Patient Safety Technologies, Inc
Form POS AM
April 29, 2008

As filed with the Securities and Exchange Commission on April 28, 2008
Registration No. 333-147484

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

POST-EFFECTIVE
AMENDMENT NO. 1
TO

REGISTRATION STATEMENT ON FORM S-1
UNDER
THE SECURITIES ACT OF 1933

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

Delaware	**13-3419202**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**

43460 Ridge Park Dr., Suite 140, Temecula, CA 92590
(951) 587-6201
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

William B. Horne
Chief Executive Officer
Patient Safety Technologies, Inc.
43460 Ridge Park Dr., Suite 140
Temecula, CA 92590
(951) 587-6201
(Name, address, including zip code, and telephone number, including area code, of agent for service)

WITH COPIES TO:

John M. Iino, Esq.
Reed Smith LLP
355 South Grand Avenue, Suite 2900
Los Angeles, California 90071
(213) 457-8000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

Subject to Completion, dated April 28, 2008

Patient Safety Technologies, Inc.

5,950,171 Shares of
Common Stock

This prospectus relates to an aggregate of up to 5,950,171 shares of our common stock which may be offered by the selling stockholders identified in this prospectus for their own account. Of such shares, 1,254,200 shares are issuable upon exercise of warrants that we issued to the selling stockholders and 81,971 shares are issuable upon conversion of a convertible promissory note. Our filing of the registration statement, of which this prospectus is a part, is intended to satisfy our obligations to certain of the selling stockholders to register for resale the shares issued to them and the shares issuable upon exercise of the warrants issued to them. The selling stockholders may sell common stock from time to time in the principal market on which our stock is traded at the prevailing market price or in negotiated transactions.

We will not receive any proceeds from the sale of the shares by these selling stockholders. We will, however, receive proceeds in the event that some or all of the warrants held by the selling stockholders are exercised.

Unless the context otherwise requires, the terms “Patient Safety Technologies,” “we,” “us,” “our” or the “Company” refer Patient Safety Technologies, Inc.

Our common stock is listed on the Over the Counter Bulletin Board under the symbol “PSTX.OB.” The last reported sales price per share of our common stock, as reported by the Over the Counter Bulletin Board on April 25, 2008, was $1.20.

Investing in our common stock involves a high degree of risk.
See “ Risk Factors” beginning on page 5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 28, 2008

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information or represent anything not contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus contains product names, trade marks and trade names of our company and other organizations.

PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus and all documents incorporated by reference carefully. On April 1, 2005 we changed our name from Franklin Capital Corporation to Patient Safety Technologies, Inc. As used throughout this prospectus, the terms "Company", "we," "us," and "our" refer to Patient Safety Technologies, Inc., together with its consolidated subsidiaries.

Patient Safety Technologies, Inc.

Organizational History

Patient Safety Technologies, Inc. (referred to in this report as the ***"Company," "we," "us,"*** and ***"our"***) (formerly known as Franklin Capital Corporation) is a Delaware corporation. Currently we conduct our operations through a single wholly-owned operating subsidiary: SurgiCount Medical, Inc. (***"SurgiCount"***), a California corporation. Beginning in July 2005 through August 2007, the Company's wholly-owned subsidiary, Automotive Services Group, Inc. (formerly known as Ault Glazer Bodnar Merchant Capital, Inc.), a Delaware corporation, held the Company's investment in Automotive Services Group, LLC (*"ASG"*), its wholly-owned express car wash subsidiary. During the period from June 29, 2007 to August 13, 2007, Automotive Services Group sold all the assets held by ASG.

The Company, including SurgiCount, is engaged in the acquisition of controlling interests in companies and research and development of products and services focused primarily in the health care and medical products field, particularly the patient safety markets. SurgiCount is a developer and manufacturer of patient safety products and services. In addition, the Company holds various other unrelated investments which it is in the process of liquidating. The unrelated investments are recorded on the Company's balance sheet in "long-term investments".

The Company was incorporated on March 31, 1987, under the laws of the state of Delaware. Beginning in July 1987 until March 31, 2005 we operated as an investment company registered pursuant to the Investment Company Act of 1940, as amended (the *"1940 Act"*). In or about August 1997 our Board of Directors determined it would be in the best interest of the Company and our stockholders to elect to become a registered business development company (a *"BDC"*) under the 1940 Act. On September 9, 1997 our shareholders approved the proposal to be regulated as a BDC and on November 18, 1997 we filed a notification of election to become a BDC with the Securities and Exchange Commission (*"SEC"*).

On March 30, 2005, stockholder approval was obtained to withdraw our election to be treated as a BDC and on March 31, 2005 we filed an election to withdraw our election with the Securities and Exchange Commission. At December 31, 2007, 8.1% of our assets, consisting of our investment in Alacra Corporation, on a consolidated basis were comprised of investment securities within the meaning of the 1940 Act (*"Investment Securities"*). We continue to evaluate ways in which we can dispose of these Investment Securities.

Our operations currently focus on the research and development of products and services in the health care and medical products field, particularly the patient safety markets, and the acquisition of controlling interests in companies in the medical products field. In the past we also focused on the financial services and real estate industries. On October 2005 our Board of Directors authorized us to evaluate alternative strategies for the divesture of our non-healthcare assets. As an extension on our prior focus on real estate, in March 2006 we acquired the remaining 50% equity interest in ASG and upon doing so we entered the business of developing properties for the operation of automated express car wash sites. However, on March 29, 2006, our Board of Directors determined to focus our business exclusively on the patient safety medical products field. The Board of Directors established a special committee in January 2007 to evaluate potential divestiture transactions for ASG and our other real estate assets. The

divestiture of ASG was completed on August 13, 2007.

SurgiCount, developer of the Safety-Sponge™ System, a wholly-owned operating subsidiary, was acquired to enhance our ability to focus our efforts in the health care and medical products field, particularly the patient safety markets. Currently, we are evaluating ways in which to monetize our few remaining non-patient safety related assets (the "*non-core assets*").

SurgiCount

SurgiCount's Safety-Sponge System helps reduce the number of retained sponges and towels in patients during surgical procedures and allows for faster and more accurate counting of surgical sponges. The SurgiCount Safety-Sponge System is a patented turn-key array of modified surgical sponges, line-of-sight scanning SurgiCounters, and printPAD printers integrated together to form a comprehensive counting and documentation system. The Safety-Sponge System works much like a grocery store checkout process: Every surgical sponge and towel is affixed with a unique inseparable two-dimensional data matrix bar code and used with a SurgiCounter to scan and record the sponges during the initial and final counts. Because each sponge is identified with a unique code, a SurgiCounter will not allow the same sponge to be counted more than one time. When counts have been completed at the end of a procedure, the system will produce a printed report, or can be modified to work with a hospital's paperless system. By scanning the surgical dressings in at the beginning of a surgical procedure and then scanning them out at the end of the procedure, the sponges can be counted faster and more accurately than traditional methods which require two medical personnel manually counting the used and un-used sponges. The Safety-Sponge System is the only FDA 510k approved computer assisted sponge counting system. SurgiCount is the first acquisition in our plan to become a leader in the patient safety market.

Investments

Our investment portfolio, also known as our non-core assets, which is valued at $666,667, is reflected below. At December 31, 2007, our investment portfolio includes our investment in Alacra Corporation, our only significant investment security. At December 31, 2006, our investment portfolio also consisted of certain real property located in Arkansas and Tennessee. At December 31, 2007 the real property met the "held for sale" criteria and was classified as such. The investment portfolio securities, which are described below, are classified on our balance sheet as long-term investments.

	December 31, 2007	December 31, 2006
Alacra Corporation	$ 666,667	$ 1,000,000
Investments in Real Estate	—	430,563
Digicorp	—	10,970
	$ 666,667	$ 1,441,533

Alacra Corporation

At December 31, 2007, we had an investment in Alacra Corporation (*"Alacra"*), valued at $667,000, which represents 8.2% of our total assets. On April 20, 2000, we purchased $1,000,000 worth of Alacra Series F Convertible Preferred Stock. We have the right, subject to Alacra having the available cash, to have the preferred stock redeemed by Alacra over a period of three years for face value plus accrued dividends beginning on December 31, 2006. Pursuant to this right, in December 2006 we informed management of Alacra that we were exercising our right to put back one-third of our preferred stock. Alacra had a sufficient amount of cash to redeem our preferred stock and in December 2007 completed the initial redemption of one-third of our preferred stock. We received proceeds of $333,000 which accounted for the entire amount of the decrease in value of our Alacra investment. We continue to exercise our right to put back our remaining preferred stock to Alacra.

Real Estate Investments

At December 31, 2006, we had two real estate investments, valued in the aggregate at $431,000. During the quarter ended December 31 2007 these real estate investments were reclassified as assets held for sale. The real estate investments, consisting of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas and 0.61 acres of

undeveloped land in Springfield, Tennessee, are currently being marketed for sale. In March 2008, we completed the sale of the undeveloped land in Heber Springs for net proceeds of $226,000, which resulted in a realized loss of $25,000. During the year ended December 31, 2006, we received payment on loans that were secured by real estate of $50,000. During the year ended December 31, 2005, we liquidated properties with a cost basis of $113,000, which resulted in a gain of $28,000. We expect that any future gain or loss recognized on the liquidation of our final real estate holding would be insignificant primarily due to the value paid for the real estate combined with the absence of any significant changes in property values in the real estate market where the real estate is located.

Our principal executive offices are located at 43460 Ridge Park Drive, Suite 140, Temecula, CA 92590. Our telephone number is (951) 587-6201. Our website is located at http://www.patientsafetytechnologies.com.

THE OFFERING

Common stock outstanding before the offering	11,972,710 shares as of November 16, 2007
Common stock offered by selling stockholders	Up to 5,950,171 shares, based on current market prices and assuming full conversion of outstanding common stock purchase warrants and full conversion of a convertible promissory note by the selling stockholders. This number represents approximately 49.7% of our current outstanding stock and includes up to 1,254,200 shares of common stock issuable upon exercise of outstanding common stock purchase warrants and up to 81,971 shares of common stock issuable upon the conversion of a convertible promissory note.
Common stock to be outstanding after the offering	Up to 11,972,710 shares
Use of proceeds	We will not receive any proceeds from the sale of the common stock hereunder. We will, however, receive the sale price of any common stock we sell for cash to the selling stockholders upon exercise of warrants. See “Use of Proceeds” for a complete description.
OTCBB Symbol	PSTX.OB

RISK FACTORS

An investment in our securities involves a high degree of risk. Before you invest in our securities you should carefully consider the risks and uncertainties described below and the other information in this prospectus. Each of the following risks may materially and adversely affect our business, results of operations and financial condition. These risks may cause the market price of our common stock to decline, which may cause you to lose all or a part of the money you paid to buy our securities. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business and our products. These are factors that we think could cause our actual results to differ materially from expected results.

RISKS RELATING TO OUR BUSINESS AND STRUCTURE

WE HAVE JUST BEGUN TO GENERATE SALES FROM OUR SAFETY-SPONGE SYSTEM AND THE REVENUES HAVE JUST NOW BEGUN TO REPRESENT A SIGNIFICANT SOURCE OF CASH..

We have just begun to generate a significant amount of revenue from our Safety-Sponge System. During the year ended December 31, 2007, sales from our Safety-Sponge System amounted to $1,089,000. Further, of our $245,000 of revenue during fiscal 2006, only $141,000 was generated from our Safety-Sponge System. Our future success is dependent on our ability to develop our patient-safety related assets into a successful business, which depends upon wide-spread acceptance of and commercializing our Safety-Sponge System. None of these factors is demonstrated by our historic performance to date and there is no assurance we will be able to accomplish them in order to sustain our operations. As a result, you should not rely on our historical results of operations as an indication of the future performance of our business.

WE RECENTLY RESTRUCTURED OUR BUSINESS STRATEGY AND OBJECTIVE AND HAVE LIMITED OPERATING HISTORY UNDER OUR NEW STRUCTURE. IF WE CANNOT SUCCESSFULLY IMPLEMENT OUR NEW BUSINESS STRUCTURE THE VALUE OF YOUR INVESTMENT IN OUR BUSINESS COULD DECLINE.

Upon the change of control that occurred in October 2004, we restructured our business strategy and objective to focus on the medical products, healthcare solutions, financial services and real estate industries instead of the radio and telecommunications industries. Although we still own certain real estate assets, we are no longer focusing on the financial services and real estate industries. As of March 29, 2006, our Board of Directors determined to focus our business exclusively on the patient safety medical products field. We have a limited operating history under this new structure. Historically, we have not operated in the patient safety medical products field and therefore our historical results of operations should not be relied upon as an indication of our future financial performance. If we do not successfully implement our new business structure the value of your investment in our business could decline substantially.

WE INTEND TO UNDERTAKE ADDITIONAL FINANCINGS TO MEET OUR GROWTH, OPERATING AND/OR CAPITAL NEEDS, WHICH MAY RESULT IN DILUTION TO YOUR OWNERSHIP AND VOTING RIGHTS.

We anticipate that revenue from our operations for the foreseeable future will not be sufficient to meet our growth, operating and/or capital requirements. We believe that in order to have the financial resources to meet our operating requirements for the next twelve months we will need to undertake additional equity or debt financings to allow us to meet our future growth, operating and/or capital requirements. We currently have no commitments for any such financings. Any equity financing may be dilutive to our stockholders, and debt financing, if available, may involve restrictive covenants or other adverse terms with respect to raising future capital and other financial and operational matters. We may not be able to obtain additional financing in sufficient amounts or on acceptable terms when needed, which could adversely affect our operating results and prospects. If we fail to arrange for sufficient capital in the future, we may be required to reduce the scope of our business activities until we can obtain adequate financing.

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WE MAY NEED TO RAISE ADDITIONAL FUNDS IN THE FUTURE WHICH MAY RESULT IN DILUTION TO YOUR OWNERSHIP AND VOTING RIGHTS OR MAY RESULT IN THE INCURRENCE OF SUBSTANTIAL DEBT.

We may decide to raise additional funds from investors. If we determine that we need to raise additional funds, additional financing may not be available on favorable terms, if at all. Furthermore, if we do sell any such securities it will result in dilution to your ownership and voting rights and/or possibly result in our incurring substantial debt. Any such equity financing would result in dilution to existing stockholders and may involve securities that have rights, preferences, or privileges that are senior to our common stock. Any such debt financing may be convertible into common stock which would result in dilution to our stockholders and would have rights that are senior to our common stock. Further, any debt financing must be repaid regardless of whether or not we generate profits or cash flows from our business activities, which could strain our capital resources.

SHOULD THE VALUE OF OUR PATENTS BE LESS THAN THEIR PURCHASE PRICE, WE COULD INCUR SIGNIFICANT IMPAIRMENT CHARGES.

At December 31, 2007, patents received in the acquisition of SurgiCount Medical, Inc., net of accumulated amortization, represented $3,764,000, or 46%, of our total assets. We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist to determine if the recorded amount of our patents is impaired. This determination requires significant judgment and changes in our estimates and assumptions could materially affect the determination of fair value and/or impairment of patents. We may incur charges for the impairment of our patents in the future if sales of our patient safety products, in particular our Safety-Sponge System, fail to achieve our assumed revenue growth rates or assumed operating margin results.

WE MAY NOT BE ABLE TO EFFECTIVELY INTEGRATE OUR ACQUISITION TARGETS, WHICH WOULD BE DETRIMENTAL TO OUR BUSINESS.

On February 25, 2005, we purchased SurgiCount Medical, Inc., which at the time of the purchase was a holding company for intellectual property rights relating to our Safety-Sponge System. We anticipate seeking other acquisitions in furtherance of our plan to acquire assets and businesses in the patient safety medical products industry. Acquisitions involve numerous risks, including potential difficulty in integrating operations, technologies, systems, and products and services of acquired companies, diversion of management's attention and disruption of operations, increased expenses and working capital requirements and the potential loss of key employees and customers of acquired companies. In addition, acquisitions involve financial risks, such as the potential liabilities of the acquired businesses, the dilutive effect of the issuance of additional equity securities, the incurrence of additional debt, the financial impact of transaction expenses and the amortization of goodwill and other intangible assets involved in any transactions that are accounted for by using the purchase method of accounting, and possible adverse tax and accounting effects. Any of the foregoing could materially and adversely affect our business.

FAILURE TO PROPERLY MANAGE OUR POTENTIAL GROWTH WOULD BE DETRIMENTAL TO OUR BUSINESS.

Any growth in our operations will place a significant strain on our resources and increase demands on our management and on our operational and administrative systems, controls and other resources. There can be no assurance that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base and maintain close coordination among our technical, accounting, finance, marketing, and sales staffs. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. We may fail to adequately manage our anticipated future growth. We will also need to continue to attract, retain and integrate personnel in all aspects of

our operations. Failure to manage our growth effectively could hurt our business.

IF THE PROTECTION OF OUR INTELLECTUAL PROPERTY RIGHTS IS INADEQUATE, OUR ABILITY TO COMPETE SUCCESSFULLY COULD BE IMPAIRED.

