

Mossberg's Investor Digest

Best Idea Profile:

Patient Safety Technologies, Inc. (OTCBB: PSTX.OB)

DESCRIPTION:

Headquartered in Irvine, CA, Patient Safety Technologies, Inc. develops products and services for the medical patient safety market. PSTX's proprietary Safety-Sponge® System is a patented system of bar-coded surgical sponges, SurgiCounter™ scanners, and software applications integrated to form a comprehensive counting and documentation system. This system is designed to eliminate the possibility of retained surgical sponges being unintentionally left inside of patients during surgical procedures by allowing faster and more accurate counting of surgical sponges. Through its wholly-owned subsidiary, SurgiCount Medical, Inc., PSTX sells its Safety-Sponge® System to hospitals through a direct sales force and relies on an exclusive distributor for the ongoing supply of its proprietary surgical sponge products to hospitals that have adopted its system. One of the ways the company differentiates its products from other competing products is by working closely with hospital personnel through education and implementation services. The Safety-Sponge® System is currently sold only in the United States.

KEY INVESTMENT CONSIDERATIONS:

Health Care Costs – The healthcare system is receptive to cost-effective medical solutions that can help providers quickly lower cost, reduce potential liability and eliminate preventable errors. Increased litigation and a renewed focus on patient safety by regulators are also spurring demand for medical device solutions that address these issues. The Safety-Sponge® System has proven effective at both eliminating retained foreign object events and reducing the associated costs such as the re-operative costs, insurance costs, litigation and arbitration expenses and settlement costs.

New study proves efficacy – The results of a multi-year, independent clinical research study on retained surgical sponges indicated that the institutions implementing the SurgiCount Safety-Sponge® System eliminated the occurrence of retained surgical sponges and the costs associated with these preventable surgical errors. A peer-reviewed publication of this study detailed trials conducted at a high-volume surgical practice across 128 operating rooms for 18 months of use. Prior to implementation, a retained surgical sponge occurred at the institution on average every 64 days. During the study, 87,404 procedures were performed over 18 months using 1,862,373 Safety-Sponges®, and none were retained.

Established Distributor – In Nov '06, PSTX began an exclusive distribution relationship with Cardinal Health for the supply to hospitals that had adopted the Safety-Sponge® System. In Nov '09, PSTX renewed its distribution relationship for a new 5 year term.

Market Size – Patient Safety estimates that the current U.S. market for surgical sponges alone is \$400 million annually and that there is significant opportunity for the company to expand its market penetration through the growing adoption of its Safety-Sponge® System.

New Management for a Turnaround – Last summer the company's founder returned to the CEO position and the company hired a new CFO in October.

Recent Financing – In June of 2010 the company closed on a \$6 million private placement financing. The new funds have provided working capital to support the growth of the company.

VALUATION:

Patient safety gained a new management team and additional funds in FY2010. The company has recently demonstrated the efficacy of its product in an important study and is gaining new users for its products. With the potential to be a dominant supplier for a \$400 million recurring revenue market, investors interesting in speculating in a unique healthcare product may want to take a closer look.

(OTCBB:PSTX)

Investment Data (as of 2/28/11)

Recent Price	\$0.90
52-Week Range	\$.45 - \$1.55
Fiscal Year End	Dec
Shares Outstanding	23.5MM
Average Trading Volume (3 mos)	10,719
Market Capitalization	\$21MM
Cash	\$2.8MM
Long Term Debt	\$1.4MM
Enterprise Value (EV)	\$17MM
LT Debt/ Equity	NA
BV/ Share	\$0.08
TTM Revenue	\$12MM
P/ Revenue	1.6x
TTM EPS	\$(0.22)
P/ EPS	NA
TTM EBITDA	\$(6MM)
EV/ EBITDA	NA

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