

Patient Safety Technologies, Inc
Form 10-Q/A
June 08, 2006

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

**FORM 10-Q/A
Amendment No. 2**

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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
(State of Incorporation)

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

1800 Century Park East, Ste. 200
Los Angeles, California 90067
(Address of principal executive offices)

Registrant's telephone number, including area code:(310) 895-7750

With Copies To:
Marc J. Ross, Esq.
Sichenzia Ross Friedman Ference LLP
1065 Avenue of the Americas
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 ☒ No ☐.

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

Indicate by check mark whether the registrant is a shell company (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 November 7, 2005, there were 5,626,708 shares outstanding of the Registrant's common stock, \$0.33 par value.

PATIENT SAFETY TECHNOLOGIES, INC.

**FORM 10-Q FOR THE NINE MONTHS
ENDED SEPTEMBER 30, 2005**

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets
(Unaudited)**

	September 30, 2005	December 31, 2004 *
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 162,980	\$ 846,404
Restricted cash	237,731	
Accounts receivable	937,500	
Marketable securities	1,110,695	3,487,719
Other current assets	307,684	255,510
TOTAL CURRENT ASSETS	2,756,590	4,589,633
Property and equipment, net	202,171	23,657
Patents, net	4,495,027	
Long-term investments	3,344,335	2,320,953
TOTAL ASSETS	\$ 10,798,123	\$ 6,934,243
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 1,815,504	\$ 892,530
Accounts payable and accrued liabilities	1,544,086	939,568
Marketable securities, sold short		1,075,100
Due to broker	874,500	460,776
TOTAL CURRENT LIABILITIES	4,234,090	3,367,974
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		

Convertible preferred stock, \$1 par value, cumulative
7% dividend:
1,000,000 shares authorized; 10,950 issued and
outstanding
at September 30, 2005 and December 31, 2004

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(Liquidation preference \$1,095,000)	10,950	10,950
Common stock, \$0.33 par value: 25,000,000 shares authorized; 6,969,948 shares issued and 5,603,283 shares outstanding as of September 30, 2005; 6,128,067 shares issued and 4,670,703 shares outstanding at December 31, 2004	2,300,083	2,022,262
Paid-in capital	21,879,775	13,950,775
Other comprehensive income	478,125	
Accumulated deficit	(15,566,179)	(9,800,885)
	9,102,754	6,183,102
Deduct: 1,366,665 and 1,457,364 shares of treasury stock, at cost, at September 30, 2005 and December 31, 2004, respectively	(2,538,721)	(2,616,833)
TOTAL STOCKHOLDERS' EQUITY	6,564,033	3,566,269
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,798,123	\$ 6,934,243

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

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

PATIENT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2005	2004	2005	2004
REVENUES	\$ 29,693	\$ —	\$ 616,320	\$ —
EXPENSES				
Salaries and employee benefits	1,105,152	611,871	3,215,248	873,802
Professional fees	497,984	579,200	1,952,929	820,322
Rent	35,367	18,653	59,845	55,607
Insurance	27,594	17,038	71,172	51,113
Taxes other than income taxes	34,385	5,972	80,367	24,772
Amortization of patents	81,235		189,549	
General and administrative	346,715	54,581	807,744	139,409
Operating expenses	2,128,432	1,287,315	6,376,854	1,965,025
Operating loss	(2,098,739)	(1,287,315)	(5,760,534)	(1,965,025)
Interest, dividend income and other, net	1,234	155	41,321	369
Equity in income (loss) of investee	(59,796)		(76,816)	
Realized gains on investments, net	149,204	150,000	252,848	650,878
Interest expense	(23,899)	(8,850)	(85,460)	(26,778)
Unrealized losses on marketable securities, net	(123,318)	(150,000)	(80,115)	(66,256)
Net loss	(2,155,314)	(1,296,010)	(5,708,756)	(1,406,812)
Preferred dividends	(19,162)	(19,162)	(56,538)	(57,488)
Net loss attributable to common shareholders	\$ (2,174,476)	\$ (1,315,172)	\$ (5,765,294)	\$ (1,464,300)
Basic and diluted net loss per common share	\$ (0.39)	\$ (0.42)	\$ (1.09)	\$ (0.47)
Weighted average common shares outstanding	5,515,360	3,139,050	5,287,831	3,094,626
Comprehensive income (loss):				
Net loss	\$ (2,155,314)	\$ (1,296,010)	\$ (5,708,756)	\$ (1,406,812)
	(680,625)		478,125	