In connection with our purchase of SurgiCount Medical, Inc., we acquired one registered U.S. patent and one registered international patent of the Safety-Sponge System. We regard our patents, copyrights, trademarks, trade secrets and similar intellectual property as critical to our business. We rely on a combination of patent, trademark and copyright law and trade secret protection to protect our proprietary rights. Nevertheless, the steps we take to protect our proprietary rights may be inadequate. Detection and elimination of unauthorized use of our products is difficult. We may not have the means, financial or otherwise, to prosecute infringing uses of our intellectual property by third parties. Further, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which we will sell our products and offer our services. If we are unable to protect or preserve the value of our patents, trademarks, copyrights, trade secrets or other proprietary rights for any reason, our business, operating results and financial condition could be harmed.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims that our products infringe upon the proprietary rights of others or that proprietary rights that we claim are invalid. Litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition regardless of the outcome of the litigation.

Other parties may assert infringement or unfair competition claims against us. We cannot predict whether third parties will assert claims of infringement against us, or whether any future claims will prevent us from operating our business as planned. If we are forced to defend against third-party infringement claims, whether they are with or without merit or are determined in our favor, we could face expensive and time-consuming litigation, which could distract technical and management personnel. If an infringement claim is determined against us, we may be required to pay monetary damages or ongoing royalties. Further, as a result of infringement claims, we may be required, or deem it advisable, to develop non-infringing intellectual property or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party successfully asserts an infringement claim against us and we are required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar intellectual property on reasonable terms on a timely basis, it could significantly harm our business.

THERE ARE POTENTIAL CONFLICTS OF INTEREST WITH OUR PRESIDENT AND OUR EXCLUSIVE MANUFACTURING PARTNER WHICH COULD ADVERSELY AFFECT OUR RESULTS FROM OPERATIONS.

Mr. Adams, our President and Chief Executive Officer of SurgiCount has provided, and continues to provide, consulting services to A Plus, our exclusive manufacturing partner. Mr. Adams devotes approximately 85% of his time to our business, based on a 60-hour, 6-day workweek. Accordingly, certain conflicts of interest may arise from time to time with our President.

Because of this possible conflict of interest, such individual may direct potential business opportunities to other entities rather than to us, which may not be in the best interest of our stockholders. We will attempt to resolve any such conflicts of interest in our favor. Our Board of Directors does not believe that we have experienced any losses due to any conflicts of interest, other than Mr. Adams responsibility to devote his time to provide services to other entities from time-to-time. These related party transactions may raise conflicts of interest and, although we do not have a formal policy to address such conflicts of interest, our Audit Committee intends to evaluate relationships and transactions involving conflicts of interest on a case-by-case basis and the approval of our Audit Committee is required for all such transactions. The Audit Committee intends that any related party transactions will be on terms and conditions no less favorable to us than terms and conditions reasonably obtainable from third parties and in accordance with applicable law.

WE HAVE EXPERIENCED TURNOVER IN OUR CHIEF EXECUTIVE OFFICER POSITION IN RECENT MONTHS AND IF WE ARE NOT ABLE TO RETAIN OUR CURRENT CHIEF EXECUTIVE OFFICER, WILLIAM HORNE, AND PRESIDENT, WILLIAM ADAMS, WE MAY HAVE DIFFICULTY IMPLEMENTING OUR BUSINESS STRATEGY.

Milton "Todd" Ault, III resigned as our Chairman and Chief Executive Officer on January 9, 2006. On January 7, 2006, our Board of Directors appointed Louis Glazer, M.D., Ph.G. as Chairman and Chief Executive Officer in anticipation of Mr. Ault's resignation. During March 2006, Dr. Glazer had indicated his intent to resign as Chairman and Chief Executive Officer at such time that we retain a suitable candidate for the position of Chief Executive Officer. Due to health concerns, Dr. Glazer resigned his position as Chief Executive Officer on July 11, 2006 and Milton "Todd" Ault, III was re-appointed Chief Executive Officer and a Director of the Company. On January 5, 2007, Milton “Todd” Ault, III resigned as our Chief Executive Officer and on January 9, 2007, Milton “Todd” Ault, III resigned as our Chairman. On January 9, 2007, our Board of Directors appointed William B. Horne as our Chief

Executive Officer. On February 28, 2007, our Board of Directors appointed William Adams, the Chief Executive Officer of SurgiCount Medical, as our President. Our future success is dependent on our ability to retain both our Chief Executive Officer and our President. Although we do not believe we have experienced any losses or negative effects from Mr. Ault's and Dr. Glazer's resignations and we do not expect any adverse consequences in the future, if we are not able to retain our current Chief Executive Officer and our current President we may have difficulty implementing our business strategy.

RISKS RELATED TO OUR MEDICAL PRODUCTS AND HEALTHCARE-RELATED BUSINESS

WE RELY ON A THIRD PARTY MANUFACTURER AND SUPPLIER TO MANUFACTURE OUR SAFETY-SPONGE SYSTEM, THE LOSS OF WHICH MAY INTERRUPT OUR OPERATIONS.

On January 29, 2007, SurgiCount entered into an agreement for A Plus International Inc. to be the exclusive manufacturer and provider of SurgiCount's Safety-Sponge products and granted A Plus the exclusive, world-wide license to manufacture and import SurgiCount's products including the right to sublicense to the extent necessary to carry out the grant. A Plus was previously engaged in the manufacturing of SurgiCount's products under a Supply Agreement dated August 17, 2005, but was not previously granted the exclusive, world-wide license to manufacture and import the products. In the event A Plus International Inc. does not meet the requirements of the agreement, SurgiCount may seek additional providers of the Safety-Sponge products. While our relationship with A Plus International Inc. is currently on good terms, we cannot assure you that we will be able to maintain our relationship with A Plus International Inc. or secure additional suppliers and manufacturers on favorable terms as needed. Although we believe the raw materials used in the manufacture of the Safety-Sponge System are readily available and can be purchased and/or produced by multiple vendors, the loss of our agreement with A Plus International Inc., the deterioration of our relationship with A Plus International Inc., changes in the specifications of components used in our products, or our failure to establish good relationships with major new suppliers or manufacturers as needed, could have a material adverse effect on our business, financial condition and results of operations.

THE UNPREDICTABLE PRODUCT CYCLES OF THE MEDICAL DEVICE AND HEALTHCARE-RELATED INDUSTRIES AND UNCERTAIN DEMAND FOR PRODUCTS COULD CAUSE OUR REVENUES TO FLUCTUATE.

Our target customer base includes hospitals, physicians, nurses and clinics. The medical device and healthcare-related industries are subject to rapid technological changes, short product life cycles, frequent new product introductions and evolving industry standards, as well as economic cycles. If the market for our products does not grow as rapidly as our management expects, our revenues could be less than expected. We also face the risk that changes in the medical device industry, for example, cost-cutting measures, changes to manufacturing techniques or production standards, could cause our manufacturing, design and engineering capabilities to lose widespread market acceptance. If our products do not gain market acceptance or suffer because of competing products, unfavorable regulatory actions, alternative treatment methods or cures, product recalls or liability claims, they will no longer have the need for our products and we may experience a decline in revenues. Adverse economic conditions affecting the medical device and healthcare-related industries, in general, or the market for our products in particular, could result in diminished sales, reduced profit margins and a disruption in our business.

WE ARE SUBJECT TO CHANGES IN THE REGULATORY AND ECONOMIC ENVIRONMENT IN THE HEALTHCARE INDUSTRY, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.

The healthcare industry in the United States continues to experience change. In recent years, the United States Congress and state legislatures have introduced and debated various healthcare reform proposals. Federal, state and local government representatives will, in all likelihood, continue to review and assess alternative healthcare delivery systems and payment methodologies, and ongoing public debate of these issues is expected. Cost containment initiatives, market pressures and proposed changes in applicable laws and regulations may have a dramatic effect on pricing or potential demand for medical devices, the relative costs associated with doing business and the amount of reimbursement by both government and third-party payors to persons providing medical services. In particular, the healthcare industry is experiencing market-driven reforms from forces within the industry that are exerting pressure on healthcare companies to reduce healthcare costs. Managed care and other healthcare provider organizations have grown substantially in terms of the percentage of the population in the United States that receives medical benefits through such organizations and in terms of the influence and control that they are able to exert over an increasingly

large portion of the healthcare industry. Managed care organizations are continuing to consolidate and grow, increasing the ability of these organizations to influence the practices and pricing involved in the purchase of medical devices, including our products, which is expected to exert downward pressure on product margins. Both short-and long-term cost containment pressures, as well as the possibility of continued regulatory reform, may have an adverse impact on our business, financial condition and operating results.

WE ARE SUBJECT TO GOVERNMENT REGULATION IN THE UNITED STATES AND ABROAD, WHICH CAN BE TIME CONSUMING AND COSTLY TO OUR BUSINESS.

Our products and operations are subject to extensive regulation by numerous governmental authorities, including, but not limited to, the FDA and state and foreign governmental authorities. In particular, we must obtain specific clearance or approval from the FDA before we can market new products or certain modified products in the United States. The FDA administers the Food, Drug and Cosmetics Act (the "FDC ACT"). Under the FDC Act, most medical devices must receive FDA clearance through the Section 510(k) notification process ("510(K)") or the more lengthy premarket approval ("PMA") process before they can be sold in the United States. All of our products, currently consisting only of the Safety-Sponge System, must receive 510(k) clearance or PMA approval. The Safety-Sponge System has received 501(k) clearance to market and sell its patented Safety-Sponge System from the FDA. To obtain 510(k) marketing clearance, a company must show that a new product is "substantially equivalent" in terms of safety and effectiveness to a product already legally marketed and which does not require a PMA. Therefore, it is not always necessary to prove the actual safety and effectiveness of the new product in order to obtain 510(k) clearance for such product. To obtain a PMA, we must submit extensive data, including clinical trial data, to prove the safety, effectiveness and clinical utility of our products. The process of obtaining such clearances or approvals can be time-consuming and expensive, and there can be no assurance that all clearances or approvals sought by us will be granted or that FDA review will not involve delays adversely affecting the marketing and sale of our products. FDA's quality system regulations also require companies to adhere to certain good manufacturing practices requirements, which include testing, quality control, storage, and documentation procedures. Compliance with applicable regulatory requirements is monitored through periodic site inspections by the FDA. In addition, we are required to comply with FDA requirements for labeling and promotion. The Federal Trade Commission also regulates most device advertising.

In addition, international regulatory bodies often establish varying regulations governing product testing and licensing standards, manufacturing compliance, such as compliance with ISO 9001 standards, packaging requirements, labeling requirements, import restrictions, tariff regulations, duties and tax requirements and pricing and reimbursement levels. Our inability or failure to comply with the varying regulations or the imposition of new regulations could restrict our ability to sell our products internationally and thereby adversely affect our business, financial condition and operating results.

Failure to comply with applicable federal, state or foreign laws or regulations could subject us to enforcement actions, including, but not limited to, product seizures, injunctions, recalls, possible withdrawal of product clearances, civil penalties and criminal prosecutions, any one or more of which could have a material adverse effect on our business, financial condition and operating results. Federal, state and foreign laws and regulations regarding the manufacture and sale of medical devices are subject to future changes, as are administrative interpretations of regulatory requirements. Any such changes may have a material adverse effect on our business, financial condition and operating results.

WE ARE SUBJECT TO INTENSE COMPETITION IN THE MEDICAL PRODUCTS AND HEALTH-CARE RELATED MARKETS, WHICH COULD HARM OUR BUSINESS.

The medical products and healthcare solutions industry is highly competitive. We compete against other medical products and healthcare solutions companies, some of which are much larger and have significantly greater financial resources, management resources, research and development staffs, sales and marketing organizations and experience in the medical products and healthcare solutions industries than us. In addition, these companies compete with us to acquire technologies from universities and research laboratories. We also compete against large companies that seek to license medical products and healthcare solutions technologies for themselves. We cannot assure you that we will be able to successfully compete against these competitors in the acquisition, development, or commercialization of any medical products and healthcare solutions, funding of medical products and healthcare solutions companies or marketing of our products and solutions. If we cannot compete effectively against our competitors, our business,

financial condition and results of operations may be materially adversely affected.

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS AND IF OUR INSURANCE IS NOT SUFFICIENT TO COVER PRODUCT LIABILITY CLAIMS OUR BUSINESS AND FINANCIAL CONDITION WILL BE MATERIALLY ADVERSELY AFFECTED.

The nature of our business exposes us to potential product liability risks, which are inherent in the distribution of medical equipment and healthcare products. We may not be able to avoid product liability exposure, since third parties develop and manufacture our equipment and products. If a product liability claim is successfully brought against us or any third party manufacturer then we would experience adverse consequences to our reputation, we might be required to pay damages, our insurance, legal and other expenses would increase, we might lose customers and/or suppliers and there may be other adverse results.

Through our subsidiary SurgiCount Medical, Inc. we have general liability insurance to cover claims up to $3,000,000. In addition, A Plus International, Inc., the manufacturer of our surgical sponges, maintains general liability insurance for claims up to $4,000,000. These general liability insurance policies cover product liability claims against SurgiCount Medical, Inc. There can be no assurance that one or more liability claims will not exceed the coverage limits of any of such policies. If we or our manufacturer are subjected to product liability claims, the result of such claims could harm our reputation and lead to less acceptance of our products in the healthcare products market. In addition, if our insurance or our manufacturer's insurance is not sufficient to cover product liability claims, our business and financial condition will be materially adversely affected.

RISKS RELATED TO OUR INVESTMENTS

WE MAY EXPERIENCE FLUCTUATIONS IN OUR QUARTERLY RESULTS DUE TO THE SUCCESS RATE OF INVESTMENTS WE HOLD.

We may experience fluctuations in our quarterly operating results due to a number of factors, including the success rate of our current investments, variations in and the timing of the recognition of realized and unrealized gains or losses, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

WE HAVE INVESTED IN NON-MARKETABLE INVESTMENT SECURITIES WHICH MAY SUBJECT US TO SIGNIFICANT IMPAIRMENT CHARGES.

We have invested in illiquid equity securities acquired directly from issuers in private transactions. At December 31, 2007, 8.2% of our assets on a consolidated basis with our subsidiary were comprised of investment securities, which are illiquid investments. Investments in illiquid, or non-marketable, securities are inherently risky and a number of the companies we invest in are expected to fail. We review all of our investments quarterly for indicators of impairment; however, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that would likely have a material adverse effect on the fair value of the investment. The indicators we use to identify those events or circumstances include as relevant, the nature and value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to valuations of publicly traded companies, comparisons to recent sales of comparable companies, the discounted cash flows of the portfolio company and other relevant factors. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case we write the investment down to its impaired value. When a company in which we hold investments is not considered viable from a financial or technological point of view, we write down the entire investment since we consider the estimated fair market value to be nominal. We recognized impairment charges of nil and $1,445,000 for the fiscal years ended December 31, 2007 and 2006, respectively. Since a significant amount of

our assets are comprised of non-marketable investment securities, any future impairment charges from the write down in value of these securities will most likely have a material adverse affect on our financial condition.

ECONOMIC RECESSIONS OR DOWNTURNS COULD IMPAIR INVESTMENTS AND HARM OUR OPERATING RESULTS.

Many of the companies in which we have made investments may be susceptible to economic slowdowns or recessions. An economic slowdown may affect the ability of a company to engage in a liquidity event such as a sale, recapitalization, or initial public offering. Our nonperforming assets are likely to increase and the value of our investments is likely to decrease during these periods. These conditions could lead to financial losses in our investments and a decrease in our revenues, net income, and assets. Our investments also may be affected by current and future market conditions. Significant changes in the capital markets could have an effect on the valuations of private companies and on the potential for liquidity events involving such companies. This could affect the amount and timing of gains or losses realized on our investments.

INVESTING IN PRIVATE COMPANIES INVOLVES A HIGH DEGREE OF RISK.

Our assets include an investment in a private company, a 1.6% equity interest in Alacra Corporation. Investments in private businesses involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. Because of the speculative nature and the lack of a public market for this investment, there is significantly greater risk of loss than is the case with traditional investment securities. We expect that some of our investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. During the year ended December 31, 2005, we wrote off our investment in the private company China Nurse LLC. The amount of the loss was $50,000. We have in the past relied, and we continue to rely to a lesser extent, upon proceeds from sales of investments rather than revenue generated from operating activities to defray a significant portion of our operating expenses.

THE LACK OF LIQUIDITY IN OUR INVESTMENT IN ALACRA MAY ADVERSELY AFFECT OUR BUSINESS.

Our investment in Alacra was acquired directly from the issuer in private transactions. Accordingly, the securities that we received from out investment in Alacra is subject to restrictions on resale and/or otherwise is illiquid. These securities are not eligible for sale to the public without registration under the Securities Act of 1933, which could prevent or delay any sale by us of such investments or reduce the amount of proceeds that might otherwise be realized therefrom. Restricted securities generally sell at a price lower than similar securities not subject to restrictions on resale. The illiquidity of our investment in Alacra may adversely affect our ability to dispose of debt and equity securities at times when it may be otherwise advantageous for us to liquidate such investments. In addition, if we were forced to immediately liquidate some or all of our investment, the proceeds of such liquidation may be significantly less than the value at which we acquired those investments.

