AFLAC INC
Form 424B2
November 06, 2014
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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-181089

Title of Each Class of Securities Offered	Maximum Aggregate Offering Price	Amount of Registration Fee (1)
3.625% Senior Notes	$750,000,000	$87,150
Total	$750,000,000	$87,150

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended.

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Prospectus Supplement to Prospectus dated May 1, 2012.

$750,000,000

Aflac Incorporated

3.625% Senior Notes due 2024

This is an offering by Aflac Incorporated of $750,000,000 principal amount of its 3.625% Senior Notes due 2024 (the notes). We will pay interest on the notes semi-annually in arrears on each May 15 and November 15, beginning on May 15, 2015. The notes will mature on November 15, 2024.

We may redeem some or all of the notes at any time and from time to time before their maturity at the redemption price discussed under the caption Description of the Notes Optional redemption of the notes in this prospectus supplement. The notes will be our general unsecured obligations and will rank equally in right of payment with any of our existing and future unsecured senior indebtedness. The notes will be issued only in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

See Risk Factors beginning on page S-4 of this prospectus supplement, page 6 of the accompanying prospectus and Item 1A. Risk Factors on page 12 of Aflac Incorporated s Annual Report on Form 10-K for the year ended December 31, 2013 to read about factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Price to Public (1)	Underwriting Discount	Proceeds (before

			expenses) to Aflac Incorporated
Per note	99.899%	0.65%	99.249%
Total	$ 749,242,500	$ 4,875,000	$ 744,367,500

(1) The price to public set forth above does not include accrued interest, if any. Interest on the notes will accrue from November 7, 2014 and must be paid by the underwriters if the notes are delivered after November 7, 2014.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes. The underwriters expect to deliver the notes through the facilities of The Depository Trust Company for the accounts of its participants, which may include Clearstream Banking, société anonyme, and Euroclear Bank S.A./N.V., against payment in New York, New York on or about November 7, 2014.

Joint Book-Running Managers

Goldman, Sachs & Co. **Mizuho Securities** **Morgan Stanley** **Wells Fargo Securities**

Senior Co-Managers

J.P. Morgan **BofA Merrill Lynch** **Credit Suisse**

Co-Managers

BNY Mellon Capital Markets, LLC **MUFG** **SMBC Nikko** **Synovus Securities, Inc.**

Prospectus Supplement dated November 4, 2014

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement, the accompanying prospectus and any related free writing prospectus prepared by us. Neither we nor the underwriters take responsibility for or provide assurance as to the reliability of, any other information that others may give you. This prospectus supplement and the accompanying prospectus are an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus prepared by us is current only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated herein and therein by reference, on the other hand, you should rely on the information contained in this prospectus supplement.

As used in this prospectus supplement, unless the context otherwise requires, references to we , us , our or the Company refer to the consolidated operations of Aflac Incorporated, and its direct and indirect operating subsidiaries. Parent Company refers solely to Aflac Incorporated. Aflac refers solely to our subsidiary, American Family Life Assurance Company of Columbus, an insurance company domiciled in Nebraska. Aflac operates in the United States (Aflac U.S.) and operates as a branch in Japan (Aflac Japan).

The functional currency of Aflac Japan s insurance operations is the Japanese yen. We translate our yen-denominated financial statement accounts into U.S. dollars as follows. Assets and liabilities are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date of each transaction. Other revenues, expenses and cash flows are translated using average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions.

Aflac Incorporated may, without notice to or consent of the holders of the notes, re-open this offering and issue additional notes having the same ranking, interest rate, maturity date and other terms (except for the issue date, public offering price, and, if applicable, the initial interest payment date) as the notes being offered by this prospectus supplement. The notes and the Senior Debt Indenture under which the notes will be issued do not place any limitation on the amount of unsecured debt that may be incurred by us. Any additional notes, together with the notes offered by this prospectus supplement, will constitute a single series of debt securities under the Senior Debt Indenture.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

The distribution of this prospectus supplement and the accompanying prospectus and the offer and sale of the notes in certain jurisdictions may be restricted by law. The Company and the underwriters require persons into whose possession this prospectus supplement and the accompanying prospectus come to inform themselves about and to observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute an offer of, or an invitation to purchase, any of the notes in any jurisdiction in which such offer or invitation would be unlawful.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. This summary sets forth the material terms of this offering, but does not contain all of the information you should consider before investing in our notes. You should read carefully this entire prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, before making an investment decision to purchase our notes, especially the risks of investing in our notes discussed under Risk Factors contained herein and therein and, under Item 1A. Risk Factors on page 12 of our Annual Report on Form 10-K for the year ended December 31, 2013 (incorporated by reference herein) as well as the consolidated financial statements and notes to those consolidated financial statements incorporated by reference herein and therein.

Aflac Incorporated

The Parent Company was incorporated in 1973 under the laws of the State of Georgia. The Parent Company is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, Aflac. Aflac operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac s policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), referred to as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

We believe Aflac is the world s leading underwriter of individually issued policies marketed at worksites. We offer voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including products designed to protect individuals from depletion of assets (accident, cancer, critical illness/ critical care, hospital intensive care, hospital indemnity, fixed-benefit dental, and vision care plans) and loss-of-income products (life and short-term disability plans).

We are authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan. Aflac Japan s revenues, including realized gains and losses on its investment portfolio, accounted for 74% of the Company s total revenues in 2013, compared with 77% in 2012 and 75% in 2011, and accounted for 74% and 75% of the Company s total revenues in the nine-month periods ended September 30, 2014, and 2013, respectively. The percentage of the Company s total assets attributable to Aflac Japan was 85% at December 31, 2013 and 87% at December 31, 2012, and 85% at September 30, 2014.

Our principal executive offices are located at 1932 Wynnton Road, Columbus, Georgia 31999, and our telephone number is (706) 323-3431.

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THE OFFERING

Issuer	Aflac Incorporated.
Securities	$750,000,000 aggregate principal amount of 3.625% Senior Notes due 2024.
Date of Maturity	The notes will mature on November 15, 2024.
Interest	The notes will bear interest at 3.625% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, beginning on May 15, 2015.
Ranking	The notes are our unsecured obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
Optional Redemption	We may redeem the notes in whole or in part at any time at the redemption price described in the section in this prospectus supplement entitled Description of the Notes Optional redemption of the notes .
Certain Covenants	The indenture under which the notes will be issued contains covenants that impose conditions on our ability to create liens on any capital stock of our restricted subsidiaries (as defined under Description of Debt Securities in the accompanying prospectus) or engage in sales of the capital stock of our restricted subsidiaries.
Events of Default	Events of default generally include failure to pay principal or any premium, failure to pay interest, failure to pay any sinking fund installment, failure to observe or perform any other covenants or agreement in the notes or indenture, certain events of bankruptcy, insolvency, or reorganization, or certain defaults of the Parent Company debt.
Listing	The notes will not be listed on any securities exchange. Currently there is no public market for the notes.
Use of Proceeds	We estimate that the net proceeds to us from this offering will be approximately $744,117,500 after deducting underwriting discounts and estimated offering expenses. We intend to use the net proceeds for general corporate purposes, including capital contributions to subsidiaries, if needed.

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Risk Factors	You should carefully consider all information set forth and incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, should carefully read the section entitled Risk Factors in this prospectus supplement and the accompanying prospectus and the section entitled Item 1A. Risk Factors on page 12 of our Annual Report on Form 10-K for the year ended December 31, 2013 before purchasing any of the notes.
Trustee	The Bank of New York Mellon Trust Company, N.A.
Governing Law	The notes will be governed by the laws of the State of New York.

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RISK FACTORS

Investing in our notes involves risk. Please see the risk factors described in Item 1A. Risk Factors on page 12 of our Annual Report on Form 10-K for the year ended December 31, 2013, which are incorporated by reference in this prospectus supplement. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus supplement and the accompanying prospectus. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. These risks could materially affect our business, results of operations or financial condition and cause the value of our securities to decline. You could lose all or part of your investment.

Risks relating to our senior debt

Because the notes will be issued by the Parent Company, which is a holding company, the notes will be structurally subordinated to the obligations of our subsidiaries.

The Parent Company is a holding company whose assets primarily consist of the capital stock of its subsidiaries. Because the Parent Company is a holding company, holders of the notes will have a junior position to the claims of creditors of its subsidiaries on their assets and earnings. The notes will be unsecured and unsubordinated obligations and will:

- rank equally in right of payment with all of our other unsecured and unsubordinated senior indebtedness, including other senior unsecured indebtedness issued under the indenture under which the notes will be issued;
- be effectively subordinated in right of payment to all our secured indebtedness to the extent of the value of the assets securing such indebtedness;
- be effectively subordinated to all existing and future obligations (including insurance obligations) of our subsidiaries; and
- not be guaranteed by any of our subsidiaries.

At September 30, 2014, the aggregate amount of our outstanding consolidated indebtedness was $4,558 million, of which none was secured. All unsecured indebtedness of the Parent Company would rank equally in right of payment with the notes. All obligations (including insurance obligations) of our subsidiaries would be effectively senior to the notes. At September 30, 2014, the consolidated obligations of our subsidiaries reflected on our balance sheet were approximately $109,400 million.

Furthermore, in the event of insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or similar event involving a subsidiary, the assets of that subsidiary would be used to satisfy claims of policyholders and creditors of the subsidiary rather than the Parent Company s creditors. As a result of the application of the subsidiary s assets to satisfy claims of policyholders and creditors, the value of the stock of the subsidiary would be diminished and perhaps rendered worthless. Any such diminution in the value of the shares of the Parent Company s subsidiaries would adversely impact its financial condition and possibly impair its ability to meet its obligations on the debt securities. In addition, any liquidation of the assets of the Parent Company s subsidiaries (Aflac U.S., in particular) to satisfy claims of such subsidiary s policyholders and creditors might make it impossible for such subsidiary to pay dividends to the Parent Company. Likewise, any inability of Aflac Japan to repatriate earnings to Aflac may also limit Aflac s ability to pay dividends to the Parent Company. This inability to pay dividends would further impair the Parent Company s ability to satisfy its obligations under the notes.

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The indenture under which the notes will be issued will contain only limited protection for holders of the notes in the event the Parent Company is involved in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction in the future.

The indenture under which the notes will be issued may not sufficiently protect holders of notes in the event the Parent Company is involved in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction. The indenture will not contain any provisions restricting the Parent Company s ability to:

- incur additional debt, including debt senior in right of payment to the notes;
- pay dividends on or purchase or redeem capital stock;
- sell assets (other than certain restrictions on the Parent Company s ability to consolidate, merge or sell all or substantially all of its assets and its ability to sell the stock of certain subsidiaries);
- enter into transactions with affiliates;
- create liens (other than certain limitations on creating liens on the stock of certain subsidiaries) or enter into sale and leaseback transactions; or
- create restrictions on the payment of dividends or other amounts to the Parent Company from its subsidiaries.

Additionally, the indenture will not require the Parent Company to offer to purchase the notes in connection with a change of control or require that the Parent Company adhere to any financial tests or ratios or specified levels of net worth. The Parent Company s ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes could have the effect of diminishing the Parent Company s ability to make payments on the notes when due.

An active trading market for the notes may not develop.

The notes are new issues of securities with no established trading market, and we do not intend to list the notes on any securities exchange or for quotation in any automated dealer quotation system. We have been informed by the underwriters that they intend to make a market in the notes after the offering is completed. However, the underwriters may cease their market-making at any time. In addition, the liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for fixed income securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. In addition, such market-making activity will be subject to limits imposed by the Securities Act of 1933, as amended (the Securities Act) and the Securities Exchange Act of 1934, as amended (the Exchange Act). As a result, you cannot be sure that an active trading market will develop for the notes. If no active trading market develops, you may not be able to resell your notes at their fair market value or at all.

Increases in the prevailing interest rate environment could adversely impact the trading price of the notes.

The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, and increases in the prevailing interest rate environment could have an adverse effect on the trading price of the notes.

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $744,117,500 after deducting underwriting discounts and estimated offering expenses. We intend to use the net proceeds from this offering for general corporate purposes, including capital contributions to subsidiaries, if needed.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and our consolidated capitalization as of September 30, 2014 on an actual basis and as adjusted to give effect to the offering of the notes and the planned use of proceeds. See Use of Proceeds .

You should read the information in this table together with our consolidated financial statements and the related notes in our Quarterly Report on Form 10-Q for the period ended September 30, 2014, which is incorporated herein by reference.

	As of September 30, 2014	
	Actual	As adjusted
	(In millions)	
Cash and Cash Equivalents	$ 2,666	$ 3,410
Short-term Debt		
Long-term Debt	4,558	5,308
Total Debt	4,558	5,308
Shareholders Equity		
Common Stock, at Par Value	67	67
Additional Paid-in Capital	1,726	1,726
Retained Earnings	21,628	21,628
Accumulated Other Comprehensive Income		
Unrealized Foreign Currency Translation Gains (Losses)	(1,805)	(1,805)
Unrealized Gains (Losses) on Investment Securities	3,402	3,402
Unrealized Gains (Losses) on Derivatives	(17)	(17)
Pension Liability Adjustment	(80)	(80)
Treasury Stock, at Average Cost	(7,068)	(7,068)
Total Shareholders Equity	17,853	17,853
Total Capitalization	$ 22,411	$ 23,161

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated. For the purpose of computing the below ratios, earnings consist of income from continuing operations before income taxes excluding interest expense on income tax liabilities, plus fixed charges. Fixed charges consist of interest expense, excluding interest expense on income tax liabilities, interest on investment-type contracts and such portion of rental expense as is estimated to be representative of the interest factors in the leases, all on a pre-tax basis.

	Nine months ended September 30, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Ratio of Earnings to Fixed Charges	13.1x	14.8x	14.4x	13.0x	19.7x	21.7x

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DESCRIPTION OF THE NOTES

Set forth below is a description of the specific terms of the notes. This description supplements, and should be read together with, the description of the general terms and provisions of the securities set forth in the accompanying prospectus under the caption Description of Debt Securities . The following description does not purport to be complete and is subject to, and qualified in its entirety by reference to, the indenture dated as of May 21, 2009, as supplemented by a ninth supplemental indenture for the notes, which we collectively refer to as the Senior Debt Indenture , between Aflac Incorporated, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, which we refer to as the Trustee , pursuant to which the notes will be issued. All capitalized terms herein that are not defined within this prospectus supplement shall have the same meanings as defined in the Senior Debt Indenture. As used in this Description of the Notes section, unless the context otherwise requires, references to we , us , our or the Company refer to Aflac Incorporated.

General

The notes will be issued as a series of senior debt securities under the Senior Debt Indenture and will be limited in aggregate principal amount to $750,000,000. The notes will be issued only in denominations of $2,000 and integral multiples of $1,000 in excess thereof. Payments of principal of, and interest on, the notes will be made in U.S. dollars. The provisions of the Senior Debt Indenture pertaining to satisfaction and discharge of the indenture and unclaimed moneys will apply to the notes.

Aflac Incorporated may, without notice to or consent of the holders of the notes, re-open this offering and issue additional notes having the same ranking, interest rate, maturity date and other terms (except for the issue date, public offering price, and, if applicable, the initial interest payment date) as the notes being offered by this prospectus supplement. The notes and the Senior Debt Indenture under which the notes will be issued do not place any limitation on the amount of unsecured debt that may be incurred by us. Any additional notes, together with the notes offered by this prospectus supplement, will constitute a single series of debt securities under the Senior Debt Indenture.

The notes are our unsecured obligations and will rank equally and *pari passu* with all of our other unsecured senior indebtedness from time to time outstanding.

Maturity

The entire principal amount of the notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on November 15, 2024.

Interest

Each note will bear interest at 3.625% per year, from the most recent date on which interest has been paid or duly provided for or, if no interest has been paid, from the date of original issuance until such principal amount or overdue installment is paid or made available for payment. We will pay interest semi-annually in arrears on May 15 and November 15 of each year, beginning on May 15, 2015, each of which we refer to as an interest payment date.

Interest payments for the notes shall be computed and paid on the basis of a 360-day year consisting of twelve 30-day months. In the event that any date on which interest is payable on the notes is not a business day, then payment of the interest payable on such date will be made on the next succeeding day that is a business day (and without any interest or other payment in respect of any such delay), except that, if such next succeeding business day is in the next succeeding calendar

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year, such payment will be made on the immediately preceding business day, in each case with the same force and effect as if such payment was made on the date such payment was originally payable.

The interest payable by us on a note on any interest payment date and on the maturity date, subject to certain exceptions, will be paid to the person in whose name such note is registered at the close of business on May 1 or November 1 immediately preceding such interest payment date, whether or not a business day. However, interest that we pay on the maturity date or a Redemption Date (as defined below) will be payable to the person to whom the principal will be payable.

Optional redemption of the notes

The notes will be redeemable, at the sole option of the Company, in whole at any time or in part from time to time (a Redemption Date), at a redemption price (the Redemption Price) equal to the greater of (1) 100% of the aggregate principal amount of the notes to be redeemed and (2) an amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such Redemption Date, discounted to such Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points; plus, in each case (1) and (2), accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such Redemption Date.

Treasury Rate means (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities , for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month), or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date. The Treasury Rate shall be calculated on the third business day preceding the Redemption Date.