**Other comprehensive income
(loss)**

Comprehensive loss	\$	(2,835,939)	\$	(1,296,010)	\$	(5,230,631)	\$	(1,406,812)
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* Restated to include the impact of share-based compensation expense

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

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

	Nine Months Ended	
	September 30, 2005	September 30, 2004 *
Cash flows from operating activities:		
Net loss	\$ (5,708,756)	\$ (1,406,812)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	13,207	
Amortization of patents	189,549	
Realized gains on investments, net	(252,848)	(650,878)
Unrealized loss on marketable securities	80,115	66,256
Stock based compensation to employees and directors	2,518,047	5,094
Stock based compensation to consultants	1,191,232	
Stock received for services	(10,000)	
Loss on investee	76,816	
Changes in operating assets and liabilities:		
Restricted cash	(237,731)	
Accounts receivable	(937,500)	
Purchases of marketable investment securities, net	1,576,299	1,024,332
Other current assets	(72,174)	35,873
Accounts payable and accrued liabilities	567,143	920,650
Due to broker	413,724	
Net cash used in operating activities	(592,877)	(5,485)
Cash flows from investing activities:		
Purchase of property and equipment	(124,827)	
Purchase of SurgiCount	(432,398)	
Proceeds from sale of long-term investments	376,720	
Purchases of long-term investments	(903,173)	
Net cash used in investing activities	(1,083,678)	
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants	100,000	
Proceeds from exercise of stock options	26,250	39,375
Cash proceeds related to 16B filing		2,471
Purchases of treasury stock	(36,931)	
Payments of preferred dividends	(19,162)	(57,488)
Proceeds from notes payable	1,000,000	
Payments and decrease in notes	(77,026)	(12,795)
Net cash provided by (used in) financing activities	993,131	(28,437)

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Net decrease in cash and cash equivalents	(683,424)	(33,922)
Cash and cash equivalents at beginning of period	846,404	224,225
Cash and cash equivalents at end of period	\$ 162,980	\$ 190,303
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 33,904	\$ 228
Issuance of common stock and warrants in connection with SurgiCount acquisition	\$ 4,232,178	\$ —
Issuance of common stock in connection with asset purchase agreement	\$ 66,895	\$ —
Issuance of common stock in connection with land acquisition	\$ 85,619	\$ —
Issuance of common stock in connection with purchase of marketable securities	\$ 101,640	\$ —
Dividends accrued	\$ 56,538	\$ 19,163

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

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

Patient Safety Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements - Unaudited
September 30, 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 and health care solutions industries.

Currently, the Company has four wholly-owned operating subsidiaries: (1) SurgiCount Medical, Inc., a California corporation; (2) Patient Safety Consulting Group, LLC, a Delaware Limited Liability Company; (3) Ault Glazer Bodnar Capital Properties, LLC, a Delaware Limited Liability Company; and (4) Ault Glazer Bodnar Merchant Capital, Inc., a Delaware corporation.

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. SurgiCount Medical, Inc., a provider of patient safety devices and Patient Safety Consulting Group, LLC, a healthcare consulting services company, focus on the Company's primary target industries, the health care and medical products field. Ault Glazer Bodnar Merchant Capital, Inc. ("**AGB Merchant Capital**") was formed on June 27, 2005, to hold the Company's non-patient safety related assets, such as Ault Glazer Bodnar Capital Properties, LLC ("**AGB Properties**"), a real estate development and management company. AGB Merchant Capital is in the process of divesting the Company's investments in the financial services and real estate industries.

Liquidity

The Company has a working capital deficiency of approximately \$1.5 million at September 30, 2005. For the nine months ended September 30, 2005, the Company has incurred a loss of approximately \$5.8 million and has utilized approximately \$0.6 million in cash in its operations. Further, as of September 30, 2005 and through the date hereof, the Company has yet to generate revenues from its medical products and healthcare solutions segments. During the nine months ended September 30, 2005, the Company has relied on liquidating investments and certain financing to fund its operations. Management believes, however no assurances can be made, that these avenues will continue to be available to the Company to fund its operations for the 12 months subsequent to September 30, 2005, or until the fruition of adequate cash flow from its medical products and healthcare solutions segments. However, long-term liquidity is dependent on the Company's ability to attain future profitable operations.

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.

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

Reclassifications

Certain amounts reported in the condensed consolidated financial statements, as of September 30, 2004, have been reclassified to conform with the presentation adopted to report September 30, 2005 results.