WE MAY NOT REALIZE GAINS FROM OUR EQUITY INVESTMENT.

In the past, our investments have primarily been in equity securities of other companies. The equity interest in Alacra, our only remaining equity investment, may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interest, and any gains that we do realize on the disposition of our equity interest may not be sufficient to offset any other losses we experience.

THERE IS UNCERTAINTY REGARDING THE VALUE OF OUR INVESTMENTS THAT ARE NOT PUBLICLY TRADED SECURITIES, WHICH COULD ADVERSELY AFFECT THE DETERMINATION OF OUR ASSET VALUE.

The fair value of investments that are not publicly traded securities is not readily determinable. Therefore, we value these securities at fair value as determined in good faith by our Board of Directors. The types of factors that our Board of Directors takes into account include, as relevant, the nature and value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to

valuations of publicly traded companies, comparisons to recent sales of comparable companies, the discounted value of the cash flows of the portfolio company and other relevant factors. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed.

RISKS RELATED TO OUR REAL ESTATE HOLDINGS

OUR CURRENT REAL ESTATE HOLDINGS ARE CONCENTRATED IN HEBER SPRINGS, ARKANSAS AND SPRINGFIELD, TENNESSEE. ADVERSE CIRCUMSTANCES AFFECTING THESE AREAS GENERALLY COULD ADVERSELY AFFECT OUR BUSINESS.

Our remaining real real estate investment in Springfield, Tennessee is affected by the economic cycles and risks inherent to that region. Like other real estate markets, the real estate market in this area has experienced economic downturns in the past, and we cannot predict how the current economic conditions will impact this market in both the short and long term. Further declines in the economy or a decline in the real estate market in this area could hurt our financial performance and the value of our property. The factors affecting economic conditions in this region include: business layoffs or downsizing; industry slowdowns; relocations of businesses; changing demographics; and any oversupply of or reduced demand for real estate.

RISKS RELATED TO OUR COMMON STOCK

OUR HISTORIC STOCK PRICE HAS BEEN VOLATILE AND THE FUTURE MARKET PRICE FOR OUR COMMON STOCK MAY CONTINUE TO BE VOLATILE. FURTHER, THE LIMITED MARKET FOR OUR SHARES WILL MAKE OUR PRICE MORE VOLATILE. THIS MAY MAKE IT DIFFICULT FOR YOU TO SELL OUR COMMON STOCK FOR A POSITIVE RETURN ON YOUR INVESTMENT.

The public market for our common stock has historically been very volatile. Over the past two fiscal years and the subsequent interim quarterly periods, the market price for our common stock has ranged from $0.57 to $4.70. Any future market price for our shares may continue to be very volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. We do not know of any one particular factor that has caused volatility in our stock price. However, the stock market in general has experienced extreme price and volume fluctuations that often are unrelated or disproportionate to the operating performance of companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. Our common stock is currently on the OTC Bulletin Board under the symbol PSTX. Prior thereto, the Company’s common stock was traded on the American Stock Exchange ("AMEX") under the symbol “PST.” As of April 11, 2008, the average daily trading volume of our common stock over the past three months was approximately 24,000 shares. The last reported sales price for our common stock on April 11, 2008, was $1.35 per share. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, this may make it difficult or impossible for you to sell our common stock.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC, WHICH WOULD MAKE TRANSACTIONS IN OUR COMMON STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The SEC has adopted Rule 3a51-1 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15g-9 require:

· that a broker or dealer approve a person's account for transactions in penny stocks; and

· the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

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In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

· obtain financial information and investment experience objectives of the person; and

· make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

· sets forth the basis on which the broker or dealer made the suitability determination; and

· that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

FORWARD-LOOKING STATEMENTS

This prospectus, any prospectus supplement and the documents incorporated by reference in this prospectus contain “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can be identified by the use of words such as “believes,” “estimates,” “could,” “possibly,” “probably,” “anticipates,” “projects,” “expects,” “may,” “w or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. The following matters constitute cautionary statements identifying important factors with respect to those forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the future results anticipated by those forward-looking statements. Among the key factors that have a direct bearing on our results of operations are the effects of various governmental regulations, the fluctuation of our direct costs and the costs and effectiveness of our operating strategy. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we will receive the sale price of any common stock we sell to the selling stockholders upon exercise of outstanding warrants for cash. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes.

BUSINESS OF PATIENT SAFETY TECHNOLOGIES, INC.

Organizational History

Patient Safety Technologies, Inc. (referred to in this report as the ***"Company," "we," "us,"*** and ***"our"***) (formerly known as Franklin Capital Corporation) is a Delaware corporation. Currently we conduct out operations through a single wholly-owned operating subsidiary: SurgiCount Medical, Inc. (***"****SurgiCount****"***), a California corporation. Beginning in July 2005 through August 2007, the Company's wholly-owned subsidiary, Automotive Services Group, Inc. (formerly known as Ault Glazer Bodnar Merchant Capital, Inc.), a Delaware corporation, held the Company's investment in Automotive Services Group, LLC (*"ASG"*), its wholly-owned express car wash subsidiary. During the period from June 29, 2007 to August 13, 2007, Automotive Services Group sold all the assets held by ASG.

The Company, including SurgiCount, is engaged in the acquisition of controlling interests in companies and research and development of products and services focused primarily in the health care and medical products field, particularly the patient safety markets. SurgiCount is a developer and manufacturer of patient safety products and services. In addition, the Company holds various other unrelated investments which it is in the process of liquidating. The unrelated investments are recorded on the Company's balance sheet in "long-term investments".

The Company was incorporated on March 31, 1987, under the laws of the state of Delaware. Beginning in July 1987 until March 31, 2005 we operated as an investment company registered pursuant to the Investment Company Act of 1940, as amended (the *"1940 Act"*). In or about August 1997 our Board of Directors determined it would be in the best interest of the Company and our stockholders to elect to become a registered business development company (a *"BDC"*) under the 1940 Act. On September 9, 1997 our shareholders approved the proposal to be regulated as a BDC and on November 18, 1997 we filed a notification of election to become a BDC with the Securities and Exchange Commission (*"SEC"*).

On March 30, 2005, stockholder approval was obtained to withdraw our election to be treated as a BDC and on March 31, 2005 we filed an election to withdraw our election with the Securities and Exchange Commission. At December 31, 2007, 8.1% of our assets, consisting of our investment in Alacra Corporation, on a consolidated basis were comprised of investment securities within the meaning of the 1940 Act (*"Investment Securities"*). We continue to evaluate ways in which we can dispose of these Investment Securities.

Our operations currently focus on the research and development of products and services in the health care and medical products field, particularly the patient safety markets, and the acquisition of controlling interests in companies in the medical products field. In the past we also focused on the financial services and real estate industries. On October 2005 our Board of Directors authorized us to evaluate alternative strategies for the divesture of our non-healthcare assets. As an extension on our prior focus on real estate, in March 2006 we acquired the remaining 50% equity interest in ASG and upon doing so we entered the business of developing properties for the operation of automated express car wash sites. However, on March 29, 2006, our Board of Directors determined to focus our business exclusively on the patient safety medical products field. The Board of Directors established a special committee in January 2007 to evaluate potential divestiture transactions for ASG and our other real estate assets. The divestiture of ASG was completed on August 13, 2007.

SurgiCount, developer of the Safety-Sponge™ System, a wholly-owned operating subsidiary, was acquired to enhance our ability to focus our efforts in the health care and medical products field, particularly the patient safety markets. Currently, we are evaluating ways in which to monetize our few remaining non-patient safety related assets (the "*non-core assets*").

SurgiCount

SurgiCount's Safety-Sponge System helps reduce the number of retained sponges and towels in patients during surgical procedures and allows for faster and more accurate counting of surgical sponges. The SurgiCount Safety-Sponge System is a patented turn-key array of modified surgical sponges, line-of-sight scanning SurgiCounters, and printPAD printers integrated together to form a comprehensive counting and documentation system. The Safety-Sponge System works much like a grocery store checkout process: Every surgical sponge and towel is affixed with a unique inseparable two-dimensional data matrix bar code and used with a SurgiCounter to scan and record the sponges during the initial and final counts. Because each sponge is identified with a unique code, a SurgiCounter will not allow the same sponge to be counted more than one time. When counts have been completed at the end of a procedure, the system will produce a printed report, or can be modified to work with a hospital's paperless system. By scanning the surgical dressings in at the beginning of a surgical procedure and then scanning them out at the end of the procedure, the sponges can be counted faster and more accurately than traditional methods which require two medical personnel manually counting the used and un-used sponges. The Safety-Sponge System is the

only FDA 510k approved computer assisted sponge counting system. SurgiCount is the first acquisition in our plan to become a leader in the patient safety market.

The Medical Products and Healthcare Solutions Industry

We believe that the healthcare delivery system is under tremendous pressure to identify and commercialize simple medical solutions quickly to lower costs, control infections, reduce liability and eliminate preventable errors. Increased litigation and a renewed focus on patient safety by regulators is spurring demand for new innovative medical devices. With the convergence of scientific, electronic and digital technologies, new breakthroughs in medical devices will play a critical role in solving problems in healthcare and enhancing patient safety in the future.

The medical community recognizes the importance of improving patient safety, not only to enhance the quality of care, but also to help manage medical costs and related litigation costs. We are confident the medical profession and healthcare professionals will rise to the occasion and help develop the medical solutions to revolutionize health care.

We are dedicated to leading this effort through the development and introduction of ground-breaking patient safety products such as our lead product, the patented Safety-Sponge™ System, which management believes will allow us to capture a significant portion of the United States and European surgical sponge sales. Based upon assumptions by our management that take into consideration factors such as the approximate number of hospitals and operating rooms in the United States and Europe, the approximate number of surgeries performed annually, and estimates for the average cost of surgical sponges per surgery, we believe that the existing market for surgical sponge sales in the United States and Europe represents a market opportunity equal to or in excess of $650 million in annual sales. Such estimate assumes approximately 61 million surgeries performed annually in the United States and Europe, and an average cost of surgical sponges of $10.60 per surgery. In addition, we believe that our Safety-Sponge™ System could save up to an estimated $1.0 billion annually in retained sponge litigation. The estimated size of the surgical sponge market and actual savings derived from utilizing the Safety-Sponge™ System from retained sponge litigation is based on management's estimates and assumptions made by management. Although management took into consideration statistics from research and published articles by the American Hospital Association and New England Journal of Medicine, as well as various articles located through a search of retained sponge verdicts, the specific assumptions are management's interpretation of multiple sources. Further, management believes that a large amount of the litigation relating to medical malpractice claims are settled under the terms of confidential agreements, thus the actual amount of many settlements are never disclosed and therefore subject to speculation.

We are targeting hospitals, physicians, nurses and clinics as our initial source of customers. In addition, we plan to develop strategic alliances with universities, medical facilities and notable medical researchers around the United States that will provide research, development and promotional support for our products and services.

Customers and Distribution

On April 5, 2005, we entered into a consulting agreement with Health West Marketing Incorporated, a California corporation (***"Health West"***), pursuant to which Health West agreed to help us establish a comprehensive manufacturing and distribution strategy for the Safety-Sponge™ System worldwide. The initial term of the agreement was for a period of two years; however, the agreement was terminated with the appointment of Bill Adams, Health West's Chief Executive Officer, to the position of Chief Executive Officer of SurgiCount effective April 21, 2006. In consideration for Health West's services, we agreed to issue Health West 42,017 shares of our common stock. We issued 26,261 shares, valued at $156,000, primarily for Health West's assistance in structuring a comprehensive manufacturing agreement with A Plus International Inc. (***"A Plus"***), which was entered into on August 17, 2005. We issued the remaining 15,756 shares, valued at $94,000, for Health West's services in assisting with the development of a regional distribution network to integrate the Safety-Sponge™ System into the existing acute care supply chain. As an additional incentive, in 2005 we granted Health West warrants to purchase a total of 175,000 shares of our common stock with an exercise price of $5.95 per share.

On November 14, 2006, SurgiCount entered into a Supply Agreement with Cardinal Health 200, Inc. (***"Cardinal"***). Pursuant to the agreement, Cardinal became the exclusive distributor of SurgiCount's products in the United States, with the exception that SurgiCount may sell its products to one other specified hospital supply company, solely for its sale/distribution to its hospital customers. Under the agreement, SurgiCount agrees to maintain a specified fill rate on all orders for products. The term of the agreement is 36 months, unless earlier terminated as set forth therein. Otherwise, the agreement automatically renews for successive 12 month periods

If Cardinal receives an offer from another supplier to purchase any or all of the products supplied by SurgiCount under the agreement on more favorable terms and conditions, of better grade or quality, at a more favorable net price or with new or improved technology, Cardinal must provide SurgiCount with written notice of such offer. SurgiCount will have 15 days following the date of the notice to notify Cardinal that it agrees to meet or improve upon such offer. If SurgiCount fails to so notify Cardinal in writing that it will meet or improve upon such offer within such 15 day period, Cardinal may terminate the agreement with respect to the product in question upon written notice to SurgiCount, without further obligation or liability. SurgiCount's notice to Cardinal that it agrees to meet or improve upon such offer shall constitute an amendment to the agreement with respect to those products.

SurgiCount may not assign its interest under the agreement without Cardinal's prior written consent. Further as part of the agreement, SurgiCount executed a Continuing Guaranty agreeing, among other things, to indemnify Cardinal for any loss or claim a) for property damage on account of any SurgiCount product except as may be caused by gross negligence or reckless disregard on the part of Cardinal or any of its employees, or b) arising on account of any infringement by any SurgiCount product of any patent, trademark or other proprietary right of any other party

In addition, the agreement provides that if we decide to divest, spin-off or otherwise sell SurgiCount or any material assets of SurgiCount (such as intellectual property) during the term of the agreement, Cardinal shall have a right of first refusal to purchase SurgiCount.

Geographic Areas

We currently market and sell our patient safety products and services in the United States. Eventually we also intend to market and sell our products in Europe. However, the principal markets, products and methods of distribution will vary by country based on a number of factors, including healthcare regulations, insurance coverage and customer demographics. Business activities in some countries outside the United States are subject to higher risks than comparable U.S. activities because the business and commercial climate is influenced by restrictive economic policies and political uncertainties.

Product Development

Our Safety-Sponge System allows for faster and more accurate counting of surgical sponges compared to traditional methods. The Safety-Sponge System is a two-part system consisting of a handheld scanner/imager/computer and of SurgiCount supplied surgical dressings. Our sponges are unique in that they are individually labeled with a “bar code” at the point of manufacture. The sponges are scanned in by a handheld scanner at the beginning of a surgical procedure, and then scanned out at the end of a procedure after their use. Each sponge, having a unique bar code, can accurately be accounted for at the end of the procedure. Without using our Safety-Sponge System, in a typical surgical procedure, a nurse and a scrub tech manually count all sponges used and un-used. The core of the Safety-Sponge System is the ability to uniquely identify an individual dressing.

SurgiCount began developing the Safety-Sponge line of sponges in February 1994 and received confirmation from the U.S. Food and Drug Administration (***“FDA”***) that, due to the minor nature of the change in surgical sponges attributed to the Safety-Sponge line of sponges, a new product listing was not warranted and the Safety-Sponge product line was granted 510k exempt status on November 8, 1999. In 2005, SurgiCount requested, and received in March 2006, 510(k) clearance to market and sell its patented Safety-Sponge™ System, which included the Safety-Sponge line of sponges. The Safety-Sponge System is an integrated turn-key program of thermally affixed, data matrix tagged surgical sponges, line-of-sight scanning technology, and documentation that offers surgeons and hospitals a solution to gossypiboma – the term for surgical sponges accidentally left inside a human body after surgery. The Safety-Sponge System is the first computer-assisted program of counting sponges ever cleared by the FDA. The Safety-Sponge line of sponges has passed required FDA biocompatibility tests including ISO sensitization, cytotoxicity and skin irritation tests. The Center for Devices and Radiological Health (***“CDRH”***) handles the premarket

notification process for medical devices at the FDA. The CDRH requires the biological evaluation of medical devices to determine the potential toxicity resulting from contact of the component materials of the device with the human body. Evaluation of any new device intended for human use requires data from systemic testing to ensure that the benefits provided by the final product will exceed any potential risk produced by device materials. CDRH Blue Book Memo G95-1 provides guidance for required biocompatibility testing procedures for medical devices. SurgiCount requested specific guidance from the CDRH as to the required biocompatibility tests for the Safety-Sponge line of products. The CDRH specifically guided SurgiCount to three required biocompatibility tests for the Safety-Sponge line: Cytotoxicity, Sensitization and Irritation/Intracutaneous Reactivity. SurgiCount has performed and in 2003 passed all three of these required biocompatibility tests. Cytotoxicity testing is conducted to determine whether or not the materials used in a medical device are harmfully reactive to certain biological elements on a cellular level. Sensitization or hypersensitivity reactions usually occur as a result of prolonged contact with a chemical substance that interacts with the body’s immune system. The tests are used to eliminate the possibility that patients will be exposed to strong sensitizing chemicals extracted from the medical device.

The tests were completed prior to our acquisition of SurgiCount, which occurred in February 2005. At the time the acquisition was completed we focused on developing the product for commercialization. Although passing the three biocompatibility tests was necessary to satisfy any questions as to whether or not the product was safe for use in the body it was only a part of the process required to commercialize the product. In order to utilize the product as designed, investment in specialized software, hardware as well as modification of current operating room procedures was needed.

At the time that we acquired SurgiCount we believed that sales of the Safety-Sponge System would begin to materialize during the first half of 2005. However, this expectation did not properly take into account the level of work required on software development. Software development, which was initially expected to take a few months, required approximately nine months for completion. Initially, we expected that basic modification to existing software would be sufficient; however, based upon feedback from third party users and consultants we abandoned our plan to modify existing software currently in use and developed our own proprietary software for the system. By developing our own proprietary software we extended the time required to bring Safety-Sponge System to market by approximately seven months.

We also did not adequately account for the level of testing that would be performed by the adopters of our Safety-Sponge System. Our expectation was that despite the pricing of our sponges, which is on average four times the cost of traditional sponges, hospitals would be eager to order the Safety-Sponge System solely because of the anticipated improved level of safety which we believe it provides patients undergoing surgery. Due to the nature of the medical products business, in spite of expectations for improved safety, any change in the procedures requires rigorous rounds of testing and review in every adopter. Demonstrations are given to relevant parties and small "in-service" (an in-hospital teaching of how to use the system to the relevant staff members) sessions are performed with the results evaluated. If the results are viewed positively a second larger in-service session is usually performed, which results are again reviewed. Assuming a positive outcome of the in-service sessions, the entire staff must then be trained to use the system prior to the placement of any order. We currently estimate that the rounds of testing by an adopter could range between one to three months before a final decision is made to purchase our Safety-Sponge System. We have seen several successful in-service sessions and began receiving orders for the Safety-Sponge System, in greater quantities, during the year ended December 31, 2007.

The Safety-Sponge System is presently in the optimization and commercialization phase. Development of the Safety-Sponge System has been completed and the system is currently being rolled out into the market as a commercial product. We intend to conduct further research and development to advance our products. However, we expect that any costs associated with R&D on our Safety-Sponge product will be insignificant and intend to outsource much of the R&D functions so that we may focus our direct efforts on optimizing the Safety-Sponge product and establishing distribution channels with strategic alliances with hospitals to deploy the product. We also seek qualified input from professionals in the healthcare profession as well as University hospitals such as Harvard and the University of California, San Francisco (***"UCSF***"). These physicians and researchers maintain medical practices primarily at University hospitals and are involved in various research and clinical development programs. We meet on an as needed basis to discuss medical, technology and development issues. Through direct contracts and sponsorship of studies, recommendations from these professionals have improved various aspects of the Safety-Sponge System. Examples where recommendations were utilized include: the ideal location for labels, label coarseness and thickness, improved operating room procedures, label structure and scanner functionality.

In 2005 we entered into a clinical trial agreement with Brigham and Women's Hospital, the teaching affiliate of Harvard Medical School, relating to SurgiCount's Safety-Sponge ™ System. The clinical trial was the result of an on-going collaboration between Harvard and SurgiCount to refine the Safety-Sponge System in a clinical optimization study. Under terms of the agreement, Brigham and Women's Hospital collected data on how the Safety-Sponge System saves time, reduces costs and increases patient safety in the operating room. The study also assisted to refine the system's technical processes in the operating room to provide clear guidance and instruction to hospitals, easily integrating the Safety-Sponge System into operating rooms. Brigham and Women's Hospital received a non-exclusive license to use the Safety-Sponge System, while we will own all technical innovations and other intellectual properties derived from the study. We provided a research grant to Brigham and Women's Hospital over the course of the clinical trial in the aggregate amount of $431,000. The final amount due under the terms of the clinical trial agreement, of $68,000, was paid in February 2008. The clinical trials were completed around September 2006 and the results from the clinical trial were published in the April issue of the *Annals of Surgery*.

Researchers at Brigham and Women's Hospital have found that using bar-code technology to augment the counting of surgical sponges during an operative procedure increases the detection rate of miscounted and/or misplaced sponges. Previous studies have shown that counts are falsely reported as correct in the majority of cases of retained sponges and instruments, resulting in the surgical team believing that all the sponges are accounted for. In this study, researchers compared the traditional counting protocol with or without augmentation by the bar-code technology in 300 general surgery operations. The researchers found that the bar-code system detected more counting errors than traditional counting methods both in cases where sponges were misplaced and counted incorrectly.

Manufacturing

We believe that the raw materials used in our products are readily available and can be purchased and/or produced by several different vendors and, therefore, we do not anticipate being dependent on any one vendor for our raw materials.

In order to meet the expected demand for bar-coded surgical dressings SurgiCount entered into an agreement on August 17, 2005 for A Plus to be the exclusive manufacturer and provider of the Safety-Sponge™ products, which includes bar coded gauze sponges, bar coded laparotomy sponges, bar coded O.R. towels and bar coded specialty sponges. Services to be provided by A Plus include manufacturing, packaging, sterilization, logistics and all related quality and regulatory compliance. During the term of the agreement, A Plus agreed not to manufacture, distribute or otherwise supply any bar coded gauze sponges, bar coded laparotomy sponges, bar coded O.R. towels or bar coded specialty sponges manufactured in China for any third party except for SurgiCount. A Plus was founded in 1988 and is a global manufacturer of surgical dressings, patient drapes and surgical gowns. A Plus provides OEM support to the largest healthcare manufacturers and distributors in the world. A Plus employs over 6,000 people in seven factories throughout China and maintains over 200,000 sq. ft. of warehouse space in the United States. While we believe the manufacturing capacity of A Plus will be sufficient to meet our expected demand, in the event A Plus cannot meet our requirements the agreement allows us to retain additional providers of the Safety-Sponge™ products. The term of the agreement was for a period of five years and automatically renewed for successive three-year periods. Either party had the right to terminate the agreement without cause at any time after eight years upon delivery of 90 days prior written notice.

On January 29, 2007, on behalf of SurgiCount, we entered into an Exclusive License and Supply Agreement (the ***"Supply Agreement"***) with A Plus. Pursuant to the agreement, A Plus agreed to act as the exclusive manufacturer for SurgiCount's products. A Plus was previously engaged in the manufacturing of SurgiCount's products under a Supply Agreement dated August 17, 2005, but was not previously granted the exclusive, world-wide license to manufacture and import SurgiCount's products. Pursuant to the Supply Agreement, A Plus was granted the exclusive, world-wide license to manufacture and import SurgiCount's products, including the right to sublicense to the extent necessary to

carry out the grant. The Supply Agreement is a requirements contract, with projections of the maximum/minimum level of required inventory to be provided to A Plus on a quarterly basis. The pricing schedule shall remain at its current price for the first three (3) years of the Supply Agreement; thereafter, the pricing schedule shall be based upon the Cotlook Index and the RMB exchange rate. The term of Supply Agreement is eight years.

In conjunction with entering into the Supply Agreement we also entered into a subscription agreement with A Plus, in which we sold to A Plus 800,000 shares of our Common Stock and a warrant to purchase 300,000 shares of our common stock. The Warrant has a term of five (5) years and has an exercise price equal to $2.00 per share. We received gross proceeds of $500,000 in cash and will receive $500,000 in product over the course of the next twelve (12) months. Pursuant to the subscription agreement with A Plus, we appointed Wayne Lin, the President and Founder of A Plus, to our Board of Directors.

Research and Development

Research and development activities are important to our business. However, at this time we do not have a research facility but rather focus our efforts on acquisitions of companies operating within our target industries that have demonstrated product viability through their own research and development activities. We intend to outsource much of the research and development activities related to improving our existing products or expanding our intellectual property to similar products or products that have similar characteristics in our target industries. We did not incur any costs during the fiscal years ended December 31, 2007 or 2006 relating to the development of new products, the improvement of existing products, technical support of products and compliance with governmental regulations for the protection of consumers. In the future, these costs will be charged directly to income in the year in which they are incurred.

Patents and Trademarks

We make a practice of obtaining patent protection on our products and processes where possible. Our patents and trademarks are protected by registration in the United States and other countries where our products are marketed.

We currently own patents issued in the United States and Europe related to the Safety-Sponge System. This is covered by patent #5,931,824 registered with the United States Patent and Trademark Office and patent #1 032 911 B1 registered with the European Patent Office, which permits the holder to label or identify a dressing with a unique identifier. Patent #5,931,824 and #1 032 911 B1 will expire in August of 2019 and March of 2017, respectively. U.S Patent Number 5,931,824 recently underwent a reexamination proceeding in the U.S. Patent Office. During 2007, the U. S. Patent Office granted a reexamination certificate affirming the validity of the reexamined patent with certain amendments to the claims. Our counsel has reviewed the amended claims and believes that they will cover the Safety-Sponge System as well as a broad range of commercially equivalent systems. In addition to the reexamined patent and the European patent, we have filed one additional U. S. Patent application and one international patent application covering improved methods and systems for the automated counting and tracking of surgical articles, that would provide the Company's Safety-Sponge System with an additional level of protection to prevent competitors from attempting to replicate and market a similar version of the Company's Safety-Sponge System.

Sales of the Safety-Sponge System in the future are expected to contribute a significant part of our total revenue. We consider these patents and trademarks in the aggregate to be of material importance in the operation of our business. The loss or expiration of any product patent or trademark could result in a loss of market exclusivity and can result in a significant reduction in sales.

Competition

The medical products and healthcare solutions industry is highly competitive. We expect that if our business strategy proves to be successful, our current competitors in the medical products and healthcare solutions market may duplicate our strategy and new competitors may enter the market. We compete against other medical products and healthcare solutions companies, some of which are much larger and have significantly greater financial resources than we do. We also compete against large companies that seek to license medical products and healthcare solutions technologies for themselves. We cannot assure you that we will be able to successfully compete against these

competitors in the acquisition, development, or commercialization of any medical products and healthcare solutions, funding of medical products and healthcare solutions companies or marketing of our products and solutions.

Competition in research, involving the development of new products and processes and the improvement of existing products and processes, is particularly significant and results from time to time in product and process obsolescence. The development of new and improved products is important to our success in all areas of our business. This competitive environment requires substantial investments in continuing research, multiple sales forces and strategic alliances. In addition, the winning and retention of customer acceptance of our patient safety products involves heavy expenditures for health care regulatory compliance, advertising, promotion and selling.

Because we have only recently begun selling and generating revenue from our patient safety products, our competitive position in the medical products and healthcare solutions industry cannot be determined.

Competitive Advantages

We believe that we are well positioned to provide financing and research and development resources to medical products and health care-related companies for the following reasons:

- Focus on innovative technologies, products and services;
- Network of well respected industry affiliations and medical expertise; and
- Established deal sourcing network.

Though by the nature of our patents, we can have no direct competition, there are two existing individuals/companies that are trying to address the same issues as SurgiCount's Safety-Sponge System. Among these are RF Surgical and ClearCount Medical, two, privately held, radio frequency identification (***"RFID"***)-based companies.

The RFID companies both have similar approaches to solving retained sponges. Their approach is to "impregnate" sponges with RFID tags. RFID-reading wands would be held over the patients at the end of surgeries to ensure that no sponges are left behind. It is our understanding from limited discussions with the principals of RF Surgical and ClearCount Medical, and from discussions with sponge manufacturers, that RF Surgical has actively begun to market and sell its product whereas ClearCount Medical is in the late development stage with its competing products. SurgiCount has received FDA exemption for its Safety-Sponge System and its scanner is currently registered in the FDA's database as non-interfering medical equipment. Since SurgiCount's Safety-Sponge System is fully developed and it has developed a contractual relationship with A Plus and Cardinal for the manufacturing and distribution of its product, we believe this provides an advantage over the above competing products.

Regulation of the Medical Products and Healthcare Industry

The healthcare industry is affected by extensive government regulation at the federal and state levels. In addition, our business may also be subject to varying degrees of governmental regulation in the countries in which operations are conducted, and the general trend is toward regulation of increasing stringency. In the United States, the drug, device, diagnostics and cosmetic industries have long been subject to regulation by various federal, state and local agencies, primarily as to product safety, efficacy, advertising and labeling. The exercise of broad regulatory powers by the Food and Drug Administration (***"FDA"***) continues to result in increases in the amounts of testing and documentation required for FDA clearance of new drugs and devices and a corresponding increase in the expense of product introduction. Similar trends toward product and process regulation are also evident in a number of major countries outside of the United States, especially in the European Community where efforts are continuing to harmonize the internal regulatory systems.

The FDA administers the Food, Drug and Cosmetics Act (the ***"FDC Act"***). Under the FDC Act, most medical devices must receive FDA clearance through the Section 510(k) notification process (***"510(k)"***) or the more lengthy premarket approval (***"PMA"***) process before they can be sold in the United States. All of our products, currently consisting only of the Safety-Sponge™ System, must receive 510(k) clearance or PMA approval. The Center for Devices and Radiological Health (***"CDRH"***) handles the PMA approval process for medical devices at the FDA. The CDRH places medical devices into one of many predefined groups, then classifies each group into one of three classes (Class I, II or III) based on the level of controls necessary to assure the safety and effectiveness of the specific device group. Class I and II devices also have subsets of "exempt devices" which are exempt from the PMA approval requirement subject to certain limitations. 21 CFR 878.4450 ("Gauze/Sponge, Internal, X-Ray Detectable") is the defined device group that the Safety-Sponge line of products falls into. This defined device group is specifically denoted as "exempt" from the premarket notification process. SurgiCount submitted specific information on its Safety-Sponge product directly to the CDRH and received confirmation of the 501(k) exempt status of this line of products.

To obtain 510(k) marketing clearance, a company must show that a new product is "substantially equivalent" in terms of safety and effectiveness to a product already legally marketed and which does not require a PMA. Therefore, it is not always necessary to prove the actual safety and effectiveness of the new product in order to obtain 510(k) clearance for such product. To obtain a PMA, we must submit extensive data, including clinical trial data, to prove the safety, effectiveness and clinical utility of our products. FDA's quality system regulations also require companies to adhere to certain good manufacturing practices requirements, which include testing, quality control, storage, and documentation procedures. Compliance with applicable regulatory requirements is monitored through periodic site inspections by the FDA. In addition, we are required to comply with FDA requirements for labeling and promotion. The Federal Trade Commission also regulates most device advertising.

The costs of human health care have been and continue to be a subject of study, investigation and regulation by governmental agencies and legislative bodies in the United States and other countries. In the United States, attention has been focused on drug prices and profits and programs that encourage doctors to write prescriptions for particular drugs or recommend particular medical devices. Managed care has become a more potent force in the market place and it is likely that increased attention will be paid to drug and medical device pricing, appropriate drug and medical device utilization and the quality of health care.

The regulatory agencies under whose purview we operate have administrative powers that may subject us to such actions as product recalls, seizure of products and other civil and criminal sanctions. In some cases we may deem it advisable to initiate product recalls voluntarily. We are also subject to the Safe Medical Devices Act of 1990, which imposes certain reporting requirements on distributors in the event of an incident involving serious illness, injury or death caused by a medical device.

In addition, sales and marketing practices in the health care industry have come under increased scrutiny by government agencies and state attorney generals and resulting investigations and prosecutions carry the risk of significant civil and criminal penalties.

Changes in regulations and healthcare policy occur frequently and may impact our results, growth potential and the profitability of products we sell. There can be no assurance that changes to governmental reimbursement programs will not have a material adverse effect on the Company and our operations.

Investments

Our investment portfolio, also known as our non-core assets, which is valued at $666,667, is reflected below. At December 31, 2007, our investment portfolio includes our investment in Alacra Corporation, our only significant investment security. At December 31, 2006, our investment portfolio also consisted of certain real property located in Arkansas and Tennessee. At December 31, 2007 the real property met the "held for sale" criteria and was classified as such. The investment portfolio securities, which are described below, are classified on our balance sheet as long-term investments.

	December 31, 2007	December 31, 2006
Alacra Corporation	$ 666,667	$ 1,000,000
Investments in Real Estate	—	430,563
Digicorp	—	10,970
	$ 666,667	$ 1,441,533

Alacra Corporation

At December 31, 2007, we had an investment in Alacra Corporation (*"Alacra"*), valued at $667,000, which represents 8.2% of our total assets. On April 20, 2000, we purchased $1,000,000 worth of Alacra Series F Convertible Preferred Stock. We have the right, subject to Alacra having the available cash, to have the preferred stock redeemed by Alacra over a period of three years for face value plus accrued dividends beginning on December 31, 2006. Pursuant to this right, in December 2006 we informed management of Alacra that we were exercising our right to put back one-third of our preferred stock. Alacra had a sufficient amount of cash to redeem our preferred stock and in December 2007 completed the initial redemption of one-third of our preferred stock. We received proceeds of $333,000 which accounted for the entire amount of the decrease in value of our Alacra investment. We continue to exercise our right to put back our remaining preferred stock to Alacra.

Real Estate Investments

At December 31, 2006, we had two real estate investments, valued in the aggregate at $431,000. During the quarter ended December 31 2007 these real estate investments were reclassified as assets held for sale. The real estate investments, consisting of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas and 0.61 acres of undeveloped land in Springfield, Tennessee, are currently being marketed for sale. In March 2008, we completed the sale of the undeveloped land in Heber Springs for net proceeds of $226,000, which resulted in a realized loss of $25,000. During the year ended December 31, 2006, we received payment on loans that were secured by real estate of $50,000. During the year ended December 31, 2005, we liquidated properties with a cost basis of $113,000, which resulted in a gain of $28,000. We expect that any future gain or loss recognized on the liquidation of our final real estate holding would be insignificant primarily due to the value paid for the real estate combined with the absence of any significant changes in property values in the real estate market where the real estate is located.

Properties.

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 43460 Ridge Park Drive, Suite 140, Temecula, CA 92590. We are responsible for paying approximately $9,400 per month for the lease expense associated with our headquarters. Our office space is currently approximately 3,500 square feet.

In addition, we also have one real estate investment. The cost of this investment, as carried in our financial statements, is $180,000 and is comprised of 0.61 acres of undeveloped land in Springfield, Tennessee. Management does not

currently believe that the Company's real estate holding represents a material risk to the Company.

Legal Proceedings.

On July 28, 2005, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit in the Superior Court of the State of California for the county of Los Angeles, Central District against us and five other defendants affiliated with Winstar Communications, Inc. The plaintiffs are attempting to collect a default judgment of $5,014,000 entered against Winstar Global Media, Inc. (***"WGM"***) by a federal court in New York, by attempting to enforce the judgment against us and the other defendants, none of whom are judgment debtors. Further, the plaintiffs are attempting to enforce their default judgment against us when their initial lawsuit in federal court against us was dismissed on the merits. The Court granted plaintiffs leave to amend the current Complaint after twice granting our motions to dismiss. Plaintiffs made some changes to their Complaint and dropped two other defendants. On April 18, 2007, we filed our Answer setting forth our numerous defenses. The trial phase of our defense was initiated April 29, 2008. We believe the lawsuit is without merit and intend to vigorously defend against the lawsuit. However, an unfavorable outcome may have a material adverse effect on our business, financial condition and results of operations.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Prices

The Company's common stock has been quoted on the OTC Bulletin Board since February 16, 2007 under the symbol PSTX. Prior thereto, the Company's common stock was traded on the American Stock Exchange under the symbol "PST." The following table sets forth the range of the high and low selling price of the Company's common stock for the periods indicated below, as reported by the American Stock Exchange and OTC Bulletin Board.

Period	Prices (Low)	Prices (High)
2006		
First Quarter	$ 2.27	$ 4.70
Second Quarter	$ 2.60	$ 4.30
Third Quarter	$ 1.45	$ 3.25
Fourth Quarter	$ 0.57	$ 3.97
2007		
First Quarter	$ 1.01	$ 2.50
Second Quarter	$ 1.35	$ 1.85
Third Quarter	$ 0.85	$ 1.52
Fourth Quarter	$ 0.90	$ 1.75

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

Stockholders

As of April 11, 2008, there were approximately 622 holders of record of the Company's common stock. The Company has 25,000,000 shares of common stock authorized, of which 12,079,602 were issued and outstanding at April 11, 2008. The Company has 1,000,000 shares of convertible preferred stock authorized, of which 10,950 were issued and outstanding at April 11, 2008.

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SELECTED CONSOLIDATED FINANCIAL DATA.

The following selected financial data for the fiscal years ended December 31, 2007, 2006, 2005, 2004 and 2003 are derived from our financial statements which have been audited by Ernst & Young, LLP (December 31, 2003), Rothstein Kass (December 31, 2004 and 2005), and Squar, Milner, Peterson, Miranda & Williamson, LLP (December 31, 2006 and 2007), our independent registered public accounting firms. The data should be read in conjunction with our financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

BALANCE SHEET DATA as of December 31,	**2007**	**2006**	**2005**	**2004**	**2003**
Total assets	$ 8,174,174	$ 11,181,446	$ 16,033,865	$ 6,934,243	$ 3,258,032
Liabilities	$ 6,285,965	$ 9,638,092	$ 6,912,915	$ 3,367,974	$ 1,233,894
Net assets	$ 1,888,209	$ 1,543,354	$ 9,120,950	$ 3,566,269	$ 2,024,138
Shares outstanding	12,054,602	6,561,195	5,672,445	4,670,703	3,060,300

OPERATING DATA for the year ended December 31,	**2007**	**2006**	**2005**	**2004**	**2003**
Revenues from Safety-Sponge product	$ 1,089,001	$ 140,654	$ -	$ -	$ -
Revenues from related parties	$ -	$ 103,875	$ 562,374	$ -	$ 180,000
Interest, dividend income and other, net	$ 4,287	$ 2,251	$ 42,476	$ 11,056	$ 3,159
Operating expenses	$ 5,527,284	$ 7,691,188	$ 8,384,525	$ 2,923,983	$ 1,236,623
Realized (loss) gains on investments, net	$ 22,394	$ (1,541,506)	$ 2,014,369	$ 1,591,156	$ 430,883
Unrealized gains (losses) on marketable securities, net	$ (24,578)	$ 16,901	$ 32,335	$ (1,054,702)	$ (475,605)
Loss applicable to common shareholders	$ (7,082,628)	$ (13,699,802)	$ (5,983,223)	$ (2,485,407)	$ (1,217,741)
Basic and diluted net loss per common share	$ (0.70)	$ (2.15)	$ (1.11)	$ (0.75)	$ (0.39)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained elsewhere in this prospects. This discussion contains forward-looking statements that involve risks and uncertainties. All statements regarding future events, our future financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In many cases, you can identify forward-looking statements by terminology, such as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms and other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those projected in any forward-looking statements. In evaluating these statements, you should specifically consider various factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus.

*The following "Overview" section is a brief summary of the significant issues addressed in Management's Discussion and Analysis of Financial Condition and Results of Operations (**"MD&A"**). Investors should read the relevant sections of the MD&A for a complete discussion of the issues summarized below.*

Overview

Patient Safety Technologies, Inc. currently conducts its operations through a single wholly-owned operating subsidiary: SurgiCount Medical, Inc., a California corporation. Beginning in July 2005 through August 2007, the Company's wholly-owned subsidiary, Automotive Services Group, Inc. (formerly known as Ault Glazer Bodnar Merchant Capital, Inc.), a Delaware corporation, held the Company's investment in Automotive Services Group, LLC (***"ASG"***), its wholly-owned express car wash subsidiary. During the period from June 29, 2007 to August 13, 2007, Automotive Services Group sold all the assets held by ASG.

The Company, including SurgiCount Medical Inc. (***"SurgiCount"***), is engaged in the acquisition of controlling interests in companies and research and development of products and services focused primarily in the health care and medical products field, particularly the patient safety markets. SurgiCount is a developer and manufacturer of patient safety products and services. In addition, the Company holds various other unrelated investments which it is in the process of liquidating. The unrelated investments are recorded on the Company's balance sheet in "long-term investments".

The Company was incorporated on March 31, 1987, under the laws of the state of Delaware. Beginning in July 1987 until March 31, 2005 we operated as an investment company registered pursuant to the Investment Company Act of 1940, as amended (the ***"1940 Act"***). In or about August 1997 our Board of Directors determined it would be in the best interest of the Company and our stockholders to elect to become a registered business development company (a ***"BDC"***) under the 1940 Act. On September 9, 1997 our shareholders approved the proposal to be regulated as a BDC and on November 18, 1997 we filed a notification of election to become a BDC with the Securities and Exchange Commission (***"SEC"***).

On March 30, 2005, stockholder approval was obtained to withdraw our election to be treated as a BDC and on March 31, 2005 we filed an election to withdraw our election with the SEC. At December 31, 2007, 8.2% of our assets, consisting of our investment in Alacra Corporation, on a consolidated basis with our subsidiary were comprised of investment securities within the meaning of the 1940 Act (***"Investment Securities"***). If the value of our assets that consist of Investment Securities were to exceed 40% of our total assets (excluding government securities and cash items) on an unconsolidated basis we could be required to re-register as an investment company under the 1940 Act unless an exemption or exclusion applies. We continue to evaluate ways in which we can dispose of these Investment Securities and do not believe that the value of our Investment Securities will increase in an amount that would require us to re-register as a BDC. Registration as an investment company would subject us to restrictions that are inconsistent with our fundamental business strategy of equity growth through creating, building and operating companies in the patient safety medical products industry. Registration under the 1940 Act would also subject us to increased regulatory and compliance costs, and other restrictions on the way we operate and would change the method of accounting for our assets under GAAP.

Our operations currently focus on the acquisition of controlling interests in companies and research and development of products and services in the health care and medical products field, particularly the patient safety markets. In the past we also focused on the financial services and real estate industries. On October 2005 our Board of Directors authorized us to evaluate alternative strategies for the divesture of our non-healthcare assets. As an extension on our prior focus on real estate, in March 2006 we acquired the remaining 50% equity interest in ASG and upon doing so we entered the business of developing properties for the operation of automated express car wash sites. However, on March 29, 2006, our Board of Directors determined to focus our business exclusively on the patient safety medical products field. The Board of Directors established a special committee in January 2007 to evaluate potential divestiture transactions for ASG and our other real estate assets. Due to the potential conflicts of interest that could have arisen from the divestiture of our non-patient safety related assets, the Board of Directors established a special committee in January 2007 to evaluate any potential divestiture. The special committee evaluated several alternative divestiture transactions for ASG and determined that in some instances the most favorable transactions involved transactions with a related party. Specifically, ASG's sale of its express car wash and a parcel of real property to

Charles H. Dellaccio and Darrell Grimsley. The divestiture of ASG was completed on August 13, 2007.

SurgiCount Medical, Inc., developer of the Safety- Sponge System was acquired to enhance our ability to focus our efforts in the health care and medical products field, particularly the patient safety markets. Currently, we are evaluating ways in which to monetize our remaining non-patient safety related assets (the ***"non-core assets"***).

Our principal executive offices are located at 43460 Ridge Park Drive, Suite 140, Temecula, CA 92590. Our telephone number is (951) 587-6201. Our website is located at http://www.patientsafetytechnologies.com.

Critical accounting policies and estimates

The below discussion and analysis of our financial condition and results of operations is based upon the accompanying financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our most critical accounting policy relates to the valuation of our investments in non-marketable equity securities, valuation of our intangible assets and stock based compensation.

Valuation of Non-Marketable Equity Securities

In the past we invested in illiquid equity securities acquired directly from issuers in private transactions. These investments are generally subject to restrictions on resale or otherwise are illiquid and generally have no established trading market. Additionally, our investment in Alacra, our only remaining investment in a privately held company, will not be eligible for sale to the public without registration under the Securities Act of 1933. Because of the type of investments that we made and the nature of our business, our valuation process requires an analysis of various factors.

Investments in non-marketable securities are inherently risky and the one remaining privately held company that we have invested in may fail. Its success (or lack thereof) is dependent upon product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on its future prospects, it may not be able to raise additional funds when needed or it may receive lower valuations with less favorable investment terms than in previous financings, thus causing our investments to become impaired.

We review all of our investments quarterly for indicators of impairment; however, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that would likely have a material adverse effect on the fair value of the investment. The indicators that we use to identify those events or circumstances includes as relevant, the nature and value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to valuations of publicly traded companies, comparisons to recent sales of comparable companies, the discounted value of the cash flows of the portfolio company and other relevant factors. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a liquid market for these securities existed.

Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case we write the investment down to its impaired value. When a portfolio company is not considered viable from a financial or technological point of view, we write down the entire investment since we consider the estimated fair market value to be nominal. If a portfolio company obtains additional funding at a valuation lower than our carrying amount or requires a new round of equity funding to stay in operation and the new funding does not appear imminent, we presume that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise. We recognized nil, $1,445,000 and $50,000, in impairments during the years ended December 31, 2007, 2006, and 2005, respectively.

Security investments which are publicly traded on a national securities exchange or over-the-counter market are stated at the last reported sale price on the day of valuation or, if no sale was reported on that date, then the securities are stated at the last quoted bid price. We may determine, if appropriate, to discount the value where there is an impediment to the marketability of the securities held.

Valuation of Intangible Assets

We assess the impairment of intangible assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of intangible assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset grouping to our estimate of the related total future net cash flows. If an asset grouping's carrying value is not recoverable through the related cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the asset grouping's carrying amount and its fair value, based on the best information available, including market prices or discounted cash flow analysis. Impairments of intangible assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our limited operating history and the early stage of development of some of our intangible assets, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. To date we have not recognized impairments on any of our intangible assets related to the Safety-Sponge™ System.

Stock-Based Compensation

We have adopted the provisions of SFAS No. 123(R), *Share-Based Payment*, effective January 1, 2005 using the modified retrospective application method as provided by SFAS 123(R) and accordingly, financial statement amounts for the prior periods in which the Company granted employee stock options have been restated to reflect the fair value method of expensing prescribed by SFAS 123(R). The fair value of each option grant, nonvested stock award and shares issued under the employee stock purchase plan were estimated on the date of grant using the Black-Scholes option pricing model and various inputs to the model. Expected volatilities were based on historical volatility of our stock. The expected term represents the period of time that grants and awards are expected to be outstanding. The risk-free interest rate approximates the U.S. treasury rate corresponding to the expected term of the option, and dividends were assumed to be zero. These inputs are based on our assumptions, which include complex and subjective variables. Other reasonable assumptions could result in different fair values for our stock-based awards.

Stock-based compensation expense, as determined using the Black-Scholes option pricing model, is recognized on a straight line basis over the service period, net of estimated forfeitures. Forfeiture estimates are based on historical data. To the extent actual results or revised estimates differ from the estimates used, such amounts will be recorded as a cumulative adjustment in the period that estimates are revised.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (***"FASB"***) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (***"SFAS 157"***). SFAS 157 does not require new fair value measurements but rather defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing the impact of SFAS 157 on our consolidated financial position and results of operations.

On January 1, 2007, we adopted Emerging Issues Task Force Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43* (***"EITF 06-2"***). EITF 06-2 requires companies to accrue the costs of compensated absences under a sabbatical or similar benefit arrangement over the requisite service period. Upon adoption, no liability for unrecognized compensated absences was recognized.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment to FASB Statement No. 115* (***"SFAS 159"***). This

statement permits companies to choose to measure many financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement of accounting for financial instruments. The fair value option established by this statement permits all entities to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently assessing the impact adoption of SFAS No. 159 will have on our consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (***"SFAS 141(R)"***). This statement requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. We will implement SFAS No. 141(R) on January 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51* (***"SFAS 160"***). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also established reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owner. We will implement SFAS No. 160 on January 1, 2009. We do not expect the adoption of this standard to have a material impact on our income statement, financial position or cash flows.

Financial Condition, Liquidity and Capital Resources

Our cash balance was $405,000 at December 31, 2007, versus $4,000 at December 31, 2006. Total current liabilities were $2,402,000 at December 31, 2007, versus $5,637,000 at December 31, 2006. The minor amount of cash, combined with relatively insignificant amounts of other current assets, resulted in working capital deficit of approximately $1,801,000 at December 31, 2007. Since we continue to have recurring losses we have relied upon private placements of equity and debt securities and we may rely on private placements to fund our capital requirements in the future. From August 2006 through the date of this annual report we have sold to accredited investors in our private placements, as reflected below, $5,828,000 in equity securities.

2006 private placements

Between August 17, 2006 and December 15, 2007, we entered into various subscription agreements with accredited investors in private placements exempt from the registration requirements of the Securities Act. We issued and sold to these accredited investors an aggregate of 438,000 shares of our common stock and warrants to purchase an additional 119,000 shares of our common stock. The warrants are exercisable for a period of three years with an exercise price equal to $2.00. These issuances resulted in gross cash proceeds to us of $548,000. We used the net proceeds from these private placement transactions primarily for general corporate purposes and repayment of existing liabilities.

2007 private placements

Between January 29, 2007 and June 8, 2007, we entered into various subscription agreements with accredited investors in private placements exempt from the registration requirements of the Securities Act. We issued and sold to these accredited investors an aggregate of 2,952,000 shares of our common stock and warrants to purchase an additional 1,376,000 shares of our common stock. The warrants are exercisable for a period of three to five years with an exercise price equal to $2.00. These issuances resulted in aggregate gross proceeds to us of $3,690,000, of which $3,190,000 was in cash and $500,000 was in product which we will receive over the course of a twelve (12) month period. We used the net proceeds from these private placement transactions primarily for general corporate purposes and repayment of existing liabilities

On October 17, 2007, we entered into a securities purchase agreement with Francis Capital Management, LLC (*"Francis Capital"*), an accredited investor, in a private placement exempt from the registration requirements of the Securities Act. We issued and sold to Francis Capital an aggregate of 1,270,000 shares of our common stock and warrants to purchase an additional 763,000 shares of our common stock. The warrants are exercisable for a period of five years at an exercise price equal to $1.40 per share. These issuances resulted in aggregate gross proceeds to us of $1,500,000 in cash and the extinguishment of $90,000 in existing debt owed to Francis Capital by us. We used the net proceeds from this private placement transaction primarily for general corporate purposes and repayment of existing liabilities.

In addition to our private placements, we have also received a significant amount of funding from Ault Glazer Capital Partners, LLC (formerly AGB Acquisition Fund) (the *"Fund"*). AG Management is the managing member of the Fund. The managing member of AG Management is The Ault Glazer Group, Inc. (*"The AG Group"*) (f/k/a Ault Glazer Bodnar & Company, Inc.). The Company's former Chairman and former Chief Executive Officer, Milton "Todd" Ault, III, is Chairman, Chief Executive Officer and President of The AG Group. At December 31, 2007 the outstanding principal balance of the loan that we entered into with the Fund was $2,531,000. At December 31, 2007 we also had outstanding promissory notes to four additional lenders, which were entered into during the year ended December 31, 2006, in the principal amount of $1,172,000.

During the period from June 29, 2007 to August 13, 2007, Automotive Services Group sold all the assets held by ASG thereby completing the liquidation of Automotive Services Group. We received net proceeds, after expenses of the sales, of $3,178,000 which resulted in a gain of $10,000. The majority of the proceeds from the sales were used to repay existing debt. By selling these assets the Company has positioned itself to aggressively pursue the market for surgical sponges in the United States and Europe, which we believe represents a market opportunity equal to or in excess of $650 million in annual sales.

Management is currently seeking additional financing and believes that it will be successful. However, in the event management is not successful in obtaining additional financing, existing cash resources, together with proceeds from investments and anticipated revenues from operations, may not be adequate to fund our operations for the twelve months subsequent to December 31, 2007. However, ultimately long-term liquidity is dependent on our ability to attain future profitable operations. We intend to undertake additional debt or equity financings to better enable us to grow and meet future operating and capital requirements.

As of December 31, 2007, other than our office lease and employment agreements with key executive officers, we had no commitments not reflected in our consolidated financial statements.

Cash increased by $401,000 to $405,000 for the year ended December 31, 2007, compared to a decrease of $76,000 to $4,000 for the year ended December 31, 2006.

Operating activities used $3,765,000 of cash for the year ended December 31, 2007, compared to using $2,794,000 for the year ended December 31, 2006.

Operating activities for the year ended December 31, 2007, exclusive of changes in operating assets and liabilities, used $4,026,000 of cash, as the Company's net cash used in operating activities of $3,765,000 included non-cash charges for depreciation and amortization of $531,000, debt discount of $1,083,000, realized gains of $33,000 and stock based compensation of $1,154,000. For the year ended December 31, 2006, operating activities, exclusive of changes in operating assets and liabilities, used $4,690,000 of cash, as the Company's net cash used in operating activities of $2,794,000 included non-cash charges for depreciation and amortization of $461,000, debt discount of $2,983,000, goodwill impairment of $971,000, gain on debt extinguishment of $191,000, realized losses of $1,542,000, unrealized gains of $17,000 and stock based compensation of $3,301,000.

Changes in operating assets and liabilities provided cash of $260,000 during the year ended December 31, 2007, principally due to an increase in accrued liabilities and a decrease in prepaid expenses and inventories which were partially offset by a decrease in the level of accounts payable. During the year ended December 31, 2006, changes in operating assets and liabilities provided cash of $1,895,000 primarily due to net proceeds received from marketable securities, decreases in our receivables from investments and increases in the level of accounts payable and accrued liabilities which were partially offset by decreases in the amounts due to our broker. The amount due to our broker was directly attributable to purchases of marketable investment securities that were purchased on margin or to securities that were margined subsequent to their purchase. During the three months ended March 31, 2006, we invested our cash balances in the public equity and debt markets in an attempt to maximize the short-term return on such assets. The amount due to our broker varied throughout the year depending upon the aggregate amount of marketable investment securities held by us and the level of borrowing against our available-for-sale securities. The actual amount of marketable investment securities held was influenced by several factors, including but not limited to, our expectations of potential returns available from what we considered to be mispriced securities as well as the cash needs of our operating activities. During times when we were heavily invested in marketable investment securities, our liquidity position was significantly reduced. We no longer make a practice of investing in marketable investment securities.

The principal factor in the $2,993,000 of cash provided by investing activities during the year ended December 31, 2007 was the sale of our express car wash and undeveloped land in Alabama for $3,178,000 and the proceeds from selling one-third of our investment in Alacra Series F Preferred stock for $333,000. This was partially offset by capitalized costs of $404,000 related to the ongoing development of purchased software related to our Safety-Sponge System. The principal factor in the $2,016,000 of cash used in investing activities during the year ended December 31, 2006 was the purchase of land of $1,697,000, capitalized construction costs of $381,000 related to ASG, and capitalized costs of $148,000 related to the ongoing development of software related to our Safety-Sponge System offset by proceeds from the sale of long-term investments of $289,000.

Cash provided by financing activities during the year ended December 31, 2007, of $1,174,000 resulted primarily from net proceeds from the issuance of common stock and warrants of $4,454,000 offset by the repayment of the Winstar Note in the amount of $450,000 and other notes in the amount of $2,922,000. Cash provided by financing activities during the year ended December 31, 2006, of $4,735,000 resulted from the net proceeds from notes payable of $4,207,000 and the proceeds from the issuance of common stock and warrants for $528,000.

Investments

Until such time as we have completely liquidated our investment in Alacra Corporation, our financial condition remains partially dependent on its success. On March 29, 2006 our Board of Directors directed us to liquidate all of our investments and other assets that do not relate to the patient safety medical products business. Our investment in Alacra is subject to restrictions on resale under federal securities laws and otherwise is illiquid, which will make it difficult to dispose of this investment quickly. Since we may be forced to liquidate this investment on an accelerated timeline, the proceeds of such liquidation may be significantly less than the value at which we acquired the investment. The following is a discussion of our most significant investment at December 31, 2007.

Our investment portfolio, also known as our non-core assets, which is valued at $666,667, is reflected below. At December 31, 2007, our investment portfolio includes our investment in Alacra Corporation, our only remaining investment security. At December 31, 2006, our investment portfolio also consisted of certain real property located in Arkansas and Tennessee. At December 31, 2007 the real property met the “held for sale” criteria and was classified as such. The investment portfolio, which is reflected below, is classified as long-term investments.

	December 31, 2007	December 31, 2006
Alacra Corporation	$ 666,667	$ 1,000,000
Investments in Real Estate	—	430,563
Digicorp	—	10,970
	$ 666,667	$ 1,441,533

Alacra Corporation

At December 31, 2007, we had an investment in Alacra Corporation (*“Alacra”*), valued at $667,000, which represents 8.2% of our total assets. On April 20, 2000, we purchased $1,000,000 worth of Alacra Series F Convertible Preferred Stock. We have the right, subject to Alacra having the available cash, to have the preferred stock redeemed by Alacra over a period of three years for face value plus accrued dividends beginning on December 31, 2006. Pursuant to this right, in December 2006 we informed management of Alacra that we were exercising our right to put back one-third of our preferred stock. Alacra had a sufficient amount of cash to redeem our preferred stock and in December 2007 completed the initial redemption of one-third of our preferred stock. We received proceeds of $333,000 which accounted for the entire amount of the decrease in value of our Alacra investment. We continue to exercise our right to put back our remaining preferred stock to Alacra.

Real Estate Investments

At December 31, 2006, we had two real estate investments, valued in the aggregate at $431,000. During the quarter ended December 31 2007 these real estate investments were reclassified as assets held for sale. The real estate investments, consisting of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas and 0.61 acres of undeveloped land in Springfield, Tennessee, are currently being marketed for sale. In March 2008, we completed the sale of the undeveloped land in Heber Springs for net proceeds of $226,000, which resulted in a realized loss of $25,000. During the year ended December 31, 2006, we received payment on loans that were secured by real estate of $50,000. During the year ended December 31, 2005, we liquidated properties with a cost basis of $113,000, which resulted in a gain of $28,000. We expect that any future gain or loss recognized on the liquidation of our final real estate holding would be insignificant primarily due to the value paid for the real estate combined with the absence of any significant changes in property values in the real estate market where the real estate is located.

Results of Operations

We account for our operations under accounting principles generally accepted in the United States. The principal measure of our financial performance is captioned “Loss available to common shareholders,” which is comprised of the following:

- "Revenues," which is the amount we receive from sales of our products;
- “Operating expenses,” which are the related costs and expenses of operating our business;
-

"Interest, dividend income and other, net," which is the amount we receive from interest and dividends from our short term investments and money market accounts;

- "Realized gains (losses) on investments, net," which is the difference between the proceeds received from dispositions of investments and their stated cost; and

- "Unrealized gains (losses) on marketable securities, net," which is the net change in the fair value of our marketable securities, net of any (decrease) increase in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

Revenues

Year 2007, 2006 and 2005

We recognized revenues of $1,089,000, $245,000 and $562,000 for the years ended December 31, 2007, 2006 and 2005, respectively. All of the revenues generated during the year ended December 31, 2007 related to sales from the Safety-Sponge of $878,000 and sales from hardware and supplies of $211,000. Although hardware sales are not considered a recurring item, we expect that once an institution adopts our system, they will be committed to its use and therefore provide a recurring source of revenues for sales of the safety sponge.

We attribute a significant amount of the increase in sales generated by our Safety-Sponge System to increased product awareness and demand. The Safety-Sponge System is currently being evaluated by more than 10 medical institutions, the adoption by any one of which would have a material impact on our revenues. We expect that small medical institutions which adopt the Safety-Sponge System will represent approximately $100,000 in annual revenue whereas the larger institutions could represent annual recurring revenues of $600,000 or more. The adoption by the University of California San Francisco Medical Center in February 2007 of our Safety-Sponge System reflects current demand which we expect will begin to accelerate.

Of the revenues that were generated during the years ended December 31, 2006 and 2005, only $141,000 related to sales of our Safety-Sponge System. As expected, these initial revenues did not have a significant impact on our results of operations, however, we continue to experience greater demand for our Safety-Sponge System and expect revenues to significantly increase and become a continual source of funds to cover our operating costs.

Of the revenue earned during the years ended December 31, 2006 and 2005, 104,000 and $562,000, respectively, was the result of a consulting agreement, consented to by IPEX, whereby the majority shareholder of IPEX and former President, former Chief Executive Officer and former director of IPEX (***"Majority Shareholder"***), retained us to serve as a business consultant to IPEX. In consideration for the services, during December 2005, the Majority Shareholder personally transferred us 500,000 shares of common stock of IPEX as a non-refundable consulting fee. This consulting agreement reflected our prior focus in the financial services and real estate industries. Since we now only focus our efforts on the patient safety markets, we do not expect to recognize revenue from these types of consulting agreements in the future.

On November 14, 2006, SurgiCount entered into a Supply Agreement with Cardinal Health 200, Inc., a Delaware corporation (***"Cardinal"***). Pursuant to the agreement, Cardinal shall act as the exclusive distributor of SurgiCount's products in the United States, with the exception that SurgiCount may sell its products to one other hospital supply company, named in the agreement, solely for the sale and distribution to its hospital customers. The term of the agreement is 36 months, unless earlier terminated as set forth therein. Otherwise, the agreement automatically renews for successive 12 month periods. Although we cannot reasonably predict or estimate the financial impact of the agreement with Cardinal we believe it will have a material impact on our results of operations due to the coordination of our sales efforts with Cardinal and their significant presence in the major medical institutions.

Expenses

Year 2007 compared to Year 2006

Operating expenses were $5,527,000, $7,691,000, and 8,385,000 for the years ended December 31, 2007, December 31, 2006 and December 31, 2005, respectively.

The decrease in operating expenses of $2,164,000, for year ended December 31, 2007 when compared to December 31, 2006, was primarily the result of salaries and employee benefits, which decreased by $986,000. Our Compensation Committee, currently comprised of three independent directors, determines and recommends to our Board the cash and stock based compensation to be paid to our executive officers and also reviews the amount of salary and bonus for each of our other officers and employees. The most significant component of employee compensation is stock based compensation expense.

For the year ended December 31, 2007, we recorded $674,000 related to grants of nonqualified stock options and $297,000 related to restricted stock awards to our employees and $126,000 related to restricted stock awards to our non-employee directors. During the year ended December 31, 2006, we recorded $1,118,000 related to grants of nonqualified stock options, of which $114,000 was attributed to grants of nonqualified stock options to Darrell W. Grimsley, the former Chief Executive Officer of our discontinued car wash segment. For comparison purposes, stock based compensation expense attributed to the discontinued car was segment is excluded in an analysis of stock based compensation annual variances since expenses attributed to the discontinued operations are included as a separate line in our Consolidated Statements of Operations and Comprehensive Loss – Loss from discontinued car was segment. During the year ended December 31, 2006, we also recorded $1,105,000 related to restricted stock awards to our employees and non-employee directors. The issuance of stock options and restricted stock awards to our employees and non-employee directors, adjusted for the $126,000 in restricted stock awards to our non-employee directors which is recorded in general and administrative expenses, resulted in a decrease in stock based compensation expense of $1,138,000 for the year ended December 31, 2007. Therefore, excluding stock based compensation, salaries and employee benefits increased by $152,000.

At December 31, 2007, three of our executives were covered under employment agreements. Our Chief Executive Officer, William B. Horne, was covered under a two year employment agreement with annual base compensation of $250,000; our Chief Executive Officer of SurgiCount Medical, Inc., Bill Adams, was covered under a three year employment agreement with annual base compensation of $300,000 and; our President of Sales and Marketing of SurgiCount Medical, Inc., Richard Bertran, was covered under a three year employment agreement with annual base compensation of $250,000. None of our other executives our currently covered under an employment agreement, therefore, we are under no financial obligation, other than monthly salaries, for our other executive officers. Currently, monthly gross salaries for all of our employees are $156,000 as opposed to $135,000 at December 31, 2006. We believe, as with all our operating expenses, that our existing cash resources, together with proceeds from investments, anticipated financings and expected revenues from our operations, should be adequate to fund our salary obligations.

The second largest component of our operating expenses is professional fees, which decreased by $1,318,000 during the year ended December 31, 2007 compared to the amount reported during the previous year. As in employee compensation, stock based compensation expense is the most significant component of professional fees. During the year ended December 31, 2007 and 2006, professional fees included stock based compensation related to the issuances of restricted stock and warrants of $57,000 and $898,000, respectively. The decrease in stock based compensation of $841,000 paid to our outside consultants is the primary component of our decrease in professional fees. This $841,000 decrease was primarily caused from warrant issuances during the year ended December 31, 2006 of $593,000. A significant amount of the warrants issued during the year ended December 31, 2006, relate to a consulting agreement that we entered into in February 2006 with Analog Ventures, LLC (***"Analog Ventures"***) whereby Analog Ventures agreed to consult with us on matters relating primarily to the divestiture of our non-core assets and assist us in our efforts to focus our business exclusively on the patient safety medical products field. As an incentive for entering into the agreement, we agreed to issue Analog Ventures a warrant to purchase 175,000 shares of our common stock at an exercise price of $3.95, exercisable for 3 years. We recognized an expense of $405,000 related to these warrants. In addition to the stock based compensation from the Analog Ventures warrant, we issued 75,380 warrants to purchase shares of our common stock at prices ranging from $1.25 to $2.00 per share to our placement agent, Ault Glazer & Co., LLC, (the ***"Placement Agent"***). These warrants, which were valued at $79,000, were issued to the Placement Agent for their successful efforts in assisting us with raising debt and equity financing.

The remaining decrease in professional fees, of $477,000, is primarily attributed to a decrease in legal fees and the absence of any expenses associated with our clinical trial agreement with Brigham and Women's Hospital, the teaching affiliate of Harvard Medical School, offset by an overall increase in cash payments to our nurse consultants which are utilized to generate awareness and train health care professionals in the use of our Safety-Sponge System.

The decrease in legal fees of $300,000 is a result of (i) the successful resolution of our patent reexamination that was initiated in order to strengthen the enforceability of our U.S. patent, (ii) the absence of any significant legal fees associated with debt financings and (iii) the overall simplified corporate structure that was created upon the successful restructuring that began in March 2006 when our Board of Directors directed us to liquidate all of our investments and other assets that do not relate to the patient safety medical products business.

The clinical trial is the result of an on-going collaboration between Harvard and SurgiCount to refine the Safety-Sponge System in a clinical optimization study. Under terms of the agreement, Brigham and Women's Hospital collected data on how the Safety-Sponge System saves time, reduces costs and increases patient safety in the operating room. The study also assisted in refining the system's technical processes in the operating room to provide clear guidance and instruction to hospitals, easily integrating the Safety-Sponge System into operating rooms. Brigham and Women's Hospital received a non-exclusive license to use the Safety-Sponge System, while we will own all technical innovations and other intellectual properties derived from the study. We provided a research grant to Brigham and Women’s Hospital over the course of the clinical trial in the aggregate amount of $431,000, none of which was expensed during the year ended December 31, 2007 and $280,000 was expensed during the year ended December 31, 2006. The final amount due under the terms of the clinical trial agreement, of $68,000, was paid in February 2008. The clinical trials were completed around September 2006 and the results from the clinical trial were released in March 2008.

All of our stock based compensation issued to employees, non-employee directors and consultants were expensed in accordance with SFAS 123(R). During the years ended December 31, 2007, 2006, and 2005, we valued the nonqualified stock options and warrants using the Black-Scholes valuation model assuming expected dividend yield, risk-free interest rate, expected life and volatility of 0%, 3.00% to 4.50%, three to five years and 63% to 102%, respectively. The restricted stock awards were valued at the closing price on the date the restricted shares were granted.

Cost of sales experienced an increase of $557,000 during the year ended December 31, 2007 over the prior year. The increase in cost of sales reflects the significant growth that we experienced from the sales of our Safety-Sponge System. With the assistance of our exclusive manufacturing partner, A Plus International, we are in the process of transitioning the majority of the production of our Safety-Sponges from California to China. Consequently, we anticipate a reduction in our cost of sales, as a percentage of our total revenues.

General and administrative expenses experienced an increase of $226,000 during the year ended December 31, 2007 over the prior year. During the year ended December 31, 2007, we recorded restricted stock awards to our non-employee directors of $126,000 in general and administrative expenses and accrued an additional $100,000 for the services of our former Chairman, Arnold Spangler. After adjusting for these restricted stock awards and accrued compensation, general and administrative expenses reflected a decrease of $2,000. As discussed above, in Financial Condition, Liquidity and Capital Resources, we have a significant working capital deficit and have experienced continued losses. These financial constraints have required us to be selective in the expenses that we incur and where possible delay or forego an expense. This overall condition has resulted in a slight decrease in our cash based general and administrative expense. General and administrative expenses are comprised of a combination of a several types of expenses, none of which are significant individually.

Year 2006 compared to Year 2005

The decrease in operating expenses of $535,000, for the year ended December 31, 2006 when compared to December 31, 2005, was primarily the result of salaries and employee benefits, which decreased by $460,000. The most significant component of employee compensation is stock based compensation expense.

For the year ended December 31, 2006, we recorded $1,118,000 related to grants of nonqualified stock options. As discussed above, in our analysis of *Year 2007 compared to Year 2006*, $114,000 of this amount was attributed to grants of nonqualified stock options to Mr. Grimsley and included in our loss from discontinued operations. During the year ended December 31, 2006, we also recorded $1,105,000 related to restricted stock awards to our employees and non-employee directors. During the year ended December 31, 2005, we recorded $1,597,000 relating to grants of nonqualified stock options and $1,520,000 related to restricted stock awards to our employees and non-employee directors. The issuance of stock options and restricted stock awards to our employees and non-employee directors, excluding the value of the grant to Mr. Grimsley, resulted in a decrease in stock based compensation expense of $1,008,000 for the year ended December 31, 2006. Therefore, excluding stock based compensation, salaries and employee benefits increased by $548,000.

The increase in employee compensation of $548,000 is attributed to a combination of factors. During the six months ended June 30, 2005 we did not incur any salary expense on four highly compensated employees. During the quarter ended September 30, 2005 we entered into employment agreements with three of these highly compensated employees, which reflected annualized salaries of $450,000 and during the quarter ended June 30, 2006 we entered into the fourth employment contract with an annualized salary of $300,000. Excluding benefits, the absence of salary expense on these four highly compensated employees for either all or part of 2005 resulted in an increase of $436,000. In January 2006 we also entered into a non-recurring severance package of $180,000 that was paid to Milton “Todd” Ault III, our former Chairman and Chief Executive Officer. This severance package represented a $30,000 increase over Mr. Ault’s 2005 salary. In July 2006, subsequent to the payment of Mr. Ault’s severance package, Mr. Ault was re-appointed as our Chief Executive Officer at a nominal salary.

At December 31, 2006, four of our executives were covered under employment agreements. Our Chief Executive Officer, William B. Horne, was covered under a two year employment agreement with annual base compensation of $150,000; our Chief Executive Officer of SurgiCount Medical, Inc., Bill Adams was covered under a three year employment agreement with annual base compensation of $300,000; our President of Sales and Marketing of SurgiCount Medical, Inc., Richard Bertran, was covered under a three year employment agreement with annual base compensation of $200,000 and; our Chief Operating Officer of SurgiCount Medical, Inc., James Schafer, was covered under a two year employment agreement with annual base compensation of $100,000. As discussed above, the addition of these employment contracts effectively increased employee compensation during the year ended December 31, 2006 by $436,000. The remaining increase in employee compensation is attributed to an overall increase in benefits associated with the individuals that are covered under employment contracts.

The second largest component of our operating expenses is professional fees, which decreased by $362,000 during the year ended December 31, 2006 compared to the amount reported during the previous year. This decrease is primarily comprised of decreases in stock based compensation to outside consultants of $489,000 offset by an overall increase in cash payments to consultants who are utilized to generate awareness and train health care professionals in the use of our Safety-Sponge System. Stock based compensation expense is the most significant component of professional fees. During the year ended December 31, 2006 and 2005, professional fees included stock based compensation related to the issuances of restricted stock and warrants of $898,000 and $1,388,000, respectively. The decrease in stock based compensation of $490,000 paid to our outside consultants is the primary component of our decrease in professional fees. This $490,000 decrease was primarily caused from warrant issuances during the year ended December 31, 2006 and 2005, of $593,000 and $918,000, respectively, a decrease of $325,000. A significant amount of the warrants issued during the year ended December 31, 2006, relate to a consulting agreement that we entered into in February 2006 with Analog Ventures, LLC (***“Analog Ventures”***) with an associated expense of $405,000. In addition to the stock based compensation from the Analog Ventures warrant, we issued 75,380 warrants to purchase shares of our common stock to our placement agent, Ault Glazer & Co., LLC, (the ***“Placement Agent”***). These warrants, which were valued at $79,000, were issued to the Placement Agent for their successful efforts in assisting us with raising debt and equity financing.

During the year ended December 31, 2005 the primary amount of the warrants issued related to a consulting agreement with Health West Marketing Incorporated (***"Health West"***) that we entered into in April 2005. As an incentive for entering into the agreement, we agreed to issue Health West a callable warrant to purchase 150,000 shares of our common stock at an exercise price of $5.95, exercisable for 5 years. We recognized an expense of $528,000 related to these warrants. In addition to the stock based compensation that we recognized as a result of our agreement with Health West, we issued additional warrants during the year ended December 30, 2005, valued at $361,000, to purchase shares of common stock to two consultants performing investor relations services.

In the past we have also issued shares of our common stock to consultants for payment of professional services. Pursuant to the April 2005 consulting agreement with Health West, we have recognized expenses of $250,000 related to the issuance 26,261 shares and future issuance of 15,756 shares of our common stock to Health West. We recognized $94,000 in 2006 as a result of Health West's assistance in developing a regional distribution network to integrate the Safety-Sponge System into the existing acute care supply chain. The remaining $156,000 was recognized in 2005, a percentage upon the execution of our consulting agreement with Health West and the remaining amount upon our entering into a comprehensive manufacturing agreement with A Plus Manufacturing, Inc. The $62,000 decrease in expense from the issuance and future issuances of common stock to Health West combined with the $325,000 decrease in expense from warrants is the primary cause of the decrease in professional fees.

The increase in cost of sales of $159,000 reflects a shift in our revenue mix from revenue generated primarily through consulting services which do not have any costs of sales to that of sales of our Safety-Sponge System.

The increase in amortization expense, which reflected an increase of $54,000, of our patents was caused by the full quarter of amortization during the three months ended March 31, 2006 as opposed to a partial quarter during the three months ended March 31, 2005. The entire capitalized costs of SurgiCount's patents, valued at $4,685,000, are being amortized over their approximate useful life of 14.4 years. Since the SurgiCount patents were not acquired until the end of February 2005, amortization for the three months ended March 31, 2005 was only $27,000 as opposed to $81,000 during the three months ended March 31, 2006.

General and administrative expenses experienced an increase of $60,000 during the year ended December 31, 2006 over the prior year. Travel related expenses are a large component of general and administrative expenses and represented an increase of $187,000. This increase was attributed to expenses incurred in marketing our Safety-Sponge System to hospitals throughout the United States, attendance at trade shows and conventions to promote the Company's Safety-SpongeSystem, and travel abroad to inspect the manufacturing facilities for our Safety-Sponge System. The offsetting decrease in general and administrative expenses is a combination of a several types of expenses, none of which are significant individually.

Interest, dividend income and other, net

We had interest income of $4,000, $2,000, $42,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

The increase in interest income for the year ended December 31, 2007 when compared to December 31, 2006 was primarily the result of an overall increase in cash during the year ended December 31, 2007.

The decrease in interest income for the year ended December 31, 2006 when compared to December 31, 2005 was primarily the result of a decreased amount of fixed income investments held throughout the period, primarily during the first quarter of 2005. At March 31, 2005, we held in marketable securities approximately $2.5 million in U.S. Treasuries as opposed to no investments in U.S. Treasuries during the year ended December 31, 2006.

Interest expense

We had interest expense of $1,468,000, $3,156,000, and $135,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

The decrease in interest expense for the year ended December 31, 2007 when compared to December 31, 2006 is primarily attributable to the non-cash interest charges incurred as a result of the debt discount associated with our short-term debt financings. During the year ended December 31, 2007 and 2006, we recorded $1,084,000 and $2,983,000, respectively, in non-cash interest charges. The non-cash interest charges that were incurred during the

year ended December 31, 2006 included $136,000 that were attributed to our car wash segment and recorded in loss from discontinued operations. Thus, non-cash interest charges recorded in interest expense decreased $1,763,000 and represented the primary cause of the decrease in interest expense from 2006 to 2007. These non-cash charges resulted from the issuance of debt that either had conversion prices on the date of issuance that were below the fair market value of the underlying common stock or required the issuance of warrants to purchase shares of our common stock, which required us to record an expense based on the estimated fair value of the warrants. The remaining fluctuation in interest expense is attributable to the overall decreased level of borrowings during the year ended December 31, 2007 over the prior year.

The increase in interest expense for the year ended December 31, 2006 when compared to December 31, 2005 is primarily attributable to the non-cash interest charges of $2,983,000, after a reduction for the non-cash interest charges of $136,000 related to loans at our discontinued car wash segment. Thus, non-cash interest charges, excluding those of our discontinued car wash segment, resulted in an increase of $2,847,000 and represented the primary cause of the increase in interest expense.

Realized gains (losses) on investments, net

During the year ended December 31, 2007 we realized a net gain of $22,000. Realized gains (losses) during the year ended December 31, 2007 reflect the sale of certain non-operating assets.

During the year ended December 31, 2006, we realized net losses of $1,542,000 which primarily related to our investment in IPEX. During 2006, we sold 95,000 shares of IPEX common stock for $8,000 and, because IPEX is no longer conducting business operations, we wrote down the carrying value of 950,000 shares of IPEX common stock. Our investment in IPEX had a cost basis of $1,458,000.

During the year ended December 31, 2005, we realized net gains of $2,014,000 primarily from our stock appreciation rights in our holding in Excelsior for $1,747,000.

Unrealized gains (losses) on marketable securities, net

During the year ended December 31, 2007, the Company recognized unrealized appreciation of $25,000 due to the write-down to fair value of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas. In March 2008, the Company completed the sale of this real property for net proceeds of $226,000, which resulted in a realized loss of $25,000.

Unrealized appreciation of investments increased by $17,000 during the year ended December 31, 2006. Of this increase, $16,000 related to the sale of 108,200 shares of Tuxis Corporation and 95,000 shares of IPEX common stock. At December 31, 2005, both of these investments were classified as trading securities and while Tuxis Corporation had unrealized depreciation of $134,000 IPEX had unrealized appreciation of $118,000, which resulted in net unrealized depreciation of $16,000. When we exit an investment and realize a loss, we make an accounting entry to reverse any unrealized depreciation we had previously recorded to reflect the depreciated value of the investment.

Unrealized appreciation of investments increased by $32,000 during the year ended December 31, 2005, due to the price appreciation of our marketable securities.

Loss from discontinued car was segment

The loss from our discontinued car was segment decreased by $1,481,000 to $166,000 during the year ended December 31, 2007 from a loss of $1,647,000 during the year ended December 30, 2007. ASG's first site, developed in Birmingham, Alabama, had its grand opening on March 8, 2006. Thus, the year ended December 31, 2006 reflected slightly less than ten full months of operations whereas, due to the sale of our express car wash on June 29, 2007, the year ended December 31, 2007 reflected approximately six full months of operations. Further, during the year ended December 31, 2006, a goodwill impairment charge of $971,000 was recorded in the car wash services operating segment. This goodwill impairment related to goodwill that resulted from the Company's acquisition of ASG in March 2006. During the year ended December 31, 2007, despite a significantly shorter operating period and as a result of a more established business presence from a more mature business, revenues reflected only a slight decrease of $34,000 and operating costs decreased by $1,505,000. However, excluding goodwill impairment of $971,000, operating costs decreased by $534,000. The remaining operating cost decrease of $534,000 is primarily attributed to a $257,000 decrease in interest expense, of which $136,000 is non-cash interest charges incurred as a result of debt

discount, and the incurrence of only six months of operating expenses during the year ended December 31, 2007 as opposed to an entire year of operating expenses during the year ended December 31, 2006.

The loss from our discontinued car was segment increased by $1,585,000 during the year ended December 31, 2006 from a loss of $62,000 during the year ended December 31, 2005, its first year of operations. In response to the financial constraints stemming from our unsuccessful efforts to raise the necessary capital to continue the planned build-out on the additional car wash facilities, coupled with our emphasis on the patient safety markets, we evaluated alternative methods to divest the car wash services segment. Recognizing that revenues and cash flows would be lower than expected from the car wash services segment, we determined that a triggering event had occurred and conducted an interim goodwill impairment analysis in the quarters ended June 30, 2006 and September 30, 2006. As a result of our goodwill impairment analyses, we recorded goodwill impairment charges of $971,000 and nil during the year ended December 31, 2006 and 2005, respectively. This goodwill impairment related to goodwill that resulted from the Company's acquisition of ASG. The fair value of our reporting units were estimated using the expected present value of future cash flows and the valuation employed a combination of present value techniques to measure fair value and considered market factors. The remaining increase in loss of $614,000 is primarily attributed to interest expense at the discontinued car wash segment of $458,000. The increase in interest expense was a combination of both non-cash interest charges of $136,000 and interest expense of $322,000 attributable to the overall increase in borrowings that occurred during the year ended December 31, 2006.

Accumulated other comprehensive income

Unrealized gains (losses) on our investments designated as available-for-sale are recorded in accumulated other comprehensive income. At December 31, 2007 and 2006, our remaining investments were carried at cost and therefore we did not record any unrealized gains (losses) on these investments. At December 31, 2005, we classified our restricted holdings in Digicorp and IPEX as available-for-sale. During the year ended December 31, 2006, we had disposed of or written-off these investments. At December 31, 2005, the unrealized gains (losses) on our restricted holdings in IPEX and Digicorp amounted to ($328,000) and $2,703,000, respectively. The cumulative decrease in net unrealized gains amounts to $2,375,000.

Taxes

We are subject to federal and state income tax on a portion of our taxable income. At December 31, 2007, we had a net operating loss carryforward of approximately $25.0 million to offset future taxable income for federal income tax purposes. The utilization of the loss carryforward to reduce any future income taxes will depend on our ability to generate sufficient taxable income prior to the expiration of the net operating loss carryforwards. The carryforward expires beginning in 2011.

A change in the ownership of a majority of the fair market value of our common stock can delay or limit the utilization of existing net operating loss carryforwards pursuant to Internal Revenue Code Section 382. We believe that such a change occurred during the year ended December 31, 2007 and are currently performing an analysis to determine the amount of our net operating loss carryforward that is limited.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of December 31, 2007:

Contractual obligations	Payments Due by Period			
	Total	Less than 1 year	1–3 years	3–5 years
Operating lease obligations	$ 351,258	$ 113,082	$ 238,176	$ —
Notes Payable to Ault Glazer Capital Partners, LLC	2,530,558	—	—	2,530,558
Notes Payable to Herb Langsam	600,000	600,000	—	—
Note Payable to Charles Kalina III	400,000	400,000	—	—
Other Notes Payable	172,380	172,380	—	—
Employment Agreements	693,750	581,250	112,500	—
Total	**$ 4,747,946**	**$ 1,866,712**	**$ 350,676**	**$ 2,530,558**

Quantitative and Qualitative Disclosures About Market Risk.

Our business activities contain elements of market risk. We consider a principal type of market risk to be valuation risk. Investments and other assets are valued at fair value as determined in good faith by our Board of Directors.

We have invested a substantial portion of our assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. We expect that some of our venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential.

Because there is no public market for the equity interests of some of the small companies in which we have invested, the valuation of such the equity interests is subject to the estimate of our Board of Directors. In making its determination, the Board may consider valuation information provided by an independent third party or the portfolio company itself. In the absence of a readily ascertainable market value, the estimated value of our equity investments may differ significantly from the values that would be placed on them if a liquid market for the equity interests existed. Any changes in valuation are recorded in our consolidated statements of operations as either "Unrealized losses on marketable securities, net" or "Other comprehensive income."

MANAGEMENT.

Pursuant to the Company's Amended and Restated Certificate of Incorporation and its Bylaws, the number of directors constituting the Board shall be fixed from time to time by resolution passed by a majority of the Board. The number of directors on the Board is currently fixed at seven. The holders of the Series A Preferred Stock, voting separately as one class, shall have the right to elect three directors at all times during which the Series A Preferred Stock is outstanding (the ***"Series A Directors"***). Directors are elected by class for a staggered term of three years for each class, with the term of office of one class of directors expiring each year. Directors serve until their successors are elected and qualified. No current disagreement exists between the Company and any of the current members of the Board regarding the operations, policies or practices of the Company.

The current directors of the company are as follows: Steve Kane (Class I Director (Served since 2008) - nominated for re-election to the Board for a three-year term expiring in 2010); David M. Augustine (Class I Director (Served since 2007) - nominated for re-election to the Board for a three-year term expiring in 2010); John P. Francis (Class I Director (Served since 2007) - nominated for re-election to the Board for a three-year term expiring in 2010); Herbert Langsam (Class II Director - (Served since 2004) - term expiring in 2008); Wenchen Lin (Class II Director - (Served since 2007) - term expiring in 2008); Arnold E. Spangler (Class III Director (Served since January 7, 2006) - term expiring in 2009); and Louis Glazer, M.D., Ph.G (Class III Director (Served since 2004) - term expiring in 2009). We believe under the standards for Nasdaq listed companies that, other than Dr. Glazer, all of the Company's directors are independent.

Common Stock Directors

Steven H. Kane [(1)]***,*** age 55, is the Company's Chairman and was elected by the Board of Directors to serve as a Class I Director of the Company on February 7, 2008. Mr. Kane is currently the President, Chief Executive Officer and Director of Protalex, Inc. (OTCBB: PRTX) and has over 30 years experience in the health care industry. From April 1997 to August 2000, Mr. Kane served as Vice President of North American Sales & Field Operations for Aspect Medical. While at Aspect, he helped guide the company to a successful initial public offering in January 2000. Prior to Aspect, Mr. Kane was Eastern Area Vice President for Pyxis Corporation, where he was instrumental in positioning the company for its successful initial public offering in 1992. Pyxis later was acquired by Cardinal Health for $1 billion. Prior to that Mr. Kane worked in sales management with Eli-Lilly and Becton Dickinson

David Augustine [(2)]***,*** age 46, was elected by the Board of Directors to serves as a Class I Director of the Company on January 24, 2007 to fill the vacancy created by the resignation of Brig. Gen. Lytle Brown, III effective January 24, 2007. Mr. Augustine has almost twenty years experience as a successful legal advisor, managing principal and business consultant. Mr. Augustine began his career as an attorney in the Mergers and Acquisitions department of Skadden, Arps, Slate, Meagher & Flom, representing predominantly Fortune 500 companies. Mr. Augustine also started up the firm's restructuring and reorganization department in its Wilmington, Delaware office. Mr. Augustine has guided numerous companies through successful restructurings both as a business principal and as a legal advisor. He also has substantial experience in the areas of intellectual property development, protection, and licensing.

John P. Francis**,** age 42, was elected by the Board of Directors to serves as a Class I Director of the Company on November 26, 2007 to fill the vacancy created by the resignation of William B. Horne effective as of that date. Mr. Francis is President of Francis Capital Management, LLC, an investment management firm specializing in small capitalization equities. Mr. Francis has over eighteen years of experience in investment management, finance and accounting.

Wenchen Lin, age 52, was elected by the Board of Directors to serves as a Class II Director of the Company on March 28, 2007 to fill the vacancy created by the resignation of Alice Campbell effective January 26, 2007. Mr. Lin has almost twenty years experience as the President and founder of A Plus International, a successful manufacturer producing a variety of surgical dressings, film and plastic products and servicing the custom procedural tray industry on cotton textile products. A Plus has established relationships with key market leaders in the industries that A Plus services. Mr. Lin began his career serving as Vice-President to large trade and shipping companies, such as Trade Diversified, Inc. and Brother Trucking Co. and has vast knowledge and experience in oversees factories, trade, transport and distribution. Mr. Lin received his MBA from Ohio University and his accounting degree from Taiwan Suzhou University.

Arnold Spangler [(2)]***,*** age 59, was elected by the Board of Directors to serve as a Class III Director of the Company on January 7, 2006 to fill the vacancy created by the first resignation of Milton "Todd" Ault, III effective January 9, 2006. From 1993 through 2005 Mr. Spangler was Managing Director of Mancuso & Co., a private merchant banking and equity firm which arranges and participates in leveraged buyout acquisitions. Mr. Spangler is currently on advisory

boards of NYPPE Holdings, LLC and Total Equips, Inc., both private companies.

Series A Preferred Stock Directors

Louis Glazer, M.D., Ph.G. (1), age 77, has served as a Class III Director of the Company since October 22, 2004. Dr. Glazer also currently serves on the executive council of patient safety at Harvard Medical School and Brigham and Women's Hospital and as a member of AGB & Company IM's advisory board and as an independent biotechnology and medical consultant. Until 2002, Dr. Glazer served as the chief anesthesiologist and medical director for the Vitreo-Retinal Clinic in Memphis, Tennessee. Prior to that, Dr. Glazer taught obstetrics anesthesia at the University of Tennessee, while practicing anesthesiology at Baptist East Hospital, Methodist Hospital, St. Francis Hospital and Baptist Memorial Hospital in Memphis, Tennessee. Dr. Glazer was also responsible for establishing anesthesia programs at Baptist Memorial Hospital and Methodist Hospital South in Memphis, Tennessee. Dr. Glazer received his B.S. in pharmacy from the University of Oklahoma and his M.D. from the University of Bologna School of Medicine in Italy.

Herbert Langsam [(1)], age 77, has served as a Class II Director of the Company since October 22, 2004. Mr. Langsam also currently serves as president of Medicare Recoveries, Inc., a private company located in Oklahoma City, Oklahoma focused on providing Medicare claims and recovery services. Mr. Langsam serves as a member of the board of trustees for the Geriatric Research Drug Therapy Institute and as an adjunct professor at the University of Oklahoma Pharmacy School. Previously, Mr. Langsam was the founder, president and chief executive officer of Langsam Health Services, a conglomerate of health care companies that serviced 17,000 long-term care residents, that was acquired by Omnicare, Inc. in 1991. Mr. Langsam also served as the vice president of pharmacy services for Omnicare, Inc. following its acquisition of Langsam Health Services. Mr. Langsam received his B.S. in pharmacy from the University of Oklahoma.

[(1)] Member of Compensation Committee; [(2)] Member of Audit Committee

Executive Officers

The executive officers of the Company as of March 31, 2008 are as follows:

Name and Age	*Title*	*Served as an Officer Since*
William B. Horne (39)	Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer	2005
William Adams (52)	President and Chief Executive Officer of SurgiCount Medical, Inc.	2005
Rick Bertran (46)	President of SurgiCount Medical, Inc.	2005

Executive Officers

William B. Horne, age 39, Chief Executive and Chief Financial Officer and Principal Accounting Officer. Mr. Horne served as a Class I Director of the Company from January 9, 2007 to November 26, 2007 to fill the vacancy created by the resignation of Milton “Todd” Ault III effective January 9, 2007. Since July 20, 2005, Mr. Horne has been a director of Digicorp (OTCBB: DGCO). From July 20, 2005 until April 20, 2007, Mr. Horne was also the Chief Financial Officer of Digicorp. From September 30, 2005 until December 29, 2005, Mr. Horne also served as Digicorp’s Chief Executive Officer and Chairman of Digicorp’s Board of Directors. Since January 2002, Mr. Horne has provided strategic financial consulting services to private and public companies. From May 2002 to April 2005, Mr. Horne held the position of Chief Financial Officer of Alaska Wireless Communications, a privately held advanced cellular communications company. From November 1996 to December 2001, Mr. Horne held the position of Chief Financial Officer of The Phoenix Partners, a venture capital limited partnership located in Seattle, Washington.

Bill Adams, age 52, President and Chief Executive Officer of SurgiCount Medical, Inc. Mr. Adams has 25 years of experience in the health care industry and the disposable medical supply business. As the President of Health West Marketing since its inception in 1983, Mr. Adams pioneered the introduction of custom procedure trays into the acute care supply chain. Additionally, Mr. Adams is one of the industry's leaders in taking advantage of global economics through the introduction of external manufacturing in China with A Plus International. Mr. Adams has been actively involved in the design and development of SurgiCount Medical's Safety-Sponge System for several years and was instrumental in solidifying SurgiCount’s national distribution and manufacturing agreements.

Richard Bertran, age 46, President of SurgiCount Medical, Inc. From September 2002 until July 2005, Mr. Bertran was Director of North American Sales for eNGENUITY Technology, a company in the visualization and simulation software industry. From 1988 to 1998, Mr. Bertran served as Western Regional Sales Manager for Maxxim Medical, a company that creates and packages custom surgical packs.

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COMPENSATION DISCUSSION AND ANALYSIS

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

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

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

Determining Executive Compensation

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

Chief executive officer

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

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

- The executive's historical earnings,
- a market competitive assessment of similar roles at other companies,
- internal comparisons to the compensation of other executives,
- evaluations of performance for the fiscal year, and
- the chief executive officer's recommendations for each named executive officer's base pay, and bonus amounts.

The evaluation is based on the success of the named executive officer in achieving his performance commitments, which include financial, strategic and company culture/leadership goals. The Board approves the named executive

officers salary, bonus and stock-based compensation in the first quarter of the fiscal year after the relevant performance information is available.

The components of our executive compensation program

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

- As a package, these types of programs are typically offered by the types of companies from which we would seek executive talent.

- As a package, these particular programs provide both a current and a long term incentive for the executive officers, thereby aligning the executives' interests with shareholders.

- These programs, as a package, provide the executives with short and long term rewards; this serves as a retention, as well as a motivational, device for the executives.

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

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

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

Our process for setting executive pay

The Compensation Committee's focus is to determine the compensation of the chief executive officer and to review the proposals of the chief executive officer regarding the compensation for other named executive officers. In 2007, the Compensation Committee made the final decision on all aspects of named executive officer pay. In 2008, the Compensation Committee will present recommendations to the entire Board of Directors for their approval.

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

Our process for determining the value of each component of executive pay functioned in the following manner for 2007:

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

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

Named Executive Officer	Annualized 2006 Base	Annual Increase	Annualized 2007 Base	Percentage Increase
William Horne, Chief Executive and Chief Financial Officer	$ 150,000	$ 100,000	$ 250,000	66.7%
Bill Adams, President and Chief Executive Officer of SurgiCount Medical, Inc.	$ 300,000	$ 0	$ 300,000	0%
Richard Bertran, President of SurgiCount Medical, Inc.	$ 200,000	$ 50,000	$ 250,000	25%

The Chief Executive and Chief Financial Officer and the President of SurgiCount each received significant raises because further analysis by the Compensation Committee indicated that the positions were underpaid. The Compensation Committee specifically noted that the additional responsibilities Mr. Horne assumed, effective January 2007, in his dual role as both the Company's Chief Executive Officer and Chief Financial Officer warranted additional cash compensation. The Compensation Committee elected to increase Mr. Bertran's base compensation as a reward for his individual efforts in promoting the Company Safety-Sponge product. Further, the Compensation Committee wanted to establish an equitable level of base pay amounts for our three senior executives.

Annual bonus: Our annual bonus program for executives is administered in the following manner. Our Compensation Committee determines the amount of bonuses, if any, for each of our named executive officers. To the extent bonuses are made they are on a completely discretionary basis at the reasonable and good faith discretion of the Compensation Committee, based upon the financial performance of the Company. During 2007 the Compensation Committee did not award any bonuses.

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

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

The chief executive officer recommends the equity grant, if any, to a named executive officer. The Compensation Committee considers the chief executive officer's recommendation and makes a final decision based on the factors listed above. Equity grants that were made to named executive officers during 2007 were in connection with a grant specifically authorized by our Board of Directors, in the case of our Chief Executive and Financial Officer, or an

employment contract executed by the President of SurgiCount Medical. The equity grant during 2007 to our Chief Executive and Chief Financial Officer was in the form of restricted stock issued as a means to retain his services, at the direction of our Board of Directors. The equity grant during 2007 to our President of SurgiCount Medical was in the form of non-qualified stock options pursuant to an employment contract executed upon joining the Company. All of the options granted in 2007 were valued at fair market value as of the date of grant (as further explained below). The grant to our President of SurgiCount Medical was fully vested at the date of grant.

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

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

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

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

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

The executives benefit because:

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

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

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

The following table sets forth information concerning the annual and long-term compensation earned by or paid to our Chief Executive Officer and to other persons who served as executive officers as at and/or during the fiscal year ended December 31, 2007 who earned compensation exceeding $100,000 during 2007 (the ***"named executive officers"***), for services as executive officers for the last three fiscal years.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary ($)	Bonus ($)	Stock Awards ($) [3]	Option Awards ($) [3]	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) [4]	Total ($)
William B. Horne, Chief Executive & Chief Financial Officer [1]	2007	218,750	0	26,100	0	0	0	0	244,850
	2006	150,000	0	38,703	0	0	0	255	188,958
	2005	75,000	750	277,536	227,732	0	0	368	581,386
Bill Adams, President & Chief Executive Officer of SurgiCount [2]	2007	312,500	0	0	0	0	0	0	312,500
	2006	206,250	0	0	996,302	0	0	822	1,203,374
	2005	0	0	0	0	0	0	0	0
Lynne Silverstein, Executive Vice President	2007	105,000	0	25,000	0	0	0	0	130,000
	2006	120,000	0	123,000	108,085	0	0	200	351,285
	2005	120,000	0	158,000	131,384	0	0	591	409,975
Richard Bertran, President of SurgiCount	2007	231,243	0	0	53,308	0	0	0	284,551
	2006	200,000	0	0	0	0	0	360	200,360
	2005	92,500	750	36,000	343,195	0	0	433	47,878
James Schafer, Director of Manufacturing of SurgiCount	2007	67,051	0	50,000	0	0	0	0	117,051
	2006	100,000	0	0	0	0	0	342	100,342
	2005	39,807	750	50,000	186,324	0	0	361	277,242
Louis Glazer, M.D., Ph.G., Former Chief Executive Officer	2007	0	0	26,100	0	0	0	0	26,100
	2006	118,750	0	246,000	216,169	0	0	1,060	581,979
	2005	120,000	750	316,000	262,768	0	0	2,582	702,100
Milton "Todd" Ault III, Former Chief Executive Officer	2007	0	0	26,100	0	0	0	184	26,100
	2006	180,000	0	270,000	237,259	0	0	184	687,443
	2005	150,000	750	316,000	262,768	0	0	1,248	730,766

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

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

(3) Represents the dollar amount recognized for financial reporting purposes of restricted stock grants and stock options awarded in 2007, 2006 and 2005, respectively, computed in accordance with SFAS 123(R).

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

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The following table sets forth information with respect to the named executive officers concerning the grant of stock options during the fiscal year ended December 31, 2007. The Company did not have any outstanding stock appreciation rights (***"SARs"***) as of December 31, 2007.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units(#)	All Other Option Awards: Number of Securities Underlying Options(#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
		Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)				
William B. Horne	—	0	0	0	0	0	0	15,000	0	0	26,100
Bill Adams	—	0	0	0	0	0	0	0	0	0	0
Lynne Silverstein	—	0	0	0	0	0	0	20,000	0	0	25,000
Richard Bertran	10/02/2007	0	0	0	0	0	0	0	50,000	1.39	53,308

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	OPTION AWARDS					STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
William B. Horne	78,000	0	0	5.267	3/30/2015	0	0	0	0
Bill Adams	100,000	300,000	0	3.50	4/18/2016	0	0	0	0
Lynne Silverstein	0	0	0	0	—	0	0	0	0
Richard Bertran	133,333 50,000	66,667 0	0 0	5.00 1.39	7/18/2015 10/02/2017	0	0	0	0
James Schafer	0	0	0	0	—	0	0	0	0
Louis Glazer, M.D., Ph.G.,	75,000 60,000	0 0	0 0	5.267 4.10	3/30/2015 1/31/2016	0 0	0 0	0 0	0 0

Milton “Todd” Ault III	0	0	0	0	—	0	0	0	0

OPTION EXERCISES AND STOCK VESTED

	OPTION AWