Committee approval.

We believe that the grant of fair market value stock options, even though there is now a financial statement impact before the options are exercised, continues to provide substantial benefits to the Company and the executive. We benefit because the options align the executive's financial interest with the shareholders' interest:

The executives benefit because:

- They can realize additional income if our shares increase in value, and
- They have no personal income tax impact until they exercise the options

We do not maintain any equity ownership guidelines for our named executive officers. We have adopted a corporate policy which expressly prohibits any named executive officer from trading in derivative securities of our Company, short selling our securities, or purchasing our securities on margin at any time. We do not time the granting of our options with any favorable or unfavorable news relating to our Company. Proximity of any awards to an earnings announcement, market event or other event related to us is purely coincidental.

Because we feel that each of our named executive officers provides unique services to us, we do not use a fixed relationship between base pay, short term bonus and equity awards. When the Compensation Committee makes the final decisions about a named executive officers total compensation package for a year, the three elements (base pay, bonus and equity award) are considered both individually and as a complete package. We do not take into account amounts that a named executive officer may have realized in a year as a result of short term bonus awards or stock option exercises when we establish pay levels and goals for the current year. Overall, we believe that our total compensation program for executives is reasonable while being competitive with market peers.

The following table sets forth information concerning the annual and long-term compensation earned by or paid to our Chief Executive Officer and to other persons who served as executive officers as at and/or during the fiscal year ended December 31, 2006 who earned compensation exceeding \$100,000 during 2006 (the “*named executive officers*”), for services as executive officers for the last three fiscal years.

### SUMMARY COMPENSATION TABLE

| Name and principal position   | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) <sup>(3)</sup> | Option Award (\$) <sup>(3)</sup> | Non-Equity Nonqualified Incentive Compensation |                                     | All Other Compensation (\$) <sup>(4)</sup> | Total (\$) |
|---|------|-------------|------------|----------------------------------|----------------------------------|--|-------------------------------------|--|------------|
|   |      |             |            |                                  |                                  | Planned Compensation (\$)                      | Deferred Earnings Compensation (\$) |  |            |
| William B. Horne,<br>Chief Executive &<br>Chief Financial<br>Officer <sup>(1)</sup>   | 2006 | 150,000     | 0          | 38,703                           | 0                                | 0  | 0                                   | 255  | 188,958    |
|   | 2005 | 75,000      | 750        | 277,536                          | 227,732                          | 0  | 0                                   | 368  | 581,386    |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
| Bill Adams,<br>President & Chief<br>Executive Officer of<br>SurgiCount <sup>(1)</sup> | 2006 | 206,250     | 0          | 0                                | 996,302                          | 0  | 0                                   | 822  | 1,203,374  |
|   | 2005 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
| Lynne Silverstein,<br>Executive Vice<br>President                                     | 2006 | 120,000     | 0          | 123,000                          | 108,085                          | 0  | 0                                   | 200  | 351,285    |
|   | 2005 | 120,000     | 0          | 158,000                          | 131,384                          | 0  | 0                                   | 591  | 409,975    |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
| Richard Bertran,<br>President of<br>SurgiCount  | 2006 | 200,000     | 0          | 0                                | 0                                | 0  | 0                                   | 360  | 200,360    |
|   | 2005 | 92,500      | 750        | 36,000                           | 343,195                          | 0  | 0                                   | 433  | 47,878     |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
| James Schafer,<br>Director of<br>Manufacturing of<br>SurgiCount                       | 2006 | 100,000     | 0          | 0                                | 0                                | 0  | 0                                   | 342  | 100,342    |
|   | 2005 | 39,807      | 750        | 50,000                           | 186,324                          | 0  | 0                                   | 361  | 277,242    |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
| Louis Glazer, M.D.,<br>Ph.G., Former Chief<br>Executive Officer                       | 2006 | 118,750     | 0          | 246,000                          | 216,169                          | 0  | 0                                   | 1,060                                      | 581,979    |
|   | 2005 | 120,000     | 750        | 316,000                          | 262,768                          | 0  | 0                                   | 2,582                                      | 702,100    |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |
| Milton “Todd” Ault<br>III,<br>Former Chief<br>Executive Officer                       | 2006 | 180,000     | 0          | 270,000                          | 237,259                          | 0  | 0                                   | 184  | 687,443    |
|   | 2005 | 150,000     | 750        | 316,000                          | 262,768                          | 0  | 0                                   | 1,248                                      | 730,766    |
|   | 2004 | 0           | 0          | 0                                | 0                                | 0  | 0                                   | 0  | 0          |

(1) Mr. Horne was appointed Chief Executive Officer on January 9, 2007.

(2) Mr. Adams was appointed President on February 28, 2007 and Chief Executive Officer of SurgiCount on April 21, 2006.

(3)

Represents the dollar amount recognized for financial reporting purposes of restricted stock grants and stock options awarded in 2006, 2005 and 2004, respectively, computed in accordance with SFAS 123(R).

- (4) Primarily represents long term disability premiums and life insurance premiums paid by the Company

The following table sets forth information with respect to the named executive officers concerning the grant of stock options during the fiscal year ended December 31, 2006. The Company did not have any outstanding stock appreciation rights (“SARs”) as of December 31, 2006.

### GRANTS OF PLAN-BASED AWARDS

| Name                       | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |             |              | Estimated Future Payouts Under Equity Incentive Plan Awards |             |              | All Other Stock Awards: Number of Shares or Units(#) | All Other Awards: Number of Securities Underlying Options(#) | Exercise or Base Price of Option Awards (\$/Sh) |
|----------------------------|------------|---|-------------|--------------|---|-------------|--------------|--|--|---|
|                            |            | Threshold (\$)  | Target (\$) | Maximum (\$) | Threshold (\$)  | Target (\$) | Maximum (\$) |  |  |   |
| William B. Horne           | 3/29/2006  | 0   | 0           | 0            | 0   | 0           | 0            | 12,648   | —  | 0   |
| Bill Adams                 | 4/18/2006  | 0   | 0           | 0            | 0   | 0           | 0            | —  | 400,000  | 3.50  |
| Lynne                      | 1/31/2006  | 0   | 0           | 0            | 0   | 0           | 0            | —  | 45,000 <sup>(1)</sup>  | 4.10  |
| Silverstein                | 1/31/2006  | 0   | 0           | 0            | 0   | 0           | 0            | 30,000   | —  | 0   |
| Richard Bertran            | —          | 0   | 0           | 0            | 0   | 0           | 0            | —  | —  | 0   |
| James Schafer              | —          | 0   | 0           | 0            | 0   | 0           | 0            | —  | —  | 0   |
| Louis Glazer, M.D., Ph.G., | 1/31/2006  | 0   | 0           | 0            | 0   | 0           | 0            | —  | 90,000   | 4.10  |
| Milton “Todd” Ault III     | 1/09/2006  | 0   | 0           | 0            | 0   | 0           | 0            | 60,000   | —  | 0   |
|                            | 1/09/2006  | 0   | 0           | 0            | 0   | 0           | 0            | 60,000   | —  | 0   |

(1) 15,000 options were cancelled subsequent to the grant date.

(2) 30,000 options were cancelled subsequent to the grant date.

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | OPTION AWARDS   |   |   |                            |                        | STOCK AWARDS                            |  |   |  |  |
|------|---|---|---|----------------------------|------------------------|---|--|---|--|--|
|      | Number of Securities Underlying Options Exercisable (#) | Number of Securities Underlying Unexercisable Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That | Market Value of Shares or Units of Stock | Equity Incentive Plan Awards: Number of Shares, Unearned Payout Value | Equity Incentive Plan Awards: Market or Payout Value |  |

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|                               |                  | Unexercised<br>Unearned<br>Options<br>(#) |        |               |                        | Have<br>Not<br>Vested<br>(#) | That<br>Have<br>Not<br>Vested<br>(\$) | Units<br>or<br>Other<br>Rights<br>That<br>Have<br>Not<br>Vested<br>(#) | of<br>Unearned<br>Shares,<br>or<br>Other<br>Rights<br>That<br>Have<br>Not<br>Vested<br>(#) |
|-------------------------------|------------------|---|--------|---------------|------------------------|------------------------------|---------------------------------------|--|--|
| William B. Horne              | 78,000           | 0   | 0      | 5.267         | 3/30/2015              | 0                            | 0                                     | 0  | 0  |
| Bill Adams                    | 100,000          | 300,000                                   | 0      | 3.50          | 4/18/2016              | 0                            | 0                                     | 0  | 0  |
| Lynne<br>Silverstein          | 45,000<br>30,000 | 0<br>0                                    | 0<br>0 | 5.267<br>4.10 | 3/30/2015<br>1/31/2016 | 0<br>0                       | 0<br>0                                | 0<br>0   | 0<br>0   |
| Richard Bertran               | 66,667           | 133,333                                   | 0      | 5.00          | 7/18/2015              | 0                            | 0                                     | 0  | 0  |
| James Schafer                 | 31,250           | 118,750                                   | 0      | 5.00          | 8/08/2015              | 0                            | 0                                     | 0  | 0  |
| Louis Glazer,<br>M.D., Ph.G., | 75,000<br>60,000 | 0<br>0                                    | 0<br>0 | 5.267<br>4.10 | 3/30/2015<br>1/31/2016 | 0<br>0                       | 0<br>0                                | 0<br>0   | 0<br>0   |
| Milton "Todd"<br>Ault III     | 75,000<br>60,000 | 0<br>0                                    | 0<br>0 | 5.267<br>4.10 | 3/30/2015<br>1/09/2016 | 0<br>0                       | 0<br>0                                | 0<br>0   | 0<br>0   |

**OPTION EXERCISES AND STOCK VESTED**

| Name                       | OPTION AWARDS                             |                                 | STOCK AWARDS                             |                                |
|----------------------------|---|---------------------------------|--|--------------------------------|
|                            | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| William B. Horne           | 0   | 0                               | 49,751                                   | 161,365                        |
| Bill Adams                 | 0   | 0                               | 0  | 0                              |
| Lynne Silverstein          | 0   | 0                               | 48,000                                   | 205,800                        |
| Richard Bertran            | 0   | 0                               | 0  | 0                              |
| James Schafer              | 0   | 0                               | 0  | 0                              |
| Louis Glazer, M.D., Ph.G., | 0   | 0                               | 96,000                                   | 411,600                        |
| Milton "Todd" Ault III     | 0   | 0                               | 96,000                                   | 435,600                        |

**Pension Benefits**

The Company does not offer a pension benefit plan.

**Non-Qualified Deferred Compensation**

The Company does not offer a non-qualified deferred compensation plan.

**Compensation of Directors**

As of December 31, 2006, each director of the Company is eligible to receive a fee of \$500 plus reimbursement of expenses incurred in attending each board meeting. In addition, directors are eligible to receive grants of restricted stock and/or stock options pursuant to the Company's compensation plans which are described below. During 2006, the Company did not compensate any of its directors in cash. The following table provides certain summary information concerning the compensation paid to directors, other than William Horne (our Chief Executive Officer), Milton "Todd" Ault III and Louis Glazer, M.D., Ph.G. (our former Chief Executive Officers), during 2006. All compensation paid to Messrs. Horne, Ault and Glazer is set forth in the table under "Executive Compensation."



**Director Compensation**

| Name   | Fees<br>Earned<br>or Paid<br>in Cash<br>(\$) | Stock<br>Awards<br>(\$) <sup>(5)</sup> | Option<br>Awards<br>(\$) <sup>(5)</sup> | Non-Equity<br>Incentive<br>Plan<br>Compensation<br>(\$) | Change in  | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|--|--|--|---|---|--|-----------------------------------|---------------|
|  |  |  |   |   | Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) |                                   |               |
| Arnold Spangler  | 0  | 43,000                                 | 37,786                                  | 0   | 0  | 0                                 | 80,786        |
| Herbert Langsam  | 0  | 43,000                                 | 37,786                                  | 0   | 0  | 0                                 | 80,786        |
| David Augustine <sup>(1)</sup>                             | 0  | 0                                      | 0                                       | 0   | 0  | 0                                 | 0             |
| Wenchen Lin <sup>(2)</sup>                                 | 0  | 0                                      | 0                                       | 0   | 0  | 0                                 | 0             |
| Alice Campbell <sup>(3)</sup>                              | 0  | 49,450                                 | 37,786                                  | 0   | 0  | 0                                 | 87,236        |
| Brigadier General (Ret.) Lytle<br>Brown III <sup>(4)</sup> | 0  | 43,000                                 | 37,786                                  | 0   | 0  | 0                                 | 80,786        |

(1) Mr. Augustine was appointed as a director effective January 24, 2007.

(2) Mr. Lin was appointed as a director effective March 28, 2007.

(3) Ms. Campbell resigned as a director effective January 26, 2007.

(4) Mr. Brown resigned as a director effective January 24, 2007.

(5) Represents the dollar amount recognized for financial reporting purposes of restricted stock grants and stock options awarded, computed in accordance with SFAS 123(R).

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee members currently are Messrs. Herbert Langsam and Arnold Spangler, each of whom is independent. Each member of the Compensation Committee is a “non-employee director” for purposes of Rule 16b-3 under Section 16 of the Exchange Act and an “outside director” for purposes of Section 162(m) of the Internal Revenue Code. Mr. Langsam serves as the Chairman of the Compensation Committee. None of these individuals is a present or former officer or employee of the Company.

During the last fiscal year, no executive officer of the Company served either as: (1) a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of the Company; (2) a director of another entity, one of whose executive officers served on the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of the Company; or (3) a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director of the Company.

**Employment Agreements**

On June 13, 2005, we entered into an employment agreement with William B. Horne as Chief Financial Officer of the Company and its subsidiaries, which became effective on July 5, 2005. Mr. Horne's title subsequently was changed to Chief Executive Officer of the Company. The agreement continues for a term of 24 months. The agreement will automatically renew for successive one-year terms unless either party delivers to the other party written notice of termination at least 30 days before the end of the then current term. Mr. Horne's base compensation under the agreement was \$150,000 per year. Effective January 1, 2007 Mr. Horne's base salary was increased to \$250,000 per year. Upon entering into the agreement, Mr. Horne was granted 26,316 shares of restricted stock which vested during the first year of the agreement. In addition, Mr. Horne is eligible to receive shares of the Company's common stock or options to purchase shares of the Company's common stock from time to time as determined by the Board of Directors. The Company is required to promptly reimburse Mr. Horne for all reasonable out-of-pocket business expenses incurred in performing the responsibilities under the agreement. Mr. Horne is entitled to participate in any of the Company's benefit plans in effect from time to time for employees of the Company. Mr. Horne is entitled to three weeks of paid vacation, to be scheduled and taken in accordance with the Company's standard vacation policies. In addition, Mr. Horne is entitled to sick leave and holidays at full pay in accordance with the Company's policies established and in effect from time to time. The agreement also contains customary provisions for disability, death, confidentiality, indemnification and non-competition. Both the Company and Mr. Horne have the right to voluntarily terminate the employment agreement at any time with or without cause. If the Company voluntarily terminates the agreement, the Company must pay Mr. Horne a cash sum equal to (a) all accrued base salary through the date of termination plus all accrued vacation pay and cash bonuses, if any, plus (b) as severance compensation, an amount equal to Mr. Horne's then base salary for the remaining employment term, but only through July 5, 2007. If Mr. Horne voluntarily terminates the agreement, all unvested restricted stock and stock options will be forfeited. In the event of a merger, consolidation, sale, or change of control, the surviving or resulting company is required to honor the terms of the agreement with Mr. Horne.

Effective July 18, 2005, the Company's subsidiary SurgiCount entered into an employment agreement with Richard Bertran as Executive Vice President of SurgiCount. Mr. Bertran's title subsequently was changed to President of SurgiCount. Mr. Bertran's annual base compensation is \$200,000. In addition, Mr. Bertran is entitled to receive: (a) options to purchase 200,000 shares of the Company's common stock with a strike price of \$5.00 per share, which options will vest annually over three years; and (b) 10,000 restricted shares of the Company's common stock as a signing bonus. Mr. Bertran also may receive the following stock options upon accomplishing milestones: (a) options to purchase 50,000 shares of the Company's common stock when SurgiCount reaches \$5 million in sales; and (b) options to purchase 50,000 shares of the Company's common stock when Mr. Bertran accomplishes certain other unspecified milestones to be mutually agreed upon among Mr. Bertran, SurgiCount's Chief Executive Officer and Health West. Mr. Bertran is also entitled to participate in all of SurgiCount's employee benefit plans in effect from time to time. The employment agreement has an initial term of three years and will automatically renew for successive one-year periods unless sooner terminated. Mr. Bertran and SurgiCount have the right to terminate the employment agreement at any time during the employment term for any reason. SurgiCount may also terminate the employment agreement at any time for "cause" (as defined in the employment agreement). If the employment agreement is voluntarily terminated by Mr. Bertran or if SurgiCount terminates the agreement for cause, then all unvested stock options and/or unearned milestone bonuses will be forfeited and all obligations of the parties will end except SurgiCount must continue to reimburse Mr. Bertran for reasonable out-of-pocket business expenses related to his employment with SurgiCount, Mr. Bertan must continue to maintain the confidentiality of any confidential information about SurgiCount and SurgiCount may be required to indemnify Mr. Bertran for certain liabilities in connection with his employment. If SurgiCount voluntarily terminates the employment agreement without cause, then: (a) if the termination date is before 15 months after the effective date of the employment agreement, SurgiCount must pay Mr. Bertran severance compensation in cash equal to 15 months of base compensation, plus award the milestone option grants to the extent the milestones are met within the employment term; (b) if the termination date occurs within the final 15 months of the initial term, SurgiCount must pay Mr. Bertran severance compensation in cash through the remaining initial term of the agreement; and (c) all unvested stock options will become automatically vested.

Effective August 8, 2005 the Company's subsidiary SurgiCount entered into an employment agreement with James Schafer as Chief Operating Officer of SurgiCount. The employment agreement continues for an initial term of 24 months and will automatically renew for successive one-year terms unless either party delivers to the other party written notice of termination at least 30 days before the end of the then current term. Mr. Schafer's base compensation is \$100,000 per year. Mr. Schafer will receive restricted stock of the Company annually in an amount valued at \$50,000. The first \$50,000 of restricted stock vested on the effective date of the employment agreement and the second \$50,000 of restricted stock will vest on the second year anniversary of the agreement. In addition, Mr. Schafer will receive 125,000 stock options of the Company which will vest quarterly over four years with a strike price of \$5.00 per share. SurgiCount is required to promptly reimburse Mr. Schafer for all reasonable out-of-pocket business expenses incurred in performing his responsibilities. SurgiCount also agreed to pay Mr. Schafer relocation/moving expenses of \$8,000 and an automobile allowance of \$6,000 per year. Mr. Schafer is entitled to participate in all of SurgiCount's benefit plans in effect from time to time for employees of SurgiCount. Mr. Schafer is entitled to three weeks of paid vacation, to be scheduled and taken in accordance with SurgiCount's standard vacation policies. In addition, Mr. Schafer is entitled to sick leave and holidays at full pay in accordance with SurgiCount's policies established and in effect from time to time. The agreement also contains customary provisions for disability, death, confidentiality, indemnification and non-competition. Both SurgiCount and Mr. Schafer have the right to voluntarily terminate the employment agreement at any time with or without cause. If SurgiCount voluntarily terminates the agreement, SurgiCount must pay Mr. Schafer a cash sum equal to (a) all accrued base salary through the date of termination plus all accrued vacation pay and cash bonuses, if any, plus (b) as severance compensation, an amount equal to Mr. Schafer's then base salary for 12 months, but if such termination is within the final 12 months of employment then Mr. Schafer will receive his base salary for the remainder of the term. If Mr. Schafer voluntarily terminates the agreement, all unvested restricted stock and stock options will be forfeited. In the event of a merger, consolidation, sale, or change of control, the surviving or resulting company is required to honor the terms of the

agreement with Mr. Schafer.

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Effective April 21, 2006, the Company's subsidiary SurgiCount entered into an employment agreement with William M. Adams to employ Mr. Adams as SurgiCount's Chief Executive Officer. The term of the employment agreement will end effective at midnight on April 17, 2009 unless extended by the mutual written consent of SurgiCount and Mr. Adams. SurgiCount agreed to pay Mr. Adams an annual base salary of \$300,000 during the term of the employment agreement. In addition, Mr. Adams is eligible to receive annual bonuses in cash or stock as determined by the Board of Directors of SurgiCount and/or the Company. Pursuant to the employment agreement, the Company granted Mr. Adams options to purchase 300,000 shares of the Company's common stock with an exercise price of \$3.50 per share. One-third of such options will vest annually over three years beginning April 18, 2007. However, all of the options will vest immediately upon a sale or exchange of 50% or more of SurgiCount's outstanding capital stock or a joint venture by SurgiCount with an unaffiliated entity involving 50% or more of SurgiCount's outstanding capital stock. Mr. Adams will also receive \$10,000 of restricted stock of the Company annually on April 30, 2007, April 18, 2008 and April 18, 2009. Additionally, Mr. Adams will receive options to purchase an additional 100,000 shares of common stock of the Company with an exercise price of \$3.50 per share which will vest upon either of the following events: (a) a sale or exchange of 50% or more of SurgiCount's outstanding capital stock or a joint venture by SurgiCount with an unaffiliated entity; or (b) if on or prior to December 31, 2008, SurgiCount's cumulative sales from the inception of SurgiCount equal or exceed \$10 million. Mr. Adams and his family are also entitled to participate in any of SurgiCount's benefit plans in effect from time to time for the benefit of SurgiCount's employees. SurgiCount and Mr. Adams have the right to terminate the employment agreement at any time upon 30 days prior written notice unless circumstances dictate that such notice cannot reasonably be given. SurgiCount has the right to terminate the employment agreement for cause in certain circumstances described in the agreement. If SurgiCount voluntarily terminates the employment agreement without cause, SurgiCount must pay Mr. Adams his accrued compensation through the termination date plus the following severance compensation. If the employment agreement is terminated by the Company without cause prior to the first anniversary of the start date of employment, SurgiCount must pay Mr. Adams 24 months of his base salary as severance compensation. If the employment is terminated by the Company without cause after the first anniversary of the start date of employment, SurgiCount must pay Mr. Adams his base salary for the remainder of the employment term as severance compensation. The agreement also contains customary provisions for disability, death, confidentiality and non-solicitation.

### **Consulting Agreements**

On April 5, 2005, the Company entered into a consulting agreement with Health West, pursuant to which Health West agreed to help the Company establish a comprehensive manufacturing and distribution strategy for the Company's Safety-Sponge™ System worldwide. In consideration for Health West's services, the Company agreed to issue Health West 42,017 shares of common stock, to be issued as follows: (a) 10,505 shares were issued upon signing the consulting agreement; (b) an additional 15,756 shares were issued as a result of Health West's assistance in structuring a comprehensive manufacturing agreement with A Plus Manufacturing, which was entered into on August 17, 2005; and (c) the Company has agreed to issue the remaining 15,756 shares for Health West's services in assisting with the development of a regional distribution network to integrate the Safety-Sponge™ System into the existing acute care supply chain. The remaining shares will be issued during 2007. As incentive for entering into the agreement, the Company issued Health West a callable warrant to purchase 150,000 shares of common stock with an exercise price of \$5.95 per share, exercisable for five years. In addition, the Company agreed to issue a callable warrant to purchase 25,000 shares of the common stock with an exercise price of \$5.95 per share, exercisable upon assisting the Company with developing a global distribution strategy and identification of acquisition candidates. Mr. Adams is Chief Executive Officer of Health West as well as its President. The Health West agreement was terminated by the Company's Board of Directors upon Mr. Adams appointment as SurgiCount's Chief Executive Officer effective as of April 21, 2006.

## Compensation Plans

On September 9, 1997, the Company's stockholders approved two stock option plans: a Stock Incentive Plan ("**Stock Incentive Plan**") to be offered to consultants, officers and employees (including any officer or employee who is also a director of the Company) and a Non-Statutory Stock Option Plan ("**Stock Option Plan**") to be offered to "outside" directors (*i.e.*, those directors who are not also officers or employees) (collectively, the "**1997 Stock Option Plans**"). 337,500 shares (post 3:1 forward split effective April 5, 2005) of the Company's common stock was reserved for issuance under the 1997 Stock Option Plans, of which 202,500 shares was reserved for the Stock Incentive Plan and 135,000 shares was reserved for the Stock Option Plan. During 2006, the Company cancelled the 1997 Stock Option Plans and the remaining 56,250 shares available for grant under these plans. There were no outstanding options under the 1997 Stock Option Plans at the time of their cancellation.

On March 30, 2005, the Company's stockholders approved the Company's Stock Option and Restricted Stock Plan, which provided for the issuance of a maximum of twenty-five percent (25%) of the shares of common stock that were outstanding as of the date on which the plan was adopted (1,319,082 shares) to be offered to the Company's consultants, officers and employees (including any officer or employee who is also a director of the Company). On November 17, 2005 the Company's stockholders approved an Amended and Restated Stock Option and Restricted Stock Plan ("**Amended and Restated Stock Option and Restricted Stock Plan**"), which increased the number of shares authorized for issuance to 2,500,000 shares and authorized the issuance of warrants to consultants.

Shares subject to options that terminate or expire prior to exercise will be available for future grants under the plans.

On December 31, 2006, there were 13,500 shares of common stock and 1,704,000 options to purchase shares of common stock outstanding under the Amended and Restated Stock Option and Restricted Stock Plan, with 26,026 options, warrants, or shares of common stock available for future issuance under the Amended and Restated Stock Option and Restricted Stock Plan.

The following is a description of the Amended and Restated Stock Option and Restricted Stock Plan.

### ***Amended and Restated Stock Option and Restricted Stock Plan***

#### *Purpose*

The purpose of the Amended and Restated Stock Option and Restricted Stock Plan is to advance the interests of the Company by providing key employees who have substantial responsibility for the direction and management of the Company, as well as certain directors, other employees and consultants with additional incentives to exert their best efforts to increase their proprietary interest in the success of the Company, to reward outstanding performance, and to attract and retain persons of outstanding ability.

*Type of Awards*

The Amended and Restated Stock Option and Restricted Stock Plan permits, at the discretion of the Compensation Committee, the grant of options to purchase common stock (including ISOs or non-ISOs, warrants to purchase common stock and restricted stock.

*Administration*

The Amended and Restated Stock Option and Restricted Stock Plan is administered by the Company's Compensation Committee, which is comprised of at least two members of the Company's Board, each of whom is (a) a non-employee director, as defined in Rule 16b-3 promulgated under the Exchange Act; (b) an "outside director" as defined under Section 162(m) of the Internal Revenue Code; and (c) an independent director under the rules established by AMEX.

*Participants*

The Compensation Committee determines and designates those officers, employees, non-officer directors and consultants of the Company who are eligible to participate in the Amended and Restated Stock Option and Restricted Stock Plan. The Compensation Committee also determines the number of options, warrants and shares of restricted stock to be awarded to each participant. In making these determinations, the Compensation Committee takes into account the potential contributions of the participant to the success of the Company, and such other factors as the Compensation Committee deems relevant to accomplish the purposes of the Amended and Restated Stock Option and Restricted Stock Plan.

*Termination.*

All rights to exercise options and warrants terminate sixty days after any optionee or warrant holder ceases to be a director of the Company or a key employee or consultant of the Company and/or any of its subsidiaries, and no options or warrants will vest after an optionee's or warrant holder's termination date. Notwithstanding the foregoing, however, if an optionee's or warrant holder's service as a director of the Company or key employee or consultant terminates as a result of the optionee's or warrant holder's death or his total and permanent disability, the optionee, warrant holder or the executors or administrators or legatees or distributees of the estate, as the case may be and to the extent they are permitted transferees, have the right, from time to time within one year after the optionee's or warrant holder's total and permanent disability or death and prior to the expiration of the term of the option or warrant, to exercise any portion of the option or warrant not previously exercised, in whole or in part, as provided in the respective agreement evidencing the award of the options or warrants. A participant's rights to shares awarded as restricted stock are set forth in the agreement evidencing the award.

**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: November 8, 2007

By: /s/ William B. Horne

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William B. Horne  
Chief Executive and Chief Financial Officer and  
Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                              | <b>Title</b>   | <b>Date</b>      |
|---|--|------------------|
| /s/ Arnold Spangler<br>Arnold Spangler        | Chairman of the Board  | November 8, 2007 |
| /s/ William B. Horne<br>William B. Horne      | Chief Executive, Chief Financial<br>Officer and Principal Accounting<br>Officer and Director | November 8, 2007 |
| /s/ David Augustine<br>David Augustine        | Director   | November 8, 2007 |
| /s/ Louis Glazer<br>Louis Glazer, M.D., Ph.G. | Director   | November 8, 2007 |
| /s/ Herbert Langsam<br>Herbert Langsam        | Director   | November 8, 2007 |
| /s/ Wayne Lin<br>Wayne Lin                    | Director   | November 8, 2007 |