Revenue Recognition

Consulting service contract revenue is recognized when the service is performed. Consequently, the recognition of such revenue is deferred until each phase of the contract is complete. This method is predominately used by the Financial Services and Real Estate segment. Service activities may include the following: financial advice on mergers, acquisitions, restructurings and similar corporate finance matters.

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 50% interest. These investments are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses. The Company's proportionate share of income or losses are recorded in equity in income (loss) of investee.

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 and nine months ended September 30, 2005, the Company had stock-based compensation expense included in reported net loss of \$340,103 and \$1,230,551, respectively. 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:

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

	Nine months ended September 30,	
	2005	2004
Weighted average risk free interest rates	3.75%	3.00%
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	\$ 5.03	\$ 0.50

Comprehensive Income (Loss)

The Company applies SFAS No. 130, "*Reporting Comprehensive Income*." Comprehensive income (loss) consists of the after tax net change in unrealized gains and losses on securities classified as available for sale by the Company during the three and nine months ended September 30, 2005 and 2004 that have been excluded from net loss and reflected instead in stockholders' equity. At September 30, 2005, the only investments designated as available for sale were the Company's restricted holdings in IPEX, Inc. ("**IPEX**") and its investment in Alacra Corporation ("**Alacra**").

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.

Options and warrants outstanding as of September 30, 2005 to purchase 719,000 and 1,249,683 shares of common stock, respectively, and 246,375 shares issuable upon conversion of outstanding convertible preferred stock were not included in the computation of diluted net loss per common share for the three and nine months ended September 30, 2005, as their inclusion would have been antidilutive.

Options outstanding as of September 30, 2004 to purchase 61,875 shares of common stock, and 246,375 shares issuable upon conversion of outstanding convertible preferred stock were not included in the computation of diluted net loss per common share for the three and nine months ended September 30, 2004, as their inclusion would have been antidilutive.

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.

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

During the nine months ended September 30, 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 and 20,444 shares of common stock held in treasury to purchase 0.61 acres of vacant land in Springfield, Tennessee.

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 valued at \$62,505 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. On August 17, 2005, the Company entered into a comprehensive manufacturing agreement with A Plus Manufacturing and at that time agreed to issue 15,756 shares, valued at \$93,748, to Health West. As an additional incentive the Company granted Health West warrants to purchase a total of 175,000 shares of the Company's common stock as discussed in Note 13. 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.

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 held in treasury 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 May 12, 2005, the Company entered into an asset purchase agreement whereby the Company purchased all of the assets of Cinapse Digital Media, a sole proprietorship, for the issuance of 17,241 shares of common stock held in treasury and 8,621 warrants to purchase common stock at an exercise price of \$5.80 and a contractual life of 5 years. The assets were valued at \$66,895 and consisted primarily of computers and equipment utilized in the production of digital video. Simultaneously with the asset purchase, the Company formed Cinapse Digital Media, LLC, a 50% owned Delaware limited liability company, and contributed the acquired assets. The Company consolidates its investment in Cinapse Digital Media, LLC. Cinapse Digital Media, LLC produces digital video for corporate clients and will also produce digital training videos for the Company's patient safety devices.

On July 19, 2005, the Company entered into a stock purchase agreement pursuant to which the Company sold to an investor 38,000 shares of the Company's common stock held in treasury. As consideration the Company received 12,000 shares of Tuxis Corporation (“*Tuxis*”) common stock valued at approximately \$102,000.

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

5. STOCK REPURCHASE PROGRAM

In May 2005, the Board of Directors authorized a stock repurchase program under which up to 150,000 shares of the Company's common stock could be repurchased from time to time with available funds. The primary purpose of the stock repurchase program is to allow the Company the flexibility to repurchase its common stock to potentially reduce stock dilution and seek to improve its long-term earnings per share. Repurchases may be made in the open market or in privately negotiated transactions, subject to regulatory considerations, and may be discontinued at any time. During the three and nine months ended September 30, 2005, the Company repurchased 10,611 shares of common stock for \$36,931. During the year ended December 31, 2004, the Company did not repurchase any shares of common stock. Although the Company's stock repurchase program remains in place, the Company does not currently intend to make a material amount of repurchases. Future repurchases, if any, will depend on subsequent developments, corporate needs and market conditions. If subsequent developments occur or corporate needs and market conditions change that might cause the Company to make one or more repurchases, the Company would not necessarily make a public announcement about it at that time.

6. 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**"). The Company acquired SurgiCount for its patents related to the Safety-Sponge™ System, an innovation which the Company believes will allow it to capture a significant portion of the United States and European surgical sponge sales. SurgiCount's operating results from the closing date of the acquisition, February 25, 2005, through September 30, 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