Comparable Treasury Issue means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

Independent Investment Banker means one of Goldman, Sachs & Co., Mizuho Securities USA Inc., Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC and their successors, appointed by the Company or, if such firm is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the Company.

Comparable Treasury Price means with respect to any Redemption Date for the notes (1) the average of five Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the Company obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

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Reference Treasury Dealer means each of (i) Goldman, Sachs & Co., Mizuho Securities USA Inc., Morgan Stanley & Co. LLC and a Primary Treasury Dealer (as herein defined) selected by Wells Fargo Securities, LLC and their respective successors; and (ii) two other primary U.S. government securities dealers (each a Primary Treasury Dealer), as specified by the Company; provided that if any of the foregoing or their respective successors or any Primary Treasury Dealer as specified by the Company shall cease to be a Primary Treasury Dealer, the Company will substitute therefor another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to the Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such Redemption Date.

The Company will notify the Trustee of the Redemption Price with respect to the foregoing redemption promptly after the calculation thereof. The Trustee will not be responsible for calculating said Redemption Price.

Unless the Company defaults in payment of the Redemption Price, on and after the Redemption Date, interest will cease to accrue on the notes or portions of the notes called for redemption.

If less than all of the notes are to be redeemed, the principal amount of such notes held by each beneficial owner of such notes to be redeemed will be selected in accordance with the procedures of DTC. The Trustee may select notes and portions of notes in amounts of $2,000 and whole multiples of $1,000 in excess thereof.

On and after the Redemption Date, interest will cease to accrue on the notes or any portion of the notes called for redemption, unless we default in the payment of the Redemption Price.

Transfer

No service charge will be made for any registration of transfer or exchange of notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

Certain covenants

The Senior Debt Indenture does not contain any provisions that will restrict the Company from incurring, assuming or becoming liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on its capital stock or purchasing or redeeming its capital stock. The Senior Debt Indenture does not contain any financial ratios or specified levels of net worth or liquidity to which the Company must adhere. In addition, the Senior Debt Indenture does not contain any provision that would require that the Company repurchase or redeem or otherwise modify the terms of any of the notes upon a change in control or other events involving the Company which may adversely affect the creditworthiness of the notes.

The Company is not required pursuant to the Senior Debt Indenture to repurchase the notes, in whole or in part, with the proceeds of any sale, transfer or other disposition of any shares of capital stock of any restricted subsidiary (or of any subsidiary having any direct or indirect control of any restricted subsidiary). Further, the Senior Debt Indenture does not provide for any restrictions on the Company s use of such proceeds.

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For a discussion of the covenants contained in the Senior Debt Indenture, including those imposing limitations on liens on restricted subsidiaries and dispositions of stock of restricted subsidiaries, see Description of Debt Securities Covenants Applicable to the Debt Securities in the accompanying prospectus.

Book-entry system

The Depository Trust Company, or DTC, which we refer to along with its successors in this capacity as the depositary, will act as securities depositary for the notes. The notes will be issued only as fully registered securities registered in the name of Cede & Co., the depositary s nominee. One or more fully registered global notes, representing the total aggregate principal amount of the notes, will be issued and will be deposited with the depositary or its custodian and will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the notes so long as the notes are represented by global notes.

Investors may elect to hold interests in the notes in global form through either DTC in the United States or Clearstream Banking, société anonyme (Clearstream, Luxembourg) or Euroclear Bank S.A./N.V. (Euroclear), if they are participants in those systems, or indirectly through organizations which are participants in those systems. Clearstream, Luxembourg and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream, Luxembourg s and Euroclear s names on the books of their respective depositaries, which in turn will hold such interests in customers securities accounts in the depositaries names on the books of DTC. Citibank, N.A. will act as depositary for Clearstream, Luxembourg and JPMorgan Chase Bank, N.A. will act as depositary for Euroclear (in such capacities, the U.S. Depositaries).

DTC advises that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. The depositary holds securities that its participants (the DTC Participants) deposit with the depositary. The depositary also facilitates the settlement among DTC Participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants accounts, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. The depositary is owned by a number of its direct participants and by the New York Stock Exchange, LLC, the NYSC MKT LLC, and the Financial Industry Regulatory Authority, Inc. Access to the depositary s system is also available to others, including securities brokers and dealers, banks and trust companies that clear transactions through or maintain a direct or indirect custodial relationship with a direct participant either directly, or indirectly. The rules applicable to the depositary and DTC Participants are on file with the SEC.

Clearstream, Luxembourg advises that it is incorporated under the laws of Luxembourg as a professional depositary. Clearstream, Luxembourg holds securities for its participating organizations (Clearstream Participants) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a

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professional depositary, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to interests in the notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. Depositary for Clearstream, Luxembourg.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear (Euroclear Participants) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash.

Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the Euroclear Operator). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no records of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depositary for Euroclear.

We will issue the notes in definitive certificated form if the depositary notifies us that it is unwilling or unable to continue as depositary or the depositary ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 days. In addition, beneficial interests in a global note may be exchanged for definitive certificated notes upon request by or on behalf of the depositary in accordance with customary procedures following the request of a beneficial owner seeking to exercise or enforce its rights under such notes. If we determine at any time that the notes shall no longer be represented by global notes, we will inform the depositary of such determination who will, in turn, notify participants of their right to withdraw their beneficial interest from the global notes, and if such participants elect to withdraw their beneficial interests, we will issue certificates in definitive form in exchange for such beneficial interests in the global notes. Any global note, or portion thereof, that is exchangeable pursuant to this paragraph will be exchangeable for note certificates, as the case may be, registered in the names directed by the depositary. We expect that these instructions will be based upon directions received by the depositary from its participants with respect to ownership of beneficial interests in the global notes.

As long as the depositary or its nominee is the registered owner of the global notes, the depositary or its nominee, as the case may be, will be considered the sole owner and holder of the global notes and all notes represented by these global notes for all purposes under the notes and the indenture governing the notes. Except in the limited circumstances referred to above, owners of beneficial interests in global notes:

- will not be entitled to have the notes represented by these global notes registered in their names, and

- will not be considered to be owners or holders of the global notes or any notes represented by these global notes for any purpose under the notes or the indenture governing the notes.

All payments on the notes represented by the global notes and all transfers and deliveries of related notes will be made to the depositary or its nominee, as the case may be, as the holder of the securities.

Ownership of beneficial interests in the global notes will be limited to participants or persons that may hold beneficial interests through institutions that have accounts with the depositary or its nominee. Ownership of beneficial interests in global notes will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by the depositary or its nominee, with respect to participants interests, or any participant, with respect to interests of persons held by the participant on their behalf. Payments, transfers, deliveries, exchanges and other matters relating to beneficial interests in global notes may be subject to various policies and procedures adopted by the depositary from time to time. Neither we nor the trustee will have any responsibility or liability for any aspect of the depositary s or any participant s records relating to, or for payments made on account of, beneficial interests in global notes, or for maintaining, supervising or reviewing any of the depositary s records or any participant s records relating to these beneficial ownership interests.

Although the depositary has agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants, the depositary is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. We will not have any responsibility for the performance by the depositary or its direct participants or indirect participants under the rules and procedures governing the depositary.

The information in this section concerning the depositary, its book-entry system, Clearstream, Luxembourg and Euroclear has been obtained from sources that we believe to be reliable, but we have not attempted to verify the accuracy of this information.

Global clearance and settlement procedures

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC s Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream, Luxembourg and Euroclear, as applicable.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other hand, will be effected through DTC in accordance with DTC rules on behalf of the relevant European

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international clearing system by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of notes received in Clearstream, Luxembourg or Euroclear as a result of a transaction with a DTC Participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such notes settled during such processing will be reported to the relevant Euroclear Participant or Clearstream Participant on such business day. Cash received in Clearstream, Luxembourg or Euroclear as a result of sales of the notes by or through a Clearstream Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued or changed at any time.

About the trustee

The Bank of New York Mellon Trust Company, N.A. is the Trustee. Subject to the provisions of the Trust Indenture Act of 1939, as amended, the Trustee is under no obligation to exercise any of its powers vested in it by the Senior Debt Indenture at the request of any holder of the notes unless the holder offers the Trustee indemnity or security satisfactory to it against the costs, expenses and liabilities which might result. The Trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in performing its duties if the Trustee reasonably believes that it is not reasonably assured of repayment or adequate indemnity. We have entered, and from time to time may continue to enter, into banking or other relationships with The Bank of New York Mellon Trust Company, N.A. or its affiliates.

The Trustee may resign or be removed with respect to one or more series of debt securities under the Senior Debt Indenture, and a successor trustee may be appointed to act with respect to such series.

Applicable law

The notes and the Senior Debt Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

Payment and paying agent

We will pay principal of, and any premium, interest and additional amounts on the notes at the office of the paying agent designated by us, except that we may pay interest by check mailed to the registered holder or by wire transfer if the registered holder requests in writing to the Trustee at least 15 days prior to the date for payment.

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All moneys we pay to a paying agent of the Trustee for the payment of principal of, or any premium, interest or additional amounts on, a note which remains unclaimed at the end of two years will be repaid to us, and the holder of the note may then look only to us for payment.

The Bank of New York Mellon Trust Company, N.A. will act as paying agent for the notes.

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U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a general discussion of U.S. federal income tax consequences of the purchase, ownership and disposition of the notes by an initial holder of the notes that is a non-U.S. holder (as defined below) that acquires the notes pursuant to this offering at the initial sale price set forth on the cover of this prospectus supplement and holds the notes as capital assets (generally, property held for investment) for U.S. federal income tax purposes. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), the Treasury regulations promulgated thereunder (the Treasury Regulations), judicial decisions and current administrative rulings and practice, all as in effect and available as of the date hereof and all of which are subject to differing interpretations or change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be applicable to holders in light of their particular circumstances, or to holders subject to special treatment under U.S. federal income tax law, such as broker-dealers, banks or other financial institutions, insurance companies, tax-exempt entities (including private foundations) or qualified retirement plans, entities or arrangements that are treated as partnerships for U.S. federal income tax purposes and their partners, dealers in securities or currencies, certain U.S. expatriates, holders subject to the alternative minimum tax, passive foreign investment companies, persons deemed to sell the notes under the constructive sale provisions of the Code and persons that hold the notes as part of a straddle, hedge, conversion transaction or other integrated transaction for U.S. federal income tax purposes. Furthermore, this discussion does not address any other U.S. federal tax consequences (e.g., estate or gift tax) or any state, local or non-U.S. tax laws. This discussion is not intended to constitute a complete analysis of all tax consequences of the purchase, ownership and disposition of the notes. **Prospective investors are urged to consult their tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax consequences applicable to them in their particular circumstances.**

For purposes of this discussion, the term non-U.S. holder means a beneficial owner of a note that, for U.S. federal income tax purposes, is not (1) an individual who is a citizen or resident of the United States; (2) a corporation or other entity treated as a corporation for U.S. federal income tax purposes that is created in, or organized under the laws of, the United States or any political subdivision thereof; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; (4) a trust if (a) a court within the United States is able to exercise primary control over its administration and one or more U.S. persons, within the meaning of Section 7701(a)(30) of the Code, have the authority to control all substantial decisions of such trust, or (b) the trust has made an election under the applicable Treasury Regulations to be treated as a U.S. person under the Code; or (5) a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) beneficially owns the notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Partners and partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

Interest

Subject to the discussions of backup withholding and the Foreign Account Tax Compliance Act below, a non-U.S. holder will generally not be subject to U.S. federal income or withholding tax on payments of interest on the notes provided that (1) such interest is not effectively connected with the conduct of a trade or business within the United States by the non-U.S. holder (or, if certain tax treaties apply, such interest is not attributable to a permanent establishment or fixed base maintained within the United States by the non-U.S. holder) and (2) the non-U.S. holder (a) does not actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock, (b) is not a controlled foreign corporation related to us directly or constructively through stock ownership (within the meaning of Section 864(d)(4) of the Code), and (c) satisfies certain certification requirements. Such certification requirements will be met if (i) the non-U.S. holder provides its name and address, and certifies on an Internal Revenue Service (IRS) Form W-8BEN or IRS Form W-8BEN-E (or appropriate substitute form), under penalties of perjury, that it is not a U.S. person, or (ii) a securities clearing organization, bank or certain other financial institutions holding the notes on behalf of the non-U.S. holder certifies on IRS Form W-8IMY, under penalties of perjury, that the certification referred to in clause (i) has been received by it and furnishes us or our paying agent with a copy thereof. In addition, we or our paying agent must not have actual knowledge or reason to know that the beneficial owner of the notes is a U.S. person or that any of the information, certifications or statements in the IRS Form W-8BEN or IRS Form W-8BEN-E are incorrect.

If interest on the notes is not effectively connected with the conduct of a trade or business in the United States by a non-U.S. holder but such non-U.S. holder cannot satisfy the other requirements outlined in the preceding paragraph, interest on the notes will generally be subject to U.S. federal withholding tax (currently imposed at a 30% rate), unless the withholding tax rate is reduced or eliminated by an applicable income tax treaty, and such non-U.S. holder is a qualified resident of the treaty country and complies with certain certification requirements.

If interest on the notes is effectively connected with the conduct of a trade or business within the United States by a non-U.S. holder and, if certain tax treaties apply, such interest is attributable to a permanent establishment or fixed base within the United States, then the non-U.S. holder will generally be subject to U.S. federal income tax on the receipt or accrual of such interest on a net income basis in the same manner as if such holder were a U.S. person and, in the case of a non-U.S. holder that is a foreign corporation, may also be subject to an additional branch profits tax (currently imposed at a rate of 30%, or a lower applicable treaty rate) on its effectively connected earnings and profits, subject to adjustments. Any such interest will not also be subject to U.S. federal withholding tax, however, if the non-U.S. holder delivers to us a properly executed IRS Form W-8ECI in order to claim an exemption from U.S. federal withholding tax.

Disposition of the notes

Except with respect to accrued but unpaid interest, which will generally be taxed as described above under Interest, and subject to the discussions of backup withholding and the Foreign Account Tax Compliance Act below, a non-U.S. holder will generally not be subject to U.S. federal income tax (or any withholding thereof) with respect to gain, if any, recognized on the sale, exchange, redemption or other taxable disposition of the notes unless (1) the gain is effectively connected with the conduct of a trade or business within the United States by the non-U.S. holder and, if certain tax treaties apply, is attributable to a permanent establishment or fixed base of the non-U.S. holder within the United States, or (2) in the case of a non-U.S. holder that is an individual, such holder is present in the United States for 183 or more days in the taxable year in which such sale, exchange, redemption or other taxable disposition occurs and certain other conditions are satisfied.

Gain that is effectively connected with the conduct of a trade or business in the United States will generally be subject to U.S. federal income tax on a net income basis (but not U.S. withholding tax), in the same manner as if the non-U.S. holder were a U.S. person, and, in the case of a non-U.S. holder that is a foreign corporation, may also be subject to an additional branch profits tax (currently imposed at a rate of 30%, or a lower applicable treaty rate) on its effectively connected earnings and profits, subject to adjustments. An individual non-U.S. holder who is subject to U.S. federal income tax because the non-U.S. holder was present in the United States for 183 days or more during the year of

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sale, exchange, redemption, or other disposition of the notes will be subject to a flat 30% tax on the gain derived from such sale or other taxable disposition, which may be offset by certain U.S. source capital losses.

Information reporting and backup withholding

A non-U.S. holder will generally be required to comply with certain certification procedures to establish that such holder is not a U.S. person in order to avoid backup withholding with respect to payments of principal and interest on, or the proceeds of a disposition of, the notes. In addition, we must report annually to the IRS and to each non-U.S. holder the amount of any interest paid to such non-U.S. holder regardless of whether any tax was actually withheld. Copies of the information returns reporting such interest payments and the amount withheld may also be made available to the tax authorities in the country in which a non-U.S. holder resides under the provisions of an applicable tax treaty.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. holder s U.S. federal income tax liability, provided the required information is correctly and timely provided to the IRS.

Additional withholding requirements under the Foreign Account Tax Compliance Act

Withholding at a rate of 30% will generally be required in certain circumstances on interest payable on and, after December 31, 2016, gross proceeds from the disposition of the notes held by or through certain financial institutions (including investment funds), unless such institution (i) enters into, and complies with, an agreement with the IRS to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution that are owned by certain U.S. persons or by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments, or (ii) if required under an intergovernmental agreement between the United States and an applicable foreign country, reports such information to its local tax authority, which will exchange such information with the U.S. authorities. An intergovernmental agreement between the United States and applicable foreign country may modify these requirements. Accordingly, the entity through which the notes are held will affect the determination of whether such withholding is required. Similarly, interest payable on and, after December 31, 2016, gross proceeds from the disposition of the notes held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exemptions generally will be subject to withholding at a rate of 30%, unless such entity either (i) certifies that such entity does not have any substantial United States owners or (ii) provides certain information regarding the entity s substantial United States owners, which we will in turn provide to the United States Department of the Treasury. Prospective investors should consult their own tax advisors regarding the possible implications of these rules on an investment in the notes.

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UNDERWRITING

The Parent Company and the underwriters for the offering (the underwriters) named below have entered into an underwriting agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount the notes indicated in the following table. Goldman, Sachs & Co., Mizuho Securities USA Inc., Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC are acting as representatives of the underwriters for the offering.

Underwriters	Principal amount of notes
Goldman, Sachs & Co.	$ 159,375,000
Mizuho Securities USA Inc.	159,375,000
Morgan Stanley & Co. LLC	159,375,000
Wells Fargo Securities, LLC	159,375,000
J.P. Morgan Securities LLC	22,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	22,500,000
Credit Suisse Securities (USA) LLC	22,500,000
BNY Mellon Capital Markets, LLC	11,250,000
Mitsubishi UFJ Securities (USA), Inc.	11,250,000
SMBC Nikko Securities America, Inc.	11,250,000
Synovus Securities, Inc.	11,250,000
Total	$ 750,000,000

The underwriters are committed to take and pay for all of the notes being offered, if any are taken.

Notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to 0.40% of the principal amount of the note. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to 0.25% of the principal amount of the notes. If all the notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

The notes are new issues of securities with no established trading market, and we do not intend to list the notes on any security exchange or for quotation in any automated dealer quotations system. We have been advised by the underwriters that the underwriters intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

In connection with the offering of the notes, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater principal amount of notes than they are required to purchase in the offering of the notes. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering of the notes is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the other underwriter a portion of the underwriting discount received by it because the other underwriter has repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

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These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Parent Company estimates that its share of the total expenses of the offering of the notes, excluding underwriting discounts, will be approximately $250,000.

The Parent Company has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, including securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Company and for persons and entities with relationships with the Company, for which they received or will receive customary fees and expenses. The Trustee is an affiliate of BNY Mellon Capital Markets, LLC, one of the underwriters in this offering. An affiliate of Mizuho Securities USA Inc. is the administrative agent under an unsecured revolving credit facility agreement we entered into in March 2013. In addition, we have agreements with affiliates of Mizuho Securities USA Inc. to sell our products at their Japanese bank branches.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade debt and equity securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and securities activities may involve or relate to assets, securities and/or instruments of the Company (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The underwriters and their respective affiliates may also make investment recommendations, communicate market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such assets, securities and instruments.

This prospectus supplement and the accompanying prospectus have been prepared on the basis that any offer of notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of notes which are the subject of an offering contemplated in this prospectus supplement and the accompanying prospectus may only do so in circumstances in which no obligation arises for the Parent Company or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Parent Company nor any underwriter has authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for the Parent Company or any underwriter to publish a prospectus for such offer.

In relation to each Relevant Member State, each underwriter has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member

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State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

(1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of notes shall require the Parent Company or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

This prospectus supplement and the accompanying prospectus are only being distributed to and are only directed at: (i) persons who are outside the United Kingdom; or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order); or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus supplement and the accompanying prospectus or any of their contents.

Each underwriter has represented and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the FSMA)) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the Parent Company; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

The notes may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (2) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (3) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue

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(in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (2) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor for corporations, under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to Section 275(1A) or an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; or (4) pursuant to Section 276(7) of the SFA.

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VALIDITY OF THE NOTES

Certain legal matters as to Georgia law in connection with this offering of notes will be passed upon for us by J. Matthew Loudermilk, Esq., Vice President and Corporate Secretary of Aflac Incorporated, and certain legal matters as to New York law in connection with this offering of notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Certain partners of Skadden, Arps, Slate, Meagher & Flom LLP beneficially own an aggregate of less than one percent of the common stock of Aflac Incorporated. The validity of the notes will be passed upon for the underwriters by Sullivan & Cromwell LLP, New York, New York and Sullivan & Cromwell LLP will rely as to all matters of Georgia law upon the opinion of J. Matthew Loudermilk, Esq.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy any of this information at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information about issuers who file electronically with the SEC. The address of that site is http://www.sec.gov. These reports, proxy statements and other information may also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005. General information about us, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website at www.aflac.com as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Information on our website is not incorporated into this prospectus or our other securities filings and is not a part of these filings. This prospectus supplement relates to a registration statement that we have filed with the SEC relating to the securities to be offered.

This prospectus supplement does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules in accordance with the rules and regulations of the SEC and we refer you to the omitted information. The statements this prospectus supplement makes pertaining to the content of any contract, agreement or other document that is an exhibit to the registration statement necessarily are summaries of their material provisions and do not describe all exceptions and qualifications contained in those contracts, agreements or documents. You should read those contracts, agreements or documents for information that may be important to you. The registration statement, exhibits and schedules are available at the SEC s public reference room or through its website.

We incorporate by reference into this prospectus supplement information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is deemed to be part of this prospectus supplement and later information that we file with the SEC will automatically update and supersede that information. This prospectus supplement incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us and our financial condition.

The following documents listed below, which we have previously filed with the SEC, are incorporated by reference:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2013;
- our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2014, June 30, 2014 and September 30, 2014;
- our Definitive Proxy Statements pursuant to Section 14(a) of the Exchange Act, filed with the SEC on March 20, 2014 and April 22, 2014; and
- our Current Reports filed on Form 8-K on February 11, 2014, February 14, 2014, May 8, 2014, August 15, 2014, September 29, 2014 and October 24, 2014.

All documents filed by us under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus supplement and prior to the termination of the offering of the securities shall also be deemed to be incorporated in this prospectus supplement by reference.

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We will provide a copy of these filings, at no cost, upon your written or oral request to us at the following address or telephone number:

Aflac Incorporated

Office of the Secretary

1932 Wynnton Road

Columbus, Georgia 31999

(706) 323-3431

Exhibits to the filings will not be sent, unless those exhibits have been specifically incorporated by reference in this prospectus supplement.

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PROSPECTUS

Aflac Incorporated

Senior Debt Securities,

Subordinated Debt Securities

We may, from time to time, offer to sell senior or subordinated debt securities. This prospectus describes some of the general terms that may apply to these securities.

Specific terms of these securities not provided herein will be provided in one or more supplements to this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you invest.

You should carefully consider the risks of an investment in these securities. See Risk Factors in this prospectus, Item 1A Risk Factors in our most recent annual report on Form 10-K, and any other risk factors included in filings we have made with the Securities and Exchange Commission (SEC) that are incorporated herein by reference.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus or any prospectus supplement. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 1, 2012.

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This prospectus relates to a registration statement filed by Aflac Incorporated with the SEC using a shelf registration process (the registration statement). Under this shelf process as described in the registration statement we may sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any applicable prospectus supplement, you should rely on the information in the applicable prospectus supplement. You should read both this prospectus and any applicable prospectus supplement, together with additional information described under the heading Where You Can Find More Information.

The functional currency of Aflac Japan s (as defined below) insurance operations is the Japanese yen. We translate our yen-denominated financial statement accounts into U.S. dollars as follows. Assets and liabilities are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date of each transaction. Other revenues, expenses and cash flows are translated using average exchange rates for the year. The resulting currency translation adjustments are reported in accumulated other comprehensive income. We include in earnings the realized currency exchange gains and losses resulting from transactions.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities to be offered. The registration statement, including the exhibits, can be read at the SEC website or at the SEC offices mentioned under the heading Where You Can Find More Information. General information about us, including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website at *www.aflac.com* as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Information on our website is not incorporated into this prospectus or our other securities filings and is not a part of these filings.

You should rely only on the information contained in this prospectus and the information to which we have referred you. We have not authorized any other person to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this document.

As used in this prospectus, unless the context otherwise requires, references to we, us, our or the Company refer to the consolidated operations of Aflac Incorporated, and its direct and indirect operating subsidiaries. Parent Company refers solely to Aflac Incorporated. Aflac refers solely to our subsidiary, American Family Life Assurance Company of Columbus, an insurance company domiciled in Nebraska. Aflac operates in the United States (Aflac U.S.) and operates as a branch in Japan (Aflac Japan).

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. We desire to take advantage of these provisions. This prospectus or documents filed with the SEC and incorporated by reference herein contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by Company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as expect, anticipate, believe, goal, objective, may, should, estimate, intends, pr assumes, potential, target or similar words as well as specific projections of future results, generally qualify as forward-looking. We undertake no obligation to update such forward-looking statements.

We caution readers that the following factors, in addition to other factors mentioned from time to time, could cause actual results to differ materially from those contemplated by the forward-looking statements:

- difficult conditions in global capital markets and the economy
- governmental actions for the purpose of stabilizing the financial markets
- defaults and credit downgrades of securities in our investment portfolio
- impairment of financial institutions
- credit and other risks associated with our investment in perpetual securities
- differing judgments applied to investment valuations
- significant valuation judgments in determination of amount of impairments taken on our investments
- limited availability of acceptable yen-denominated investments
- concentration of our investments in any particular single-issuer or sector
- concentration of business in Japan
- ongoing changes in our industry

exposure to significant financial and capital markets risk

fluctuations in foreign currency exchange rates

significant changes in investment yield rates

deviations in actual experience from pricing and reserving assumptions

subsidiaries ability to pay dividends to the Parent Company

changes in law or regulation by governmental authorities

ability to attract and retain qualified sales associates and employees

decreases in our financial strength or debt ratings

ability to continue to develop and implement improvements in information technology systems

changes in U.S. and/or Japanese accounting standards

failure to comply with restrictions on patient privacy and information security

level and outcome of litigation

ability to effectively manage key executive succession

impact of the recent earthquake and tsunami natural disaster and related events at the nuclear plant in Japan and their aftermath

catastrophic events including, but not necessarily limited to, tornadoes, hurricanes, earthquakes, tsunamis, and damage incidental to such events

failure of internal controls or corporate governance policies and procedures

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AFLAC INCORPORATED

The Parent Company, Aflac Incorporated, was incorporated in 1973 under the laws of the State of Georgia. The Parent Company is a general business holding company and acts as a management company, overseeing the operations of its subsidiaries by providing management services and making capital available. Its principal business is supplemental health and life insurance, which is marketed and administered through its subsidiary, American Family Life Assurance Company of Columbus (Aflac), which operates in the United States (Aflac U.S.) and as a branch in Japan (Aflac Japan). Most of Aflac s policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), referred to as Aflac Group Insurance. Our insurance operations in the United States and our branch in Japan service the two markets for our insurance business.

Aflac offers voluntary insurance policies in Japan and the United States that provide a layer of financial protection against income and asset loss. We continue to diversify our product offerings in both Japan and the United States. Aflac Japan sells voluntary supplemental insurance products, including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities. Aflac U.S. sells voluntary supplemental insurance products including loss-of-income products (life and short-term disability plans) and products designed to protect individuals from depletion of assets (hospital indemnity, fixed-benefit dental, vision care, accident, cancer, critical illness/ critical care, and hospital intensive care plans).

Aflac is authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan. Aflac Japan accounted for 75%, 75% and 73% of the Company s total revenues in 2011, 2010 and 2009, respectively. The percentage of the Company s total assets attributable to Aflac Japan was 87% at December 31, 2011, and 86% at December 31, 2010.

Our principal executive offices are located at 1932 Wynnton Road, Columbus, Georgia 31999 and our telephone number is (706) 323-3431.

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GENERAL DESCRIPTION OF DEBT SECURITIES

Our debt securities may be senior or subordinated in right of payment. For any particular debt securities we offer, the applicable prospectus supplement will describe all applicable terms, including, but not limited to, the specific designation, the aggregate principal or face amount and the purchase price; the ranking, whether senior or subordinated; the stated maturity; the redemption terms, if any; the rate or manner of calculating the rate and the payment dates for interest, if any; the amount or manner of calculating the amount payable at maturity and whether that amount may be paid by delivering cash, securities or other property; and any other specific terms. Unless the prospectus supplement states otherwise, all amounts payable in respect of the securities, including the purchase price, will be payable in U.S. dollars. We will issue the senior and subordinated debt securities under separate debt indentures between us and The Bank of New York Mellon Trust Company, N.A., as trustee.

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RISK FACTORS

Investing in our securities involves risk. Please see the risk factors described in Item 1A Risk Factors in our most recent annual report on Form 10-K, which is incorporated by reference in this prospectus, as well as any risk factors included in any other filings we have made with the SEC that are incorporated by reference herein. Please also see any risk factors contained in any prospectus supplement that accompanies this prospectus. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. Additional risk factors may be included in a prospectus supplement relating to a particular series or offering of securities. These risks could materially affect our business, results of operations or financial condition and cause the value of our securities to decline. You could lose all or part of your investment.

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USE OF PROCEEDS

Unless otherwise indicated in an applicable prospectus supplement, the net proceeds from the sale of the securities offered by us will be used for general corporate purposes. We may provide additional information on the use of the net proceeds from the sale of the offered securities in an applicable prospectus supplement relating to the offered securities in accordance with SEC rules.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated. For the purpose of computing the below ratios, earnings consist of income from continuing operations before income taxes excluding interest expense on income tax liabilities, plus fixed charges. Fixed charges consist of interest expense, excluding interest expense on income tax liabilities, interest on investment-type contracts and such portion of rental expense as is estimated to be representative of the interest factors in the leases, all on a pre-tax basis.

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Ratio of Earnings to Fixed Charges	13.1x	19.8x	21.7x	37.2x	58.5x

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DESCRIPTION OF DEBT SECURITIES

Senior Debt Indenture and Subordinated Debt Indenture

We may issue our debt securities, consisting of notes, debentures or other indebtedness, from time to time in one or more series. Unless the applicable prospectus supplement states otherwise, we will issue any senior debt securities pursuant to the Senior Debt Indenture, dated as of May 21, 2009 between the Parent Company, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee (the Senior Debt Indenture). Unless the applicable prospectus supplement states otherwise, we will issue any subordinated debt securities pursuant to a subordinated debt indenture (Subordinated Debt Indenture) to be entered into between the Parent Company, as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee. The Senior Debt Indenture and the form of Subordinated Debt Indenture are incorporated by reference as exhibits to the registration statement of which this prospectus forms a part.

The Senior Debt Indenture and the Subordinated Debt Indenture are substantially similar except that (1) the Subordinated Debt Indenture, unlike the Senior Debt Indenture, provides for debt securities that are specifically made junior in right of payment to other specified indebtedness of the Parent Company and (2) the Senior Debt Indenture, unlike the Subordinated Debt Indenture, restricts the ability of the Parent Company to use the shares of its restricted subsidiaries to secure any indebtedness, unless an equal and ratable security interest in these subsidiary shares is granted to the holders of the senior debt securities. Neither the Senior Debt Indenture nor the Subordinated Debt Indenture limits the aggregate principal amount of indebtedness that we may issue from time to time.

The following description provides a general summary of the material terms and conditions of the Senior Debt Indenture, the Subordinated Debt Indenture and the debt securities to be issued pursuant to these indentures.

The following discussion is only a summary. The indentures may contain language that expands upon or limits the statements made in this prospectus. Accordingly, we strongly encourage you to refer to the indentures, as well as any applicable prospectus supplements for any debt securities offered, for a complete understanding of the terms and conditions applicable to the indentures and the debt securities.

Senior and Subordinated Debt Securities

The debt securities will be our unsecured senior or subordinated obligations. The term senior is generally used to describe debt obligations that entitle the holders to receive payment of principal and interest upon the happening of certain events prior to the holders of subordinated debt. Events that can trigger the right of holders of senior indebtedness to receive payment of principal and interest prior to payments to the holders of subordinated indebtedness include insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or an event of default under the Senior Debt Indenture.

We may issue the senior debt securities, pursuant to the Senior Debt Indenture, in one or more series. All series of senior debt securities issued under the Senior Debt Indenture will be equal in ranking. The senior debt securities also will rank equally with all our other unsecured indebtedness, other than unsecured indebtedness expressly designated by the holders thereof to be subordinate to our senior debt securities.

The senior indebtedness issued pursuant to the Senior Debt Indenture will rank junior and be subordinate to any indebtedness of our subsidiaries. In the event of an insolvency, bankruptcy, liquidation, dissolution, receivership, reorganization or similar event involving a subsidiary, the assets of that subsidiary would be used to satisfy claims of policyholders and creditors of the subsidiary rather than our creditors. As a result of the application of the subsidiary s assets to satisfy claims of policyholders and creditors, the value of the stock of the subsidiary would be diminished and perhaps rendered worthless. Any such diminution in the value of the shares of our subsidiaries would adversely impact our financial condition and possibly impair our ability to meet our obligations on the debt securities. In addition, any liquidation of the assets of the Parent Company s subsidiaries (Aflac, in particular) to satisfy claims of the subsidiary s policyholders and creditors might make it impossible for such subsidiary to pay dividends to us. Likewise, any inability of Aflac Japan to repatriate earnings to Aflac may also limit Aflac s ability to pay dividends to the Parent Company. This inability to pay dividends to the

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Parent Company would further impair the ability of the Parent Company to satisfy its obligations under the debt securities.

The debt securities issued under the Subordinated Debt Indenture will be subordinate in right of payment in respect of principal, any premium and interest owing under the subordinated debt securities to all the senior indebtedness of the Parent Company in the manner described below under the caption Subordination Under the Subordinated Debt Indenture.

Prospectus Supplements

We will provide a prospectus supplement to accompany this prospectus for each series of debt securities we offer. In the prospectus supplement, we will describe the following terms and conditions of the series of debt securities that we are offering, to the extent applicable:

- whether the securities are senior or subordinated, the specific designation of the series of debt securities being offered, the aggregate principal amount of debt securities of such series, the purchase price for the debt securities and the denominations of the debt securities;

- the currency or currencies in which the debt securities will be denominated and in which principal, any premium and any interest will or may be payable;

- the date or dates upon which the debt securities are payable;

- the interest rate or rates applicable to the debt securities or the method for determining such rate or rates, whether the rate or rates are fixed or variable, the dates on which interest will be payable and the date from which interest will accrue;

- the place or places where the principal of, any premium and any interest on the debt securities will be payable;

- any mandatory or optional redemption, repayment or sinking fund provisions applicable to the debt securities. A redemption or repayment provision could either obligate or permit us to buy back the debt securities on terms that we designate in the prospectus supplement. A sinking fund provision could either obligate or permit us to set aside a certain amount of assets for payments upon the debt securities, including payment upon maturity of the debt securities or payment upon redemption of the debt securities;

- whether the debt securities will be issued in registered form, in bearer form or in both registered and bearer form. In general, ownership of registered debt securities is evidenced by the records of the issuing entity. Accordingly, a holder of registered debt securities may transfer the securities only on the records of the issuer. By contrast, ownership of bearer debt securities generally is evidenced by physical possession of the securities. Accordingly, a holder of bearer debt securities can transfer ownership merely by transferring possession of the securities;

- any restrictions or special procedures applicable to (1) the place of payment of the principal, any premium and any interest on bearer debt securities, (2) the exchange of bearer debt securities for registered debt securities or (3) the sale and delivery of bearer debt securities. A holder will not be able to exchange registered debt securities into bearer debt securities except in limited circumstances;

- whether we are issuing the debt securities in whole or in part in global form. If debt securities are issued in global form, the prospectus supplement will disclose the identity of the depositary for such debt securities and any terms and conditions applicable to the exchange of debt securities in whole or in part for other definitive securities. Debt securities in global form are discussed in greater detail below under the heading Global Debt Securities ;

any special United States federal income tax consequences applicable to the debt securities, including any debt securities denominated and made payable, as described in the prospectus supplements, in foreign currencies, or units based on or related to foreign currencies;

any proposed listing of the debt securities on a securities exchange;

any right we may have to satisfy, discharge and defease our obligations under the debt securities, or terminate or eliminate restrictive covenants or events of default in the indentures, by depositing money or U.S. government obligations with the trustee of the indentures;

the names and addresses of any trustee, depositary, authenticating or paying agent, transfer agent, registrar or other agent with respect to the debt securities;

any right we may have to defer payments of principal of or interest on the debt securities;

any index or indices used to determine the amount of payments of principal of and premium, if any, on the debt securities and the method of determining these amounts;

whether the provisions of some or all of the covenants described under the heading Covenants Applicableation date of the agreement from November 19, 2014 to December 31, 2015 and adding certain terms and provisions regarding setting target inventory levels and defining a formula for determining the excess inventory of our products held by Cardinal Health. At that time Cardinal Health agreed to not sell any of the Forward Order inventory until calendar year 2012. We also agreed to a methodology for the amount of the Forward Order inventory Cardinal Health would be able to sell to our customers each month, establishing a more orderly inventory release process that would help to minimize the impact this inventory release would have on our sales during 2012.

On September 28, 2011, we announced an agreement to implement the Safety-Sponge® System with a large hospital group with approximately 138 hospitals. The implementations started in the beginning of 2012 and were completed at the end of the fourth quarter of the fiscal year ended 2012, with 138 hospitals implemented. The magnitude of this large implementation compelled us to prioritize our resources in order to scale up for costs associated with the large implementation, including the need to buy more sponge and towel inventory and scanners, as well as hiring and training more staff to support the implementations. As a result of this and other factors, management approached Cardinal Health in late 2011 to discuss the timing of when Cardinal Health would begin to release the Forward Order inventory. At that time, Cardinal Health agreed to delay the release of Forward Order inventory until April 1, 2012, to allow both sides additional time to negotiate a possible revision to the previously agreed upon terms, including the release of the Forward Inventory. Due to a number of other items effecting both the Company and Cardinal Health during 2012, a final agreement with Cardinal Health on changing the previously agreed upon terms, including setting a date for Cardinal Health to begin releasing the Forward Order inventory was not reached until January 2013.

In January 2013, Cardinal Health and the Company signed the second amendment to the Supply and Distribution agreement or the “Second Amendment”. The Second Amendment changed a number of terms under the Supply and Distribution Agreement and the First Amendment including but not limited to adding certain provisions regarding target inventory levels of the Company’s products held by Cardinal Health, and extending the termination date of the Supply and Distribution Agreement from December 31, 2015 to December 31, 2016. Under the terms of the Second Amendment, Cardinal Health is required to maintain any inventory in excess of set target inventory levels up through to December 31, 2013, and the Company agrees to pay a monthly fee to Cardinal Health throughout 2013 based on the amount of any excess inventory held each month by Cardinal Health. The Company will continue to have the right to buy back any such excess inventory from Cardinal Health at any time. Beginning January 1, 2014, Cardinal Health may use any remaining excess inventory to partially meet customer demand according to a formula set forth in the First Amendment which limits their use of any excess inventory over a 12 month time period. Should there be any excess inventory during 2014, the Company will continue to pay Cardinal Health a monthly fee on the excess inventory up through to December 31, 2014, and if there is any excess inventory held by Cardinal Health after December 31, 2014, Cardinal Health will have the right to use that excess inventory to meet customer demand of the Company's products. Management currently estimates that any fees paid to Cardinal Health under the Second Amendment will not have a material impact on the Company's financial results (currently estimated to range from 1% to 3% of reported revenue for the Company during the years 2013 and 2014), and that any additional growth the Company experiences during 2013 and 2014 will minimize the impact of any fees paid. Additionally, the Second Amendment provides that the Supply and Distribution Agreement is terminable by Cardinal Health upon a change of control of the Company.

Should Cardinal Health have any excess inventory on hand at December 31, 2013, and begins selling the excess inventory it holds to partially meet customer demand during 2014, our reported revenues and cash flows in 2014 could be negatively affected. The magnitude this negative impact could have on our 2014 revenue and cash flows will depend on a number of factors, including but not limited to how much excess inventory Cardinal Health actually has on hand at the end of the year 2013, whether the Company chooses to purchase some or all of this excess inventory, and what our actual sales growth rates are during 2013 and 2014. Actual sales during 2013 and 2014 will depend on a number of factors, including but not limited to actual end-user demand and Cardinal Health's estimates of what inventory levels it needs to meet that demand. Management has no immediate plans to repurchase Cardinal Health's excess inventory, however we will consider this option should an appropriate opportunity arise. While we have not provided any estimates of what we expect 2013 or 2014 sales growth to be, in order to prevent a significant negative impact to our 2014 revenue by Cardinal Health's release of Forward Order inventory, (i) the Company would need to experience substantial growth in the number of hospitals using its products during 2013 and 2014, (ii) the Company would need to buyback any excess inventory from Cardinal Health, or (iii) Cardinal Health would need to decide not to use its excess inventory to partially meet customer demand. If the Company were to buyback excess inventory from Cardinal Health, this also could have a significant negative impact to the Company's earnings, financial position and our liquidity.

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

Our exclusive distribution agreement with Cardinal Health results in all of our current revenues coming from orders placed by Cardinal Health. Cardinal Health has discretion in the timing and quantities with the orders they place, subject only to the limits contained in our agreements with them. As a result, our revenues may not necessarily correlate with the actual growth of our underlying customer base. In addition, our revenue can be materially impacted by the size of new customer hospital systems being implemented and the expected timing of those implementations by us and our distribution partners. Size of hospital systems connotes the number of actual hospitals that are a part of the hospital system and the number of surgical procedures that are performed at each hospital. Implementations with our large hospital system customers like the Mayo Clinic in Rochester and Cleveland Clinic both in 2009, or the large hospital group with 138 hospitals in 2012 had a material impact on our reported revenue and revenue growth for the years 2009 and 2012. The timing of when these larger hospital system implementations are expected to occur also have a significant impact on our annual reported revenue, as both the Company and our distribution partners need to ensure there is adequate inventory on hand to accommodate them. The decision process that our distribution partner Cardinal Health uses in determining when to place orders is complex and subject to significant judgment. If those judgments prove incorrect, or are inconsistent with our business needs or expectations, our revenues may be materially adversely impacted. For example, some of the factors that go into these judgments include, but are not limited to: (i) the size of some new pending and possible customers, (ii) the distribution agreements new pending and possible hospital customers have with their distribution partners, (iii) the multiple formats our products need to be available in (Single Sterile and Bulk Non Sterile), and (iv) the location of the manufacturing facilities of our China based manufacturing partner and the lead times needed in manufacturing our products. In addition, although growth in the number of hospitals is a relevant general indicator of growth in our business and customer acceptance of our products, it is not necessarily proportional to future revenue. This is because revenue growth is impacted by a variety of factors, including the number of actual customers represented by the hospitals using our products, the number of procedures such hospitals actually perform, the timing of orders of our products and the other factors described in this Annual Report on Form 10-K.

Hardware Effect on Revenue and Cost of Revenue

We generally provide our SurgiCounter™ scanners and related software to all hospitals at no cost when they adopt our Safety-Sponge® System. We generally no longer engage in direct SurgiCounter™ scanner sales and anticipate only recognizing revenue associated with our SurgiCounter™ scanners in connection with reimbursement arrangements we have with Cardinal Health under our agreement with them. There has been a shift in product mix based on the growing number of scanners that we have given customers out in the field, which causes our gross margins to decline due to depreciation expense of these scanners being recorded in cost of revenue over the estimated useful life. However, we also anticipate that as we experience a significant increase in new customer surgical sponge revenue at current pricing levels, this revenue growth will eventually help offset the effects of a growing depreciation expense resulting from scanners being recorded as a cost of revenue.

Results of Operations

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenue

Total revenue for the year ended December 31, 2012 was $17.6 million, which compared to total revenue for the year ended December 31, 2011 of $9.5 million, representing year over year growth in reported revenue of 86%. For the year ended December 31, 2011, revenue of $9.5 million included approximately $1.1 million of revenue for filling a $10 million Forward Order to our exclusive distributor, Cardinal Health. The Forward Order was completed in the second quarter of 2011, so there was no revenue earned from the Forward Order during 2012. When excluding the effect of the Forward Order revenue on the reported year ended 2011 revenue, the year ended December 31, 2012 year-over-year revenue growth would have been 110%. The primary reason for the increased revenue growth is the larger number of new customer implementations we have had throughout 2012, having grown by 179 hospital facilities during the year ended December 31, 2012.

Cost of revenue

Costs of revenue of $10.0 million increased by $5.0 million or 96% for the year ended December 31, 2012 as compared to cost of revenue of $5.1 million for the same period in 2011. This increase was primarily the result of a higher number of facilities purchasing our products. Our cost of revenue for the twelve months ended December 31, 2012 included a higher amount of non-cash depreciation expense from providing the scanner hardware at no cost to our new customer facilities (see "Factors effecting Past and Future Results — Reduction in Hardware Revenue"). Our cost of revenue as percentage of revenue increased to 57% during the twelve months ended December 31, 2012 as compared to 54% during the same period in 2011. This increase was attributable mostly to higher non-cash depreciation expense that totaled $1.7 million in our cost of revenue during the twelve months ended December 31, 2012, as compared to similar costs during the same period in 2011 of $514 thousand. This 227% increase in depreciation expense reflected the large amounts of hardware purchased and implemented in order to support 179 new hospital customer implementations occurring in the twelve months ended December 31, 2012. Excluding non-cash depreciation expenses our adjusted costs of revenues for the year ended December 31, 2012 was $8.4 million, an increase of $3.8 million as compared to cost of revenue of $4.6 excluding non-cash depreciation expenses for the year ended December 31, 2011.

Gross profit

Gross profit totaled $7.6 million for the twelve months ended December 31, 2012, an increase of $3.2 million, or 74%, compared to gross profit of $4.3 million during the same period in 2011. Our gross profit for the twelve months ended December 31, 2012 as compared to the twelve months ended December 31, 2011 was negatively impacted by higher amounts of non-cash depreciation expense (primarily associated with the relatively larger amount of scanning equipment we provided to support a higher number of new customers) offset by higher relative pricing on our products to new customers. Gross profit as a percent of revenue was 43% during the twelve months ended December 31, 2012 and 46% during the same period in 2011. Excluding the effect of non-cash depreciation expenses captured in our costs of revenues, our adjusted gross profit for the twelve months ended December 31, 2012 was $9.2 million, an increase of $4.4 million as compared to our adjusted gross profit excluding the effect of non-cash depreciation expenses captured in our costs of revenues for the twelve months ended December 31, 2011 of $4.9 million. Excluding the effect of non-cash depreciation expenses adjusted gross profit as a percent of revenue was 52% for the twelve months ended December 31, 2012 and 51% for the twelve months ended December 31, 2011.

Operating expenses

Operating expenses totaled $9.6 million for the twelve months ended December 31, 2012, an increase of $2.6 million, or 37%, compared to $7.0 million of operating expenses during the same period in 2011. The increase in operating expenses was primarily due to higher one-time costs associated with a significantly larger number of new customer implementations during the year of 2012 as compared to the same period of 2011. During the twelve months ended December 31, 2012 we successfully implemented 179 new customer facilities, the most new customer facilities we have ever implemented during a twelve month time period in our history. This compares to 30 new customer facilities implemented during the twelve months of 2011. Total one-time implementation costs in the twelve months ended December 31, 2012 were approximately $2.0 million, as compared to approximately $0.6 million during the twelve months ended December 31, 2011. One-time expenses associated with implementing new customer facilities included utilizing per diem clinical and IT personnel for upfront planning and staffing clinical and technical on-site support during the implementation process, associated travel and lodging expenses and other related implementation expenses. Additionally, during 2012, we continued the implemented a new large hospital system customer comprised of 138 hospital facilities, for which we originally initiated implementations in the first quarter of 2012 and completed by the fourth quarter 2012. The relatively fast pace with which we implemented these new facilities resulted in incurring higher implementation costs than we would otherwise would have.

Research and development expenses

Research and development expenses totaled $580 thousand for the twelve months ended December 31, 2012, an increase of $472 thousand, or 440%, compared to $107 thousand during the same period in 2011. The year-over-year increase in research and development spending was primarily due to expanded investment in resources dedicated to improving and expanding our product offering.

Sales and marketing expenses

Sales and marketing expenses totaled $4.9 million for the twelve months ended December 31, 2012, an increase of $1.9 million, or 65%, compared to $3.0 million during the same period in 2011. The increase in sales and marketing expenses during the twelve months of 2012 as compared to the same period in 2011 was due primarily to the significantly higher one-time implementation expenses to support new facility implementations during this period as described above in Operating expenses.

General and administrative expenses

General and administrative ("G&A") expenses totaled $4.1 million for the twelve months ended December 31, 2012, representing an increase of $145 thousand, or 4%, compared to G&A expenses of $3.9 million during the same period in 2011. The slight increase in G&A expenses during the twelve months ended December 31, 2012 as compared the same period in 2011 was due primarily to the addition of employees to support our growing customer base and expanded operations.

Total other income (expense)

We reported other expense of $108 thousand for the twelve months ended December 31, 2012, a decrease of $897 thousand of income compared to other income of $788 thousand for the twelve months ended December 31, 2011. During the year we recorded interest expense of $106 thousand related to our payables aging over standard payment terms. During the twelve months ended December 31, 2011, we had recognized a gain of $221 thousand related to the reduction of a contingent tax liability, and also recognized a gain of $568 thousand from recording a mark to market adjustment for changes in the fair value of a warrant derivative liability. The warrant derivative liability was extinguished in the fourth quarter of 2011, and as such, we have not had similar adjustments during 2012.

Net income (loss)

We had a net loss of $2.7 million applicable to common stockholders for the twelve months ended December 31, 2012 compared to a net loss of $2.4 million for the same period in 2011 based upon the reasons described above. Additionally, during the twelve months ended December 31, 2011 our net loss of $2.4 million included the benefits of non-cash gains on the change in the fair value of a warrant derivative liability of $0.2 million and $0.6 million for a gain on the reduction of a contingent tax liability. There were no such non-cash gains during the twelve months ended December 31, 2012.

Financial Condition, Liquidity and Capital Resources

We had cash and cash equivalents of $5.2 million at December 31, 2012 compared to $3.7 million at December 31, 2011. As of December 31, 2012, we had total current assets of $10.9 million and total current liabilities of $6.3 million resulting in a positive working capital of $4.6 million, which is compared to $4.3 million in positive working capital as of December 31, 2011. Current liabilities as of December 31, 2012 include deferred revenue of $0.8 million relating to hardware reimbursement payments from Cardinal Health, which is a non-cash liability. Excluding this non-cash liability, our current liabilities would have been $5.5 million as of December 31, 2012, giving us an adjusted positive working capital of $5.4 million.

We believe our sources of liquidity are sufficient to satisfy our anticipated cash requirements through at least the next 12 months as we expect the business to generate improved cash flow from operations as result of our growing installed base of customer facilities. We may seek financing to fund future growth for periods beyond the next 12 months, through future offerings of equity or debt, or through agreements with strategic partners to help fund our growth and the development of future products and technologies. However, we can offer no assurances that we will be able to obtain additional financing or agreements with strategic partners on acceptable terms, if at all. Management continually evaluates our liquidity needs and whether to increase capital resources. See Item 1A “Risk Factors” located elsewhere in this Report for additional information on factors that could impact our future liquidity and capital resources.

Operating activities

We had positive net cash flow from operating activities of $2.6 million during the twelve months ended December 31, 2012. Our net loss of $2.7 million for the twelve months ended December 31, 2012 included non-cash charges in the form of stock-based compensation, amortization of intangible assets and depreciation totaling $2.9 million during the twelve months ended December 31, 2012.

Cash provided by working capital components during the year ended December 31, 2012 was $1.9 million. Working capital consists primarily of accounts receivable, inventory, other assets, net of deferred revenue and other current liabilities. Accounts receivable increased by $108 thousand or 8% as of December 31, 2011 mostly reflecting the timing of our yearend sales orders with Cardinal Health. Inventory increased by $1.2 million or 43% as of December 31, 2012 due to our business growth and building up safety stock levels needed for scheduled implementations at new hospitals during 2012. Accounts payable increased by $1.7 million or 60%, reflecting inventory we took in for both filing fourth quarter 2012 sales as well as first quarter 2013 safety stock needed for scheduled implementations at new hospitals during 2013.

Deferred revenue of $1.8 million as of December 31, 2012 represents a significant component of our working capital, having increased by $1.3 million or 233% during the twelve months ended December 31, 2012, as compared to fiscal year end 2011. This increase in deferred revenue was a result of the large increase in implementations particularly during the first three quarters of 2012 and Cardinal Health’s agreement in certain situations to reimburse half of our hardware costs that are typically provided to our customers for use at no cost while they purchase our disposable sponges and towels.

Cash used in working capital during the year ended December 31, 2011 was $2.9 million. Working capital consists primarily of accounts receivable, inventory, other assets, net of deferred revenue and other current liabilities. Accounts receivable increased by $535 thousand or 69% as of December 31, 2011 reflecting timing of sales and our growth in non-Forward Order revenue during the year 2011. Inventory increased by $1.67 million or 149% as of December 31, 2011 due to our business growth and building up safety stock levels needed for scheduled implementations at new hospitals during early 2012. Accounts payable increased by $203 thousand or 7%, as we took delivery of much of the increased inventory late in Q4 2011. Deferred revenue decreased by $1.0 million or 63% during the year ended

December 31, 2011 due to the Company completing all shipments to Cardinal Health in fulfilling the Forward Order. In 2011, we also reclassified restricted cash transfers from being reported as financing activities to operating activities within our consolidated statements of cash flows.

Investing activities

We used $4.9 million of net cash in investing activities during the twelve months ended December 31, 2012, almost entirely for the purchase of scanners and related hardware used for implementing our Safety-Sponge® System at new customer facilities. This compares to using $1.3 million of net cash in investing activities during the twelve months ended December 31, 2011, which were also primarily for the purchase of scanners and related hardware for implementing our Safety Sponge® System at new customers.

Financing activities

During the twelve months ended December 31, 2012, we generated $3.8 million of net cash from financing activities primarily from the net proceeds from closing a $3.5 million private placement in May 2012, along with $470 thousand of proceeds received from the exercise of employee stock options, offset by the payment of preferred stock dividends and other stock issuance costs.

We generated $7.0 million of net cash from financing activities in the twelve months ended December 31, 2011, primarily from the net proceeds of our $7.1 million private placement and exercise of employee stock options, offset by the payment of preferred stock dividends and other stock issuance costs.

Sources of Revenues and Expenses

Revenues

We generate revenue primarily from the sale of surgical sponges and towels used in our Safety-Sponge® System to our exclusive distributor, Cardinal Health, who then sells directly and through alternative distributors to hospitals that have adopted our Safety-Sponge® System. Revenue related to surgical products is recognized when persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable, when collectability is reasonably assured and when risk of loss transfers, usually when products are shipped. Advanced payments are classified as deferred revenue and recognized as product is shipped to the customer. When the Company receives any reimbursement related to hardware implementations, hardware revenue is recognized on a straight-line basis over the life of the customer contract, while the cost of the hardware equipment is carried in hardware equipment within property, plant and equipment and depreciated over its estimated useful life. Provisions for estimated future product returns and allowances are recorded in the period of the sale based on the historical and anticipated future rate of returns. Revenue is recorded net of any discounts or rebates given to the buyer.

Provisions for estimated future product returns and allowances are recorded in the period of the sale based on the historical and anticipated future rate of returns. The Company records shipping and handling costs charged to customers as revenue and shipping and handling costs to cost of revenue as incurred. Revenue is reduced for any discounts, trade in allowances and rebates given to the buyer.

Cost of revenue

Our cost of revenues consists primarily of our direct product costs for surgical sponges and towels from our exclusive third-party manufacturer, A Plus. We also include a reserve expense for obsolete and slow moving inventory in the cost of revenues. In addition, when we provide scanners and other related hardware to hospitals for their use at no cost (rather than sell these), we include only the depreciation expense of the related hardware in cost of revenues over the three year estimated useful life of the scanners. In rare cases where we sell the scanners to hospitals, our cost of revenue includes the full related hardware cost when shipped.

Research and development expenses

Our research and development expenses consist of costs associated with the design, development, testing and enhancement of our products. These expenses are mostly consultant related expenses for fees paid to external service providers supporting our product development programs and salary and related employee benefit costs for a full time employee.

Sales and marketing expenses

Our sales and marketing expenses consist primarily of salaries and related employee benefits, sales commissions and support costs for our sales employees, along with travel, education, trade show, professional service fees for use of outside consultants and various marketing costs, including the use of nurse and technical consultants to support our new customer implementations and client training.

General and administrative expenses

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

Total other income (expense)

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and other financial information. We base these estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate our estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve more significant judgments and estimates used in the preparation of our consolidated financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that could have been used, or changes in the accounting estimate that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. See Note 3 of our Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K for a description of our significant accounting policies and method used in preparation of our consolidated financial statements.

Revenue Recognition

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

Goodwill

Our goodwill represents the excess of the purchase price over the estimated fair values of the net tangible and intangible assets of SurgiCount Medical, Inc., which we acquired in February 2005. We review our goodwill for impairment at least annually in the fourth quarter, as well as whenever events or changes in circumstances indicate that its carrying value may be impaired. We first assess qualitative factors to determine if it is necessary to perform the two-step quantitative goodwill impairment test. Under ASU No. 2011-08, companies should assess qualitative factors to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value, including goodwill. In the event we determine that it is more likely than not that our sole reporting unit's fair value is less than its carrying amount, quantitative testing would be performed comparing recorded values to estimated fair values. As part of our goodwill qualitative testing process, we evaluate various factors to determine whether it is reasonably likely that management's assessment would indicate a material impact on the fair value of our reporting unit. Factors assessed in the qualitative approach are cash flow forecasts of our reporting unit, the strength of our balance sheet, changes in strategic outlook or organizational structure, industry and market changes and macroeconomic indicators.

Inventories

Inventory consists of finished goods and scanner hardware. Finished goods include sponge and towel product products ready for customer use or distribution. Inventory is stated at the lower of cost or market value with cost determined under the first-in, first-out, or FIFO, method. Our estimate of the net realizable value of our inventories is subject to judgment and estimation. The actual net realizable value of our inventories could vary significantly from our estimates and could have a material effect on our financial condition and results of operations in any reporting period. In evaluating whether inventory is stated at the lower of cost or market, we consider such factors as the amount of inventory on hand and in the distribution channel, estimated time required to sell such inventory, remaining shelf life and current and expected market conditions, including levels of competition. On a quarterly basis, we analyze our inventory levels and record allowances for inventory that has become obsolete, inventory that has a cost basis in excess of its expected net realizable value and inventory that is in excess of expected demand based upon projected product sales.

Stock-Based Compensation

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

Impairment of Long-Lived Assets

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

Accounting for Income Taxes

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

Since January 1, 2007, we have measured and recorded uncertain tax positions in accordance with accounting guidance as codified in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740-10, Income Taxes (formerly FIN 48) that took effect on such date that prescribe a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Accordingly, we now only recognize (and continue to recognize) tax positions meeting the more-likely-than-not recognition threshold (or that met such a threshold on the effective date). Accounting for uncertainties in income tax positions involves significant judgments by management. If actual results differ from management’s estimates, we may need to adjust the provision for income taxes in both the current and prior periods.

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with GAAP, we disclose and discuss non-Forward Order revenues, a non-GAAP measure derived from results based on GAAP. The presentation of this additional information is not meant to be considered superior to, in isolation of or as a substitute for results prepared in accordance with GAAP. Non-Forward Order revenues should not be considered as an alternative to revenue (determined in accordance with GAAP) or as an indication of our performance, but we believe non-Forward Order revenues is important because it provides information about the current hospital customer demand for our product and the performance of our current operations by excluding the impact of the Forward Order revenue recognized. See discussion above in “Results of Operations”.

Adjusted cost of revenue and gross profit are not measures calculated in accordance with U.S. GAAP. Adjusted cost of revenue and gross profit should not be considered as an alternative to gross profit or, income (loss) from operations or any other measure of financial performance calculated and presented in accordance with U.S. GAAP. We prepare adjusted cost of revenue and gross profit to eliminate the impact of items that we do not consider indicative of our core operating performance and we use this as a measure of operating performance. We encourage you to evaluate these adjustments and the reasons we consider them appropriate, as well as the material limitations of non-GAAP measures and the manner in which we compensate for those limitations.

Adjusted working capital is a non-GAAP financial measure that management uses to assess the Company’s performance. Management believes adjusted working capital provides investors with an additional view of the Company’s liquidity and ability to repay current obligations. We calculate adjusted working capital as working capital (i.e., current assets less current liabilities, each as determined under GAAP) less deferred revenue, as deferred revenue relates to hardware reimbursement payments from Cardinal Health that are a non-cash liability. The presentation of this additional information is not meant to be considered superior to, in isolation of or as a substitute for results prepared in accordance with GAAP. This calculation of adjusted working capital should not be considered as an alternative (determined in accordance with GAAP) or as an indication of our performance. Our calculation of adjusted working capital, not including deferred revenue, may not be comparable to similarly titled measures reported by other companies. See discussion above in “Financial Condition, Liquidity and Capital Resources”.

Off-Balance Sheet Arrangements

As of December 31, 2012 and 2011, we had no off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a Smaller Reporting Company as defined by Rule 12b-2 of the Exchange Act and in item 10(f)(1) of Regulation S-K, we are electing scaled reporting obligations and therefore are not required to provide the information requested by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PATIENT SAFETY TECHNOLOGIES, INC.
INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Patient Safety Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Patient Safety Technologies, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patient Safety Technologies, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

Newport Beach, California
March 18, 2013

PATIENT SAFETY TECHNOLOGIES, INC.

Consolidated Balance Sheets

	December 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 5,177,082	$ 3,668,524
Accounts receivable	1,415,634	1,307,510
Inventories, net	3,968,436	2,772,117
Prepaid expenses	308,285	180,802
Total current assets	10,869,437	7,928,953
Property and equipment, net	4,833,754	1,691,961
Goodwill	1,832,027	1,832,027
Patents, net	2,139,202	2,464,142
Other assets	37,462	40,463
Total assets	$ 19,711,882	$ 13,957,546
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 4,499,002	$ 2,808,524
Accrued liabilities	960,062	574,917
Deferred revenue – current portion	846,395	278,002
Total current liabilities	6,305,459	3,661,443
Deferred revenue	969,395	267,025
Total liabilities	$ 7,274,854	$ 3,928,468
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized:		
Series A preferred stock, $1.00 par value, cumulative 7% dividend: 500,000 shares designated; 10,950 issued and outstanding at December 31, 2012 and December 31, 2011; (Liquidation preference of $1.1 million at December 31, 2012 and December 31, 2011)	10,950	10,950
Series B convertible preferred stock, $1.00 par value, cumulative 7% dividend: 150,000 shares designated; 70,425 issued and outstanding at December 31, 2012 and 65,864 issued and outstanding at December 31, 2011; (Liquidation preference of $7.0 million at December 31, 2012 and $6.6 million at December 31, 2011)	70,425	65,864
Common stock, $0.0001 par value: 100,000,000 shares authorized; 37,041,170 shares issued and outstanding at December 31, 2012 and 34,020,255 shares issued and outstanding at December 31, 2011	3,705	3,402
Additional paid-in capital	74,094,855	68,957,072
Accumulated deficit	(61,742,907)	(59,008,210)
Total stockholders' equity	12,437,028	10,029,078

Total liabilities and stockholders’ equity	$ 19,711,882	$ 13,957,546

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

PATIENT SAFETY TECHNOLOGIES, INC.

Consolidated Statements of Operations

	For the Years Ended December 31, 2012	2011
Revenues	$ 17,589,391	$ 9,463,479
Cost of revenue	10,038,046	5,115,946
Gross profit	7,551,345	4,347,533
Operating expenses		
Research and development	580,254	107,397
Sales and marketing	4,912,508	2,971,525
General and administrative	4,076,532	3,931,049
Total operating expenses	9,569,294	7,009,971
Operating loss	(2,017,949)	(2,662,438)
Other income (expense)		
Gain on change in fair value of warrant derivative liability	—	567,573
Interest expense to related party	(106,182)	—
Other income (expense), net	(2,095)	221,201
Total other income (expense)	(108,277)	788,774
Loss before income taxes	(2,126,226)	(1,873,664)
Income tax provision	(75,304)	(25,887)
Net Loss	(2,201,530)	(1,899,551)
Preferred dividends	(533,167)	(503,632)
Net loss applicable to common stockholders	$ (2,734,697)	$ (2,403,183)
Loss per common share		
Basic and Diluted	$ (0.08)	$ (0.08)
Weighted average common shares outstanding:		
Basic and Diluted	35,862,020	31,510,716

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

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PATIENT SAFETY TECHNOLOGIES, INC.
Consolidated Statements of Stockholders Equity

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	Series B Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital *	Accumulated Deficit	Total Stockholders Equity
BALANCES, December 31, 2010	10,950	$ 10,950	61,589	$ 61,589	23,956,063	$ 2,395	$ 60,260,036	$ (56,605,027)	$ 3,729,943
Series A Preferred Stock Dividends	-	-	-	-	-	-	-	$ (76,650)	$ (76,650)
Series B Convertible Preferred Stock Dividends	-	-	4,275	$ 4,275	-	-	$ 421,686	$ (426,982)	$ (1,021)
Issuance of Common Stock net of transaction costs	-	-	-	-	9,489,192	$ 949	$ 6,786,310	-	$ 6,787,259
Issuance of restricted stock	-	-	-	-	75,000	$ 8	$ (8)	-	$ -
Warrants reclassified from derivative liability to equity	-	-	-	-	-	-	$ 424,109	-	$ 424,109
Stock-based compensation	-	-	-	-	-	-	$ 743,507	-	$ 743,507
Exercise of stock options	-	-	-	-	500,000	$ 50	$ 374,950	-	$ 375,000
Repurchase of warrants	-	-	-	-	-	-	$ (53,518)	-	$ (53,518)
Net loss	-	-	-	-	-	-	-	$ (1,899,551)	$ (1,899,551)
BALANCES, December 31, 2011	10,950	$ 10,950	65,864	$ 65,864	34,020,255	$ 3,402	$ 68,957,072	$ (59,008,210)	$ 10,029,078
Series A Preferred Stock Dividends	-	-	-	-	-	-	-	$ (76,650)	$ (76,650)

Series B Convertible Preferred Stock Dividends	-	-	4,561	$ 4,561	-	-	$ 451,539	$ (456,517)	$ (417)
Issuance of Common Stock net of transaction costs	-	-	-	-	2,499,998	$ 251	$ 3,434,507	-	$ 3,434,758
Issuance of restricted stock	-	-	-	-	3,000	$ 1	$ (1)	-	$ -
Stock-based compensation	-	-	-	-	-	-	$ 781,789	-	$ 781,789
Exercise of stock options	-	-	-	-	450,000	$ 45	$ 469,955	-	$ 470,000
Cashless exercise of warrants	-	-	-	-	67,917	6	$ (6)	-	$ -
Net loss	-	-	-	-	-	-	-	$ (2,201,530)	$ (2,201,530)
BALANCES, December 31, 2012	10,950	$ 10,950	70,425	$ 70,425	37,041,170	$ 3,705	$ 74,094,855	$ (61,742,907)	$ 12,437,028

* The par value of common stock has been retroactively adjusted for a change in par value from $0.33 to $0.0001 in 2012.

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

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PATIENT SAFETY TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2012	2011
Operating activities:		
Net loss	$ (2,201,530)	$ (1,899,551)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,793,911	582,799
Amortization of patents	324,941	324,941
Gain on contingent tax liability	—	(223,523)
Stock-based and warrant compensation	781,789	743,507
Gain on change in fair value of warrant derivative liability	—	(567,573)
Changes in operating assets and liabilities:		
Restricted cash	—	223,630
Accounts receivable	(108,124)	(535,129)
Inventories	(1,196,319)	(1,661,285)
Prepaid expenses	(127,483)	(76,174)
Other assets	3,001	(1,425)
Accounts payable	1,690,478	202,855
Accrued liabilities	385,145	(144,032)
Deferred revenue	1,270,763	(932,693)
Net cash provided by (used) in operating activities	2,616,572	(3,963,653)
Investing activities:		
Purchase of property and equipment	(4,935,704)	(1,294,927)
Net cash used in investing activities	(4,935,704)	(1,294,927)
Financing activities:		
Proceeds from issuance of common stock	3,499,997	7,112,501
Proceeds from exercise of stock options	470,000	375,000
Payments for common stock issuance costs	(65,240)	(325,242)
Repurchase of warrants	—	(53,518)
Payments of convertible preferred stock series B dividends	(417)	(1,021)
Payments of preferred stock series A dividends	(76,650)	(76,650)
Net cash provided by financing activities	3,827,690	7,031,070
Net increase in cash and cash equivalents	1,508,558	1,772,490
Cash and cash equivalents at beginning of year	3,668,524	1,896,034
Cash and cash equivalents at end of year	$ 5,177,082	$ 3,668,524
Supplemental disclosures of cash flow information:		
Cash paid during the period for taxes	$ 4,258	$ 25,887
Non cash investing and financing activities:		
Payment of Series B preferred dividends in shares	$ 456,100	$ 425,961
Issuance of common stock previously earned	$ 7	$ 8
Warrant reclassified from derivative liability to equity	$ —	$ 424,109

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

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS

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

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

2. LIQUIDITY

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. At December 31, 2012, the Company has an accumulated deficit of approximately $62 million and positive working capital of approximately $4.6 million and cash and cash equivalents of approximately $5.2 million. For the year ended December 31, 2012, the Company had a net operating loss of approximately $2.0 million and generated positive cash flow from operating activities of approximately $2.6 million.

Management believes the Company’s cash and cash equivalents on hand as of December 31, 2012, are sufficient to fund the Company’s currently projected cash requirements, including funding planned sales growth and other identified needs for at least the next 12 months.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements for 2012 and 2011 include the accounts of the Company and its wholly owned subsidiary SurgiCount Medical, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Use of Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

Revenue Recognition

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

The Company records shipping and handling costs charged to customers as revenue and shipping and handling costs to cost of revenue as incurred.

Financial Instruments

The carrying amounts of financial instruments such as cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their fair values because of the short-term nature of these financial instruments.

Fair Value Measurements

The Company adopted the fair value measurement and disclosure requirements of FASB guidance as codified in ASC 820 Fair Value Measurements and Disclosures ("ASC 820") effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. This standard applies in situations where other accounting pronouncements either permit or require fair value measurements. ASC 820 does not require any new fair value measurements.

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

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

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

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

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

The Company did not have any recurring or nonrecurring fair value measurements as of December 31, 2012 and 2011.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less when purchased.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Concentration of Credit Risk and Limited Suppliers

The financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivable. From time to time, the Company maintains its cash balances in accounts at a financial institution that exceed the Federal Deposit Insurance Corporation coverage. The Company has not experienced any losses in such accounts.

The Company sells its products primarily to Cardinal Health based on its exclusive distribution agreement with Cardinal Health. Cardinal Health in turn resells the products to alternative distributors or hospitals that have contracts with the Company. Substantially all of the Company's accounts receivable and revenues were to Cardinal Health. The loss of the Cardinal Health contract and disruption of the distribution channel would adversely affect the Company's operating results.

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

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

Accounts Receivable

Accounts receivable are recorded at the invoice amount and do not bear interest. Historically, the Company has incurred minimal credit losses on extended credits. An allowance for bad debts has not been recorded and is not considered necessary due to the nature of the Company's customer base and the lack of historical write offs. If customer payment timeframes were to deteriorate, allowances for doubtful accounts would be required.

Inventories

Inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) basis. The FIFO cost for all inventories approximates replacement cost.

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience and expected future trends.

Property and Equipment

Property and equipment is stated at cost. Depreciation is amortized straight-line over the estimated useful lives of three to seven years. Upon retirement or disposition of equipment, the related cost and accumulated depreciation or amortization is removed and a gain or loss is recorded, as applicable.

Impairment of Long Lived Assets and Intangible Assets with Finite Lives

Property and equipment and intangible assets with finite lives are amortized using the straight line method over their estimated useful lives. These assets are assessed for potential impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Conditions that would indicate impairment and trigger an assessment include, but are not limited to, a significant adverse change in the legal factors or business climate that could affect the value of an asset, an adverse action or assessment by a regulator or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. If, upon assessment, the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value of the asset. As of December 31, 2012 and 2011 there was no impairment recorded.

Impairment of Goodwill

The Company applies Financial Accounting Standards Board's ("FASB") Accounting Standards Update No. 2011-08 ("ASU No. 2011-08"), which allows a company to first assess qualitative factors to determine if it is necessary to perform the two-step quantitative goodwill impairment test. The Company assesses qualitative factors to determine if its sole reporting unit's fair value is more likely than not to exceed its carrying value, including goodwill. In the event the Company determines that it is more likely than not that its reporting unit's fair value is less than its carrying amount, quantitative testing is performed comparing recorded values to estimated fair values. Quantitative testing compares the fair value of the reporting unit to its book value, including goodwill. If the fair value exceeds the book value, goodwill is not impaired. If the book value exceeds the fair value, then the Company would calculate the potential impairment loss by comparing the implied fair value of goodwill with the book value. If the implied fair value of goodwill is less than the book value, then an impairment charge would be recorded. There was no impairment of goodwill for the years ended December 31, 2012 and 2011.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Research and Development

Our research and development expenses consist of costs associated with the design, development, testing and enhancement of the Company's products.

Advertising

Advertising costs, which include promotional expenses, are expensed in the period incurred and reported under sales and marketing expenses. The Company recorded $15 thousand and $39 thousand in advertising costs during the years ended December 31, 2012 and 2011, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that available evidence about future taxable earnings indicates that it is more likely than not that the tax benefit associated with the deferred tax assets will not be realized, a valuation allowance is established.

Stock-Based Compensation

The Company measures compensation cost for share-based payment awards granted to employees and non-employee directors at fair value using the Black-Scholes-Merton option-pricing model. Compensation expense is recognized on a straight-line basis over the service period for awards expected to vest. The risk-free interest rate for periods within the expected life of options granted is based on the U.S. Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company's stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Net Loss per Common Share

Income (loss) per common share is determined by dividing the income (loss) applicable to common shareholders by the weighted average number of common shares outstanding. The Company complies with FASB ASC 260-10 Earnings Per Share, which requires dual presentation of basic and diluted earnings per share on the face of the consolidated statements of operations. Basic income (loss) per common share excludes dilution and is computed by dividing loss attributable to common stockholders by the weighted-average common shares outstanding for the period. Diluted income (loss) per common 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.

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

	Years Ended December 31,	
	2012	2011
Basic and Diluted		
Loss available to common stockholders	$ (2,734,697)	$ (2,403,183)
Weighted average common shares outstanding	35,862,020	31,510,716
Loss per common share	$ (0.08)	$ (0.08)
Potentially dilutive securities outstanding at period end excluded from diluted computation as they were anti-dilutive	16,812,007	17,056,797

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Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

4. INVENTORIES, net

Inventories, net, consist of the following:

	December 31, 2012	December 31, 2011
Surgical sponges and towels	$ 3,722,211	$ 1,150,253
Scanners and related hardware	363,409	1,790,861
Reserve of obsolescence	(117,184)	(168,997)
Total inventories, net	$ 3,968,436	$ 2,772,117

5. PROPERTY AND EQUIPMENT, net

Property and equipment consists of the following:

	December 31, 2012	December 31, 2011
Computer software and equipment	$ 1,718,247	$ 1,504,971
Furniture and equipment	88,626	70,571
Hardware equipment for customer use	6,992,994	2,288,621
Property and equipment, gross	8,799,867	3,864,163
Less: accumulated depreciation	(3,966,113)	(2,172,202)
Property and equipment, net	$ 4,833,754	$ 1,691,961

Depreciation expense for the years ended December 31, 2012 and 2011 was $1.8 million and $583 thousand, of which $1.7 million and $514 thousand was recorded as cost of revenue, respectively.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

6. GOODWILL AND PATENTS

The Company recorded goodwill in the amount of $1.8 million in connection with its acquisition of SurgiCount Medical, Inc. In addition, in connection with the SurgiCount acquisition, the Company recorded patents acquired that were valued at $4.7 million.

Patents, net, consist of the following:

	December 31, 2012	December 31, 2011
Patents	$ 4,684,576	$ 4,684,576
Accumulated amortization	(2,545,374)	(2,220,434)
	$ 2,139,202	$ 2,464,142

The patents are subject to amortization over their original estimated useful life of 14.4 years. Amortization expense was $325 thousand for the years ended December 31, 2012 and 2011. The following table presents estimated amortization expense for each of the succeeding five calendar years and thereafter:

2013	$ 324,941
2014	324,941
2015	324,941
2016	324,941
2017	324,941
Thereafter	514,497
Total	$ 2,139,202

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Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2012	December 31, 2011
Accrued lease liability	$ 24,113	$ 78,057
Accrued dividends on Series A Preferred Stock	114,976	114,976
Compensation related accruals	576,973	210,291
Other	244,000	171,593
Total accrued liabilities	$ 960,062	$ 574,917

8. DEFERRED REVENUE

The Company generally provides its SurgiCounter™ scanners and related software to most hospitals at no cost when they adopt its Safety-Sponge® System. Under the Company's existing distribution agreement with Cardinal Health, Inc. ("Cardinal Health"), Cardinal Health has agreed to reimburse the Company for a percentage of the scanner costs supplied to certain hospitals. Payments received from Cardinal Health relating to scanner cost reimbursements are deferred, and recognized as revenue on a pro-rata basis over the life of the scanner (which approximates the term of the hospital purchase commitment as they are refundable in the event a hospital contract is cancelled). Revenue recognized related to these reimbursements for the year ended December 31, 2012 and 2011 was $707 thousand and $191 thousand.

9. EQUITY TRANSACTIONS

Change in Par value

On July 18, 2012 the Company amended its Amended and Restated Certificate of Incorporation to change the par value of its common stock from $0.33 to $0.0001. All common stock per share information in the accompanying condensed consolidated financial statements and notes thereto have been adjusted to reflect retrospective application of the change in par value.

Series A Preferred Stock

The Series A Preferred Stock has a cumulative 7% per annum quarterly dividend and is convertible into the number of shares of common stock by dividing the purchase price for the convertible preferred stock by conversion price in effect, currently $4.44. The convertible preferred stock has anti-dilution provisions, which can change the conversion price in certain circumstances. Upon liquidation, dissolution or winding up of the Company, the stockholders of the convertible preferred stock are entitled to receive $100 per share plus any accrued and unpaid dividends before distributions to any holder of the Company's common stock. The Company may redeem the convertible preferred stock at a redemption price in cash equal to the liquidation preference per share plus any accrued and unpaid dividends thereon through the date of such redemption. The Series A Stock votes on all matters submitted to our stockholders for a vote, voting together with the holders of our common stock as a single class, with each share of Series A Stock entitled to one vote per share.

The Company recorded $77 thousand in Series A Preferred Stock dividend for the years ended December 31, 2012 and 2011. The Company had Series A Preferred Stock accrued dividends of $115 as of December 31, 2012 and 2011.

Series B Preferred Stock

In June 2010, the Company issued 60,500 shares of $1 par value, $100 stated value Series B preferred convertible shares ("Series B Preferred"). The buyers of the Series B Preferred shares were accredited investors under Rule 501(a) of Regulation D of the Securities Act of 1933, and included A Plus, JMR Capital Ltd., and Catalysis Partners, LLC. Wayne Lin, a member of our Board of Directors ("Board") is founder and significant beneficial owner of A Plus. John Francis, a member of our Board, has voting and investment control over securities held by Francis Capital Management, LLC, which acts as the investment manager for Catalysis Partners, LLC.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Holders of the Series B Preferred are entitled to receive quarterly cumulative dividends at a rate of 7% per annum. All dividends due on or prior to December 31, 2011 (since amended to December 31, 2012) are payable in kind in the form of additional shares of Series B Preferred, and all dividends payable after December 31, 2011 (since amended to December 31, 2012) are payable solely in cash. For the years ended December 31, 2012 and 2011, the Company issued 4,561 and 4,275 shares, respectively, of additional shares of Series B Preferred Stock for dividends payable.

As long as shares of Series B Preferred are outstanding, we are restricted from making certain payments in respect of any of our junior and pari passu securities, except that we may pay dividends due and paid in the ordinary course on our Series A Preferred Stock when we are otherwise in compliance with our payment obligations to the holders of the Series B Preferred.

The Series B Preferred does not have voting rights except (i) as provided by Delaware law; (ii) upon the occurrence of the fifth anniversary of the issue date; or (iii) upon our failure to pay dividends for two consecutive quarters or three non-consecutive quarters. Upon the occurrence of either event described in (ii) or (iii), the holders of the Series B Preferred are entitled to elect two additional directors to our board of directors and, within two business days, we must create a special committee of our board of directors consisting of up to three directors, of which two must be the two newly-elected additional directors, and promptly grant such special committee sole and exclusive authority and power to investigate, negotiate and consummate a sale of the Company or strategic alternative thereto. The Series B Preferred are entitled to receive, prior and in preference to all other shares of our capital stock (with an exception noted below), upon liquidation, dissolution or winding up of the Company an amount per share equal to the greater of (i) the stated value of the Series B Preferred, plus accrued but unpaid dividends, or (ii) such amount per share as would have been payable had all shares of Series B Preferred Stock been converted into our common stock immediately prior to such liquidation. Notwithstanding the foregoing, the first $1,095,000 of distributable amounts in liquidation shall first be paid to the holders of our Series A Preferred Stock. Mergers, sales of substantially all assets and similar transactions are deemed to be liquidations for purposes of the liquidation preference.

The Series B Preferred is convertible at any time at the option of the holder into shares of our common stock at $0.75 per share, subject to conventional adjustments for stock splits, stock combinations and the like. The Series B Preferred is not redeemable either by the Company or by the holders. However, shares of the Company’s Series B Preferred automatically convert into shares of our common stock at the $0.75 conversion price if both of the following conditions are satisfied: (a) the daily volume weighted average price of our common stock is equal to or in excess of $1.50 per share for all trading days during any 6-month period and (b) the number of shares traded during such period averages at least 50,000 shares of common stock per trading day. Also, the Series B Preferred automatically convert into shares of our common stock at the applicable conversion price if our operating income is positive for at least four consecutive fiscal quarters and our cumulative operating income during such four fiscal quarters is at least $5,000,000.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Common Stock

In February 2011 the Company issued 75,000 shares of restricted stock to a consultant for services previously rendered in 2010, contracted for by prior management.

On March 29 and March 30, 2011, the Company closed on a private placement financing raising $7.1 million through the issuance of 9.489 million shares of the Company's common stock at a selling price of $0.75 per share ("Common"). The buyers of the common shares were accredited investors under Rule 501(a) of Regulation D of the Securities Act of 1933., and included Kinderhook Partners, L.P. ("Kinderhook") and A Plus and certain members of management (collectively referred to as the "Buyers"). Wayne Lin, a member of our Board of Directors is founder and significant beneficial owner of A Plus. Kinderhook is an investment fund based in Fort Lee, NJ.

On May 18, 2012 the Company closed a financing transaction (the "Financing") pursuant to a Common Stock Purchase Agreement (the "Purchase Agreement") dated May 15, 2012 with certain accredited investors (the "Buyers"), most of whon are previous purchasers of the Company's securities and all of whom are accredited investors, including Wenchen ("Wayne") Lin, a member of the Company's Board of Directors, as defined under Rule 501(a) of Regulation D of the Securities Act of 1933, as amended.

Pursuant to the Purchase Agreement, the Company issued to the Buyers an aggregate of 2,499,998 shares of our Common Stock at a purchase price of $1.40 per share (or $3,499,997 in gross proceeds), payable in cash.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

10. WARRANTS

The following table summarizes warrants to purchase common stock activity for the years ended December 31, 2012 and 2011:

	# of Warrants	Range of Exercise Price
Warrants outstanding December 31, 2010	7,486,586	$ 0.75 - 4.50
Issued	51,177	$ 0.75
Exercised	(170,032)	$ 0.75 - 1.25
Cancelled/Expired	(2,213,419)	$ 0.75 - 6.05
Warrants outstanding December 31, 2011	5,154,312	$ 0.75 - 4.00
Issued	—	$ —
Exercised	(188,377)	$ 0.75 - 1.40
Cancelled/Expired	(718,000)	$ 2.00
Warrants outstanding December 31, 2012	4,247,935	$ 0.75 - 4.50

At December 31, 2012, warrants to purchase common stock will expire as follows:

	# of Warrants	Range of Exercise Price
2013	1,661,060	$ 0.75 - 1.40
2014	1,890,000	$ 1.82 - 4.00
2015	696,875	$ 1.25
Total	4,247,935	$ 0.75 - 4.00

The weighted-average remaining contractual life of the warrants outstanding at December 31, 2012 is 1.3 years.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Warrants and Warrant Derivative Liability

On October 14, 2011 the Company's Board of Directors approved exchanging certain warrant contracts involving 511,767 shares that had terms that created certain anti-dilutive features under ASC 815-40. As part of compensation for eliminating these anti-dilutive accounting features from these respective warrants, the warrant holders received an additional 51,177 warrants at the original terms. The exchange was accounted for as a modification. Based on the change in fair value the company recorded a non-cash stock compensation expense of $42 thousand for the year ended December 31, 2011.

At December 31, 2012 and 2011 the Company did not have a warrant derivative liability in the accompanying consolidated balance sheet as a result of the October 14, 2011 exchange. The Company did record a non-cash gain of $568 thousand for the year ended December 31, 2011 in other income (expense) for the extinguishment of the warrant derivative liability.

11. STOCK OPTION PLANS

In November 2005, the Company approved the Amended and Restated 2005 Stock Option and Restricted Stock Plan (the "2005 SOP"). The 2005 SOP reserves 2,000,000 shares of common stock for grants of incentive stock options, nonqualified stock options, warrants and restricted stock awards to employees, non–employee directors and consultants performing services for the Company. Options granted under the 2005 SOP have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options generally expire 10 years from the date of grant. Restricted stock awards granted under the 2005 SOP are subject to a vesting period determined at the date of grant. As of December 31, 2012 1,257,132 shares remain available under this plan.

In August 2009, the Company approved the 2009 Stock Option Plan (the "2009 SOP"). The 2009 SOP reserves 3.0 million shares of common stock for grants of incentive stock options, nonqualified stock options, warrants and restricted stock awards to employees, non–employee directors and consultants performing services for the Company. The Company's shareholders amended the 2009 Stock Option Plan to increase the number of shares issuable under the plan from 3,000,000 to 4,500,000 and clarify the non-discretionary nature of the annual share limit, whereby no more than 500,000 shares may be granted under options to any person in a calendar year. Options granted under the 2009 SOP have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options generally expire 10 years from the date of grant. Restricted stock awards granted under the 2009 SOP are subject to a vesting period determined at the date of grant. As of December 31, 2012, 1,501,099 shares remain outstanding under this plan.

All options that the Company granted during the years ended December 31, 2012 and 2011 were granted at the per share fair market value on the grant date. Vesting of options differs based on the terms of each option. The Company utilized the Black-Scholes option pricing model and the assumptions used for each period are as follows:

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

	Year Ended December 31, 2012	Year Ended December 31, 2011
Weighted average risk free interest rate	1.01%	1.63%
Weighted average expected life (in years)	6.09	6.07
Weighted average volatility	89%	91%
Expected dividend yield	0%	0%
Weighted average grant-date fair value per share of options granted	$ 0.98	$ 0.76

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends on its common stock. Expected volatility is based on the historical weekly volatility of the Company's common stock. The risk-free interest rate is based on rates published by the Federal Reserve Board. The expected life is based on observed and expected time to post-vesting exercise. The expected forfeiture rate is based on past experience and employee retention data. Forfeitures are estimated at the time of the grant and revised in subsequent periods if actual forfeitures differ from those estimates or if the Company updates its estimated forfeiture rate. Such amounts will be recorded as a cumulative adjustment in the period in which the estimate is changed.

A summary of stock option activity for the years ended December 31, 2012 and 2011 are presented below:

	Outstanding Options Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (1)
Balance at December 31, 2010	7,971,949	$ 1.11	7.35	$ —
Granted	437,000	$ 1.02	9.57	
Exercised	(500,000)	$ 0.75	—	—
Forfeited/Cancelled	(1,729,572)	$ 0.92	—	
Balance at December 31, 2011	6,179,377	$ 1.19	7.52	—
Granted (2)	513,400	$ 1.33	9.19	—
Exercised	(450,000)	$ 1.04	—	—
Forfeited/Cancelled	(645,542)	$ 1.63	—	—
Balance at December 31, 2012	5,597,235	$ 1.17	7.45	$ 3,613,649
Vested and exercisable as of December 31, 2012	3,641,544	$ 1.27	7.01	$ 2,300,545
Unvested and expected to vest as of December 31, 2012	1,857,971	$ 0.98	8.27	$ 1,247,489

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $1.65 of the Company's common stock at December 31, 2012.

(2) Includes 230,000 non-qualified options and 40,000 incentive stock options that were issued outside the 2005 and 2009 stock option plans which are all outstanding as of December 31,

2012.

The total grant date fair value of stock options granted during the years ended December 31, 2012 and 2011 was $502 thousand and $333 thousand, respectively. During the fiscal years ended December 31, 2012 and 2011, the Company recognized stock-based compensation expense relating to stock options of $779 thousand and $701 thousand, respectively.

As of December 31, 2012, there was approximately $1.3 million of unrecognized compensation costs related to outstanding employee stock options. This amount is expected to be recognized over a weighted average period of 2.16 years. To the extent the forfeiture rate is different from what the Company anticipated; stock-based compensation related to these awards will be different from the Company's expectations.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

12. RELATED PARTY TRANSACTIONS

For the years ended December 31, 2012 and 2011, the Company purchased from A Plus approximately $10.5 million and $4.3 million, respectively, in connection with the manufacture of surgical products used in the Safety-Sponge® System by A Plus. Wayne Lin, a Director and significant beneficial owner of the Company is a founder and significant owner of A Plus. The vast majority of these amounts were recognized in cost of revenues. At December 31, 2012 and 2011, the Company’s accounts payable included $4.0 million and $1.2 million respectively, owed to A Plus in connection with the manufacture and supply of surgical products used in the Safety-Sponge® System. In addition the Company recognized for the year ended December 31, 2012 and 2011 $106 thousand and $0 in interest expense related to the Company incurring interest charges for payables aging outside of contractual terms, respectively. Such interest was classified as a financing cost in the accompanying consolidated financial statements.

During the years ended December 31, 2012 and 2011 the Company issued to A Plus Series B preferred shares as paid in kind dividends of 746 and 701, respectively.

13. INCOME TAXES

For financial reporting purposes, loss before income taxes includes the following components for the years ended December 31, 2012 and 2011:

	2012	2011
United States	$(2,126,226)	$(1,873,664)
International	—	—
	$(2,126,226)	$(1,873,664)

The provision for income taxes for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Current:		
Federal	$ —	$ —
State	75,304	25,887
Total current tax expense	75,304	25,887
Deferred:		
Federal	—	(9,366)
State	—	9,366
Total deferred taxes	—	—
Total income tax provision	$ 75,304	$ 25,887

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Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011, a reconciliation of the federal statutory tax rate to the Company's effective tax rate is as follows:

	2012	2011
Statutory rate	34.00%	34.00%
State rate	4.29%	6.45%
Uncertain tax position adjustments	(2.25)%	—
Warrant derivative liability	(0.04)%	9.23%
Incentive stock option	(6.25)%	(8.32)%
Other	(3.65)%	(0.80)%
Change in valuation allowance	(29.64)%	(41.94)%
Total effective tax rate	(3.54)%	(1.38)%

Deferred income taxes reflect the net tax effects of (a) temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, and (b) operating losses. Significant components of the Company’s deferred tax assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Deferred Tax Assets:		
Compensation related accruals	$348,317	$320,587
Inventory	46,680	67,319
Investments	265,563	265,563
Net operating loss carryovers	4,000,949	3,265,439
Deferred revenue	460,771	17,121
Other	33,275	—
Total deferred tax assets	5,155,555	3,936,029
Deferred Tax Liabilities:		
Book and tax basis differences arising from purchased patents	(852,138)	(981,576)
Fixed assets	(820,159)	(101,505)
Total deferred tax liability	(1,672,297)	(1,083,081)
Net deferred tax asset before valuation allowance	3,483,258	2,852,948
Less: valuation allowance	(3,483,258)	(2,852,948)
Net deferred tax asset	$ —	$ —

The Company reduced its deferred tax asset related to share-based compensation expense as of December 31, 2011 to $321 thousand to reflect the reversal of amounts attributable to stock-based awards forfeited by individuals that are no longer employed with the Company. The adjustment resulted in a corresponding reduction of the valuation allowance.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. As of December 31, 2012, the Company has provided a valuation allowance of $3.5 million. The valuation allowance increased by $630 thousand during 2012.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

At December 31, 2012 the Company had federal and state net operating losses of $10 million and $8 million, respectively. These net operating losses expire in varying amounts through 2032. Utilization of our net operating loss may be subject to annual limitation due to ownership change limitations that may have occurred or that could occur the future, as required by Section 382 of the Internal Revenue Service Code of 1986, as amended (the "Code") as well as similar state provisions. These ownership changes may limit the amount of NOL carryovers that can be utilized annually to offset future taxable income and tax respectively. During 2010, the Company performed a limited scope analysis of the potential impact of a limitation of the usage of its net operating carryovers under Internal Revenue Code Section 382. Based upon the analysis, management concluded that it was appropriate to include a portion of the federal and state net operating loss carryovers in the determination of its net deferred tax asset or liability as it did not appear that an annual limitation under Code Section 382 would cause all of the net operating loss carryovers to expire unutilized.

On January 1, 2007 the Company adopted the provisions of ASC 740-10, Income Taxes, relating to accounting for uncertain tax positions. ASC 740-10 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740-10, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10.

As of December 31, 2012 and 2011, the Company had unrecognized tax benefits of $113 thousand and $54 thousand, respectively, all of which, if subsequently recognized, would impact the Company's tax rate. A reconciliation of the beginning and ending amount of recognized tax benefits is as follows:

	2012	2011
Gross unrecognized tax benefits at January 1,	$ 53,958	$ 53,958
Changes to unrecognized tax positions from a prior period	—	—
Increases for tax positions in current year	59,379	—
Gross unrecognized tax benefits at December 31,	$ 113,337	$ 53,958

The Company files income tax returns in the U.S. federal and various state jurisdictions. In general, the Company is no longer subject to U.S. federal and state income tax examinations for years prior to 2007 (except for the use of tax losses generated prior to 2007 that may be used to offset taxable income in subsequent years). The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company accrues interest and penalties on any unrecognized tax benefits, as applicable, on unrecognized tax benefits as a component of income tax expense. The Company accrued $9 thousand and $0 of interest and penalties associated with unrecognized tax benefits in the years ended December 31, 2012 and 2011, respectively.

14. MAJOR CUSTOMERS, SUPPLIERS, SEGMENT AND RELATED INFORMATION

Major Customers

During the years ended December 31, 2012 and 2011, due to its exclusive distribution agreement with Cardinal Health See –"Factors affecting Future Results" described elsewhere in this Report, the Company had one customer that represented in excess of 99% of revenues and accounts receivables.

Suppliers

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

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

Segment and Related Information

The Company presents its business as one reportable segment due to the similarity in nature of products marketed, financial performance measures, and methods of distribution and customer markets. The Company's chief operating decision making officer reviews financial information on the Company's patient safety products on a consolidated basis.

The following table summarizes revenues by geographic region. Revenues are attributed to countries based on customer location:

Years Ended December 31,	2012	2011
Revenues:		
United States	$ 17,589,391	$ 9,463,479
Other	—	—
Total revenues	$ 17,589,391	$ 9,463,479

The following table summarizes revenues by product line:

Years Ended December 31,	2012	2011
Revenues:		
Surgical sponges and towels	$ 16,792,455	$ 9,163,149
Scanners and related products	796,936	300,330
Total revenues	$ 17,589,391	$ 9,463,479

15. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company does not own any real estate or other physical properties materially important to our operations. In November 2010, the Company relocated corporate headquarters to Irvine, California, where the Company rents approximately 5,800 square feet of office space with initial monthly installments of $8,800 with annual adjustments over the lease term. The Company also rents approximately 3,800 square feet of warehouse space in Irvine California with initial monthly installments of $4,600 with annual adjustments over the lease term.

During the years ended December 31, 2012 and 2011, the Company recorded total rent expense of $146 thousand and $104 thousand, respectively.

The following table summarizes operating obligations, net of sublease commitments, as of December 31, 2012:

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

		Operating lease payments	Sub-lease income	Net lease Payments
Years ending December 31,				
2013	$	185,311	(36,680)	148,631
2014		—	—	—
2015		—	—	—
2016		—	—	—
Total minimum lease payments	$	185,311	(36,680)	148,631

Contingent Tax Liability

In the process of preparing the Company’s federal tax returns for prior years, the Company’s management found there had been errors in reporting income to the recipients and the respective taxing authorities, related to stock grants made to those certain employees and consultant recipients. In addition, the Company determined that required tax withholding relating to these stock grants had not been made, reported or remitted, as required in fiscal years 2006 and 2007. Due to the Company’s failure to properly report this income and withhold/remit required amounts, the Company may be held liable for the amounts that should have been withheld plus related penalties and interest. The Company had estimated its contingent liability based on the estimated required federal and state withholding amounts, the employee and employer portion of social security taxes as well as the possible penalties and interest associated with the error.

During the quarter ended June 30, 2011, the Company reduced the tax contingent liability by $223 thousand as the Company determined that it is improbable that it could be held liable for this amount owed related to the 2006 and 2007 tax years, which resulted in a $223 thousand gain recorded as other income. The Company had also previously agreed to set aside restricted cash in an escrow account for satisfying any potential liability.

Legal Proceedings

The Company is involved in various proceedings, legal actions and claims arising in the normal course of business. The outcomes of these matters will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory relief, which could result in the payment of significant claims and settlements. In legal matters for which management determines both that a loss is probable and has sufficient information to reasonably estimate the Company’s future obligations, a liability representing management’s best estimate of the probable cost, or the minimum of the range of probable losses when a best estimate within the range is not known, for the resolution of these legal matters is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies.

On June 12, 2012, the Company filed a complaint in the United States District Court for the Central District of California (Case No. SACV12-00937 DOC) alleging infringement of United States Patent No. 5,931,824 entitled "Identification and Accountability System for Surgical Sponges" by ClearCount Medical Solutions, Inc. (the "Complaint"). The Complaint seeks damages and injunctive relief relating to ClearCount's allegedly infringing sales of its SmartSponge System and SmartSponge Flex Products. On December 12, 2012, the Company agreed to dismiss the Complaint, without prejudice, subject to rights to re-file the Complaint under certain circumstances, with tolling of applicable statutes of limitations.

Patient Safety Technologies, Inc.
Notes to Consolidated Financial Statements

16. SUBSEQUENT EVENTS

Management has evaluated events through the date these consolidated financial statements were filed with the Securities and Exchange Commission.

In January 2013, Cardinal Health and the Company signed the second amendment to the Supply and Distribution agreement. The Second Amendment amends a number of terms under the Supply Agreement and the First Amendment including but not limited to adding certain provisions regarding target inventory levels of the Company's products held by Cardinal Health, and extending the termination date of the Supply Agreement from December 31, 2015 to December 31, 2016. Under the terms of the Second Amendment, Cardinal Health is required to maintain any inventory in excess of set target inventory levels up through to December 31, 2013, and the Company agrees to pay a monthly fee to Cardinal Health throughout 2013 based on the amount of any excess inventory held each month by Cardinal Health. The Company will continue to have the right to buy back any such excess inventory from Cardinal Health at any time. Beginning January 1, 2014, Cardinal Health may use any remaining excess inventory to partially meet customer demand according to a formula set forth in the First Amendment which limits the use of any excess inventory over a 12 month time period. Should there be any excess inventory during 2014, the Company will continue to pay Cardinal Health a monthly fee on the excess inventory up through to December 31, 2014, and if there is any excess inventory held by Cardinal Health after December 31, 2014, Cardinal Health will have the right to use that excess inventory to meet customer demand of the Company's products. Management currently estimates that any fees paid to Cardinal Health under the Second Amendment will not have a material impact on the Company's financial results (currently estimated to range from 1% to 3% of reported revenue for the Company during the years 2013 and 2014), and that any additional growth the Company experiences during 2013 and 2014 will minimize the impact of any fees paid. Additionally, the Second Amendment provides that the Supply Agreement is terminable by Cardinal Health upon a change of control of the Company.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Limitations on the Effectiveness of Controls

We seek to improve and strengthen our control processes to ensure that all of our controls and procedures are adequate and effective. We believe that a control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. In reaching a reasonable level of assurance, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. No evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company will be detected.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2012.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

During the most recent fiscal quarter 2012 (the fourth fiscal quarter of 2012) there were no significant changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information appearing under the headings "Board of Directors and Corporate Governance, " Executive Officers" and Election of Directors" in our 2013 Proxy Statement or in a future amendment to the Annual Report on Form 10-K, in either case, is incorporated in this Section by reference.

Code of Business Conduct and Ethics

Each of our executive officers and directors, as well as all of our employees (including our Chief Executive Officer, principal financial officer, principal accounting officer, controller and persons performing similar functions) are subject to our Code of Business Conduct and Ethics, which was adopted by our Board of Directors on November 11, 2004 and is incorporated by reference as an Exhibit to this Annual Report on Form 10-K.

Printed copies of our Code of Business Conduct and Ethics; the Charters of each of our Audit Committee, Compensation Committee, and Nominating and Governance Committees, are also available upon written request to the Chief Financial Officer, Patient Safety Technologies, Inc., c/o Chief Financial Officer, 2 Venture Plaza, Suite 350, Irvine, CA 92618.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the headings “Director Compensation” and “Executive Compensation” in our 2013 Proxy Statement or in a future amendment to this Annual Report on Form 10-K, in either case, is incorporated section by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the headings “Security Ownership of Certain Beneficial Owners and Management and “Equity Compensation Plan Information” in our 2013 Proxy Statement or in a future amendment to this Annual Report on Form 10-K, in either case, is incorporated in this section by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing under the headings “Certain Relationships and Related Party Transactions,” and “Board of Directors and Corporate Governance - Independence of the Board of Directors” in our 2013 Proxy Statement or in a future amendment to this Annual Report on Form 10-K, in either case, is incorporated in this section by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the headings “Ratification of Selection of Independent Public Accountants – Principal Accountant Fees and Services” Fees” and “Ratification of Selection of Independent Public Accountants – Policies and Procedures Relating to Approval of Services by Auditor” in our 2013 Proxy Statement or in a future amendment to this Annual Report on Form 10-K, in either case is incorporated in this section by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Item 15(a)

(1) Financial Statements:

(i) The following financial statements are included in Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at December 31, 2012 and 2011
Consolidated Statements of Operations for the years ended December 31, 2012 and 2011
Consolidated Statements of Stockholders’ Equity (Deficit) for the years ended December 31, 2012 and 2011
Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

Schedules have been omitted because they are inapplicable, not required, or the information is included elsewhere in the financial statements or notes thereto.

(3) Exhibits

The exhibits listed on the accompanying Exhibit Index are incorporated in this Annual Report on Form 10-K by this reference and filed as part of this report. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K is indicated by a "**" on the accompanying Exhibit Index. See "Exhibit Index" for important information regarding our exhibits.

(b) See Item 15(a)(3) above.
(c) See Item 15(a)1 and 15(a)2 above

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 on this 18th day March, 2013.

PATIENT SAFETY TECHNOLOGIES, INC.

By:	/s/ Brian E. Stewart
Name:	Brian E. Stewart
Title:	President and Chief Executive Officer

POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Brian Stewart and David Dreyer, each of whom may act without joinder of the other, as their true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

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.

Signature	Title	Date
/s/ Brian E. Stewart Brian E. Stewart	Director, President and Chief Executive Officer (Principal Executive Officer)	March 18, 2013
/s/ David Dreyer David Dreyer	Executive Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), Secretary	March 18, 2013
/s/ John P. Francis John P. Francis	Director	March 18, 2013
/s/ Louis Glazer Louis Glazer, M.D., Ph.G.	Director	March 18, 2013

/s/ Lynne Silverstein Lynne Silverstein	Director	March 18, 2013
/s/ Wenchen Lin Wenchen Lin	Director	March 18, 2013

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EXHIBIT INDEX

Agreements included as exhibits to this annual report on Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about our company (including its consolidated subsidiary) or the other parties to the agreements. Where an agreement contains representations and warranties by any party, those representations and warranties have been made solely for the benefit of the other parties to the agreement or express third-party beneficiaries as explicitly set forth in the agreement. Any such representations and warranties:

should not be treated as categorical statements of fact, but rather as an allocation of risk;

may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and may be subject to more recent developments.

Accordingly, any such representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of February 3, 2005, by and among Franklin Capital Corporation (n/k/a Patient Safety Technologies, Inc.), SurgiCount Acquisition Corp., SurgiCount Medical, Inc., Brian Stewart and Dr. William Stewart (incorporated by reference to our current report on Form 8-K filed with the SEC on February 9, 2005)
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Appendix A to the our definitive proxy statement on Schedule 14A filed with the SEC on July 13, 2009)
3.2	By-laws (incorporated by reference to the company's Form N-2 filed with the SEC on July 31, 1992)
4.1	Certificate of Designation of Series A Convertible Preferred Stock (included in Exhibit 3.1 hereto)
4.2	Certificate of Designation of Series B Convertible Preferred Stock (incorporated by reference to our current report on Form 8-K filed with the SEC on June 29, 2010)
10.1***	Supply and Distribution Agreement dated effective November 19, 2009, by and between Patient Safety Technologies, Inc. and Cardinal Health 200, LLC (incorporated by reference to our current report on Form 8-K filed with the SEC on November 24, 2009)
10.2	Warrant Purchase Agreement dated effective as of November 19, 2009 by and between Patient Safety Technologies, Inc. and Cardinal Health, Inc. (incorporated by reference to our current report on Form 8-K filed with the SEC on November 24, 2009)
10.3	Registration Rights Agreement dated effective as of November 19, 2009, by and between Patient Safety Technologies, Inc. and Cardinal Health, Inc. (incorporated by reference to our current report on Form 8-K filed with the SEC on November 24, 2009)
10.4	Warrant dated November 19, 2009 issued to Cardinal Health, Inc. to purchase up to 1,250,000 shares of our common stock at $2.00 per share, expiring November 19, 2014 (incorporated by reference to our current report on Form 8-K filed with the SEC on November 24, 2009)
10.5	Warrant dated November 19, 2009 issued to Cardinal Health, Inc. to purchase up to 625,000 shares of our common stock at $4.00 per share, expiring November 19, 2014 (incorporated by reference to our current report on Form 8-K filed with the SEC on November 24, 2009)
10.6	Exclusive License and Supply Agreement dated May 15, 2008, by and among SurgiCount Medical, Inc. and A Plus International, Inc. (incorporated by reference to our annual report on Form 10-K filed with the SEC on March 31, 2010)
10.7	Subscription Agreement dated January 26, 2007 between Patient Safety Technologies, Inc. and A Plus International, Inc. (incorporated by reference to our current report on Form 8-K filed with the SEC on February 2, 2007)
10.8	Form of Exchange Agreement dated July 29, 2009 between Patient Safety Technologies, Inc. and certain investors (incorporated by reference to our current report on Form 8-K filed with the SEC on August 3, 2009)

10.9	Form of Purchase Agreement dated July 29, 2009 between Patient Safety Technologies, Inc. and certain investors (incorporated by reference to our current report on Form 8-K filed with the SEC on August 3, 2009)
10.10	Form of Senior Secured Note and Warrant Purchase Agreement dated January 29, 2009 (incorporated by reference to our current report on Form 8-K filed with the SEC on February 3, 2009)

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10.11	Form of Security Agreement dated January 29, 2009 (incorporated by reference to our current report on Form 8-K filed with the SEC on February 3, 2009)
10.12	Form of Senior Secured Note dated January 29, 2009 (incorporated by reference to our current report on Form 8-K filed with the SEC on February 3, 2009)
10.13	Form of Warrant dated January 29, 2009 to purchase shares of our common stock at $1.00 per share, expiring January 29, 2014 (incorporated by reference to our current report on Form 8-K filed with the SEC on February 3, 2009)
10.14	Form of Securities Purchase Agreement dated August 1, 2008 (incorporated by reference to our current report on Form 8-K filed with the SEC on August 14, 2008)
10.15	Registration Rights Agreement dated August 1, 2008 (incorporated by reference to our current report on Form 8-K filed with the SEC on August 14, 2008)
10.16	Form of Warrant dated August 1, 2008 to purchase shares of our common stock at $1.40 per share, expiring August 1, 2013 (incorporated by reference to our current report on Form 8-K filed with the SEC on August 14, 2008)
10.17	Form of Securities Purchase Agreement dated May 20, 2008 (incorporated by reference to our current report on Form 8-K filed with the SEC on June 2, 2008)
10.18	Registration Rights Agreement dated May 20, 2008 (incorporated by reference to our current report on Form 8-K filed with the SEC on June 2, 2008)
10.19	Form of Warrant dated May 27, 2008 to purchase shares of our common stock at $1.40 per share, expiring May 27, 2013 (incorporated by reference to our current report on Form 8-K filed with the SEC on June 2, 2008)
10.20	Securities Purchase Agreement dated as of October 17, 2007 between Patient Safety Technologies and Francis Capital Management, LLC (incorporated by reference to our current report on Form 8-K filed with the SEC on October 22, 2007)
10.21	Registration Rights Agreement dated as of October 17, 2007 between Patient Safety Technologies and Francis Capital Management, LLC (incorporated by reference to our current report on Form 8-K filed with the SEC on October 22, 2007)
10.22	Secured Convertible Promissory Note issued August 10, 2007 with an effective date of June 1, 2007 to Ault Glazer Capital Partners, LLC in the amount of $2,530,558.40 (incorporated by reference to our current report on Form 8-K filed with the SEC on August 16, 2007)
10.23	Amendment and Early Conversion of Secured Promissory Note dated as of September 5, 2008 between Ault Glazer Capital Partners, LLC (incorporated by reference to our annual report on Form 10-K filed with the SEC on April 16, 2009)
10.24	Security Agreement dated August 10, 2007 in favor of Ault Glazer Capital Partners, LLC (incorporated by reference to our current report on Form 8-K filed with the SEC on August 16, 2007)

10.25	Guaranty of Payment by SurgiCount Medical, Inc. in favor of Ault Glazer Capital Partners, Inc. in connection with the $2,530,558.40 Promissory Note issued August 10, 2007 (incorporated by reference to our current report on Form 8-K filed with the SEC on August 16, 2007)
10.26	Form of Subscription Agreement entered into between March 7, 2007 to April 5, 2007 (incorporated by reference to our annual report on Form 10-K filed with the SEC on May 16, 2007)
10.28	Subscription Agreement dated January 29, 2007 between Patient Safety Technologies, Inc. and David Wilstein and Susan Wilstein, as Trustees of the Century Trust (incorporated by reference to our current report on Form 8-K filed with the SEC on February 2, 2007)
10.29	Form of Warrant dated January 29, 2007 issued to Century Trust to purchase 12,000 shares of our common stock at $2.00 per share, expiring January 29, 2012 (incorporated by reference to Exhibit C to Exhibit 10.4 to our current report on Form 8-K filed with the SEC on February 2, 2007)

10.30	Form of Warrant dated September 8, 2006 issued to Steven J. Caspi to purchase up to $312,500 of shares of our common stock (consisting of 250,000 shares of our common stock at $1.25 per share, or a combination of shares of our common stock and shares of common stock of our subsidiary, SurgiCount Medical, Inc.), expiring September 8, 2011 (incorporated by reference to our amended current report on Form 8-K/A filed with the SEC on March 1, 2007)
10.31	Form of SurgiCount Medical, Inc. Warrant dated September 8, 2006 issued to Steven J. Caspi to purchase up to $312,500 in shares of common stock of SurgiCount Medical, Inc. (or 250,000 shares of our common stock at $1.25 per share), expiring September 8, 2011 (incorporated by reference to our amended current report on Form 8-K/A filed with the SEC on March 1, 2007)
10.32	Form of Warrant dated November 3, 2006 issued to Charles J. Kalina III to purchase 100,000 shares of our common stock at $1.25 per share, expiring November 3, 2011 (incorporated by reference to our annual report on Form 10-K filed with the SEC on May 16, 2007)
10.33	Form of Warrant dated July 12, 2006 issued to Charles J. Kalina III to purchase 85,000 shares of our common stock at $2.69 per share, expiring July 11, 2011 (incorporated by reference to our current report on Form 8-K filed with the SEC on July 14, 2006)
10.34	Warrant dated June 6, 2006 issued to Alan E. Morelli to purchase 401,460 shares of our common stock at $3.04 per share, expiring June 6, 2011 (incorporated by reference to our current report on Form 8-K filed with the SEC on June 9, 2006)
10.35	Form of non-callable Warrant dated April 22, 2005 issued to James Colen to purchase 10,000 shares of our common stock at $6.05 per share, expiring April 22, 2010 (incorporated by reference to our current report on Form 8-K filed with the SEC on April 26, 2005)
10.36	Form of callable Warrant dated April 22, 2005 issued to James Colen to purchase 10,000 shares of our common stock at $6.05 per share, expiring April 22, 2010 (incorporated by reference to our current report on Form 8-K filed with the SEC on April 26, 2005)
10.37	Lease for 43460 Ridge Park Drive, Temecula, California (incorporated by reference to our annual report on Form 10-K filed with the SEC on March 31, 2010)
10.38	Sublease for 5 Caufield Place, Suite 102, Newtown, Pennsylvania (incorporated by reference to our current report on Form 8-K filed with the SEC on January 7, 2010)
10.39**	2005 Stock Option Plan (incorporated by reference to Appendix A to our definitive proxy statement on Schedule 14A filed with the SEC on March 2, 2005)
10.40**	2009 Stock Option Plan (incorporated by reference to Appendix B to our definitive proxy statement on Schedule 14A filed with the SEC on July 13, 2009)
10.41**	Form of Stock Option Agreement (incorporated by reference to our registration statement on Form S-8 filed with the SEC on February 16, 2010)
10.42**	Employment Agreement dated May 7, 2009 between Patient Safety Technologies Inc. and Steven H. Kane (incorporated by reference to our quarterly report on Form 10-Q filed with the SEC on May 20, 2009)

10.43**	Employment Agreement dated effective as of November 24, 2009 between Patient Safety Technologies Inc. and Marc L. Rose (incorporated by reference to our current report on Form 8-K filed with the SEC on December 1, 2009)
10.44**	Employment Agreement dated January 5, 2009 between Patient Safety Technologies, Inc. and David I. Bruce (incorporated by reference to our annual report on Form 10-K filed with the SEC on April 16, 2009)
10.45**	Separation Agreement and General Release dated May 6, 2009 between Patient Safety Technologies, Inc. and David Bruce (incorporated by reference to our quarterly report on Form 10-Q filed with the SEC on May 20, 2009)

10.46**	Executive Services Agreement dated July 11, 2008 between Patient Safety Technologies, Inc. and Tatum, LLC for the services of Mary A. Lay (incorporated by reference to our annual report on Form 10-K filed with the SEC on April 16, 2009)
10.47**	Employment Agreement dated January 5, 2009 between Patient Safety Technologies, Inc. and Brian Stewart (incorporated by reference to our amended annual report on Form 10-K/A filed with the SEC on July 13, 2009)
10.48**	Form of Indemnification Agreement with Directors and Executive Officers dated effective June 1, 2010 (with then current directors and executive officers) and dated effective June 24, 2010 and October 22, 2010 with each of Messrs. Stewart and Dreyer (incorporated by reference to our current report on Form 8-K filed with the SEC on June 6, 2010)
10.49	Convertible Preferred Stock Purchase Agreement (incorporated by reference to our current report on Form 8-K filed with the SEC on June 29, 2010)
10.50	Registration Rights Agreement (incorporated by reference to our current report on Form 8-K filed with the SEC on June 29, 2010)
10.51	Separation and Release Agreement with Messrs. Chase, McFarland, Hitchock and Bauer (incorporated by reference to our current report on Form 8-K filed with the SEC on June 29, 2010)
10.52	Separation and Release Agreement with Steven H. Kane (incorporated by reference to our current report on Form 8-K filed with the SEC on June 29, 2010)
10.53	Amendment to Employment Agreement with Marc L. Rose (incorporated by reference to our current report on Form 8-K filed with the SEC on June 29, 2010)
10.54	Employment Agreement with John A. Hamilton (incorporated by reference to our current report on Form 8-K filed with the SEC on August 9, 2010)
10.55	Tax Escrow Agreement (incorporated by reference to our current report on Quarterly Report on Form 10-Q filed with the SEC on August 16, 2010)
10.56	Employment Agreement with David Dreyer (incorporated by reference to our current report on Form 8-K filed with the SEC on October 28, 2010)
10.56	Employment Agreement with Brian E. Stewart (incorporated by reference to our current report on Form 8-K filed with the SEC on November 18, 2010)
10.57	Office Building Lease dated September 15, 2010 (incorporated by reference to our current report on Form 8-K filed with the SEC on September 20, 2010)
10.58	Sub-Lease Agreement dated as of November 18, 2010 (incorporated by reference to our current report on Form 8-K filed with the SEC on November 30, 2010)
10.59	Settlement Agreement (incorporated by reference to our current report on Form 8-K filed with the SEC on January 3, 2011)

10.60**	2009 Stock Option Plan Stock Option Agreement, grant date November 15, 2010 — Brian Stewart
10.61**	Non Plan Stock Option Agreement, grant date November 15, 2010 — Brian Stewart
10.62**	2009 Stock Option Plan Stock Option Agreement, grant date October 22, 2010 — David Dreyer
10.63**	Non Plan Stock Option Agreement, grant date October 22, 2010 — David Dreyer
10.64	Office building lease dated January 27, 2011(incorporated by reference to our annual report on Form 10-K filed with the SEC on March 26, 2012)
10.65	Office building lease dated December 5, 2011 (incorporated by reference to our current report on Form 10-K filed with the SEC on March 26, 2012)
10.66	First Amendment to the Supply and Distribution Agreement, dated November 19, 2009 between Cardinal Health 200, LLC and Patient Safety Technologies, Inc. (incorporated by reference to our current report on Form 8-K filed with the SEC on March 28, 2011)****
10.67*	Second Amendment to the Supply and Distribution Agreement, dated January 31, 2013 between Cardinal Health 200, LLC and Patient Safety Technologies, Inc.***
14.1	Code of Business Conduct and Ethics (incorporated by reference to our amended annual report on Form 10-K/A filed with the SEC on July 13, 2009)

21.1	Subsidiary of the company (incorporated by reference to our annual report on Form 10-K filed with the SEC on March 31, 2010)
23.1*	Consent of Squar, Milner, Peterson, Miranda & Williamson, LLP
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)*
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)*
32.1*	Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code*
EX-101.INS	XBRL Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Defination Linkbase Document
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Management or compensatory plan or arrangement.

*** Confidential treatment requested for certain confidential portions of this exhibit. These confidential portions have been omitted from this exhibit and filed separately with the Commission.

**** Confidential treatment requested and received as to certain portions.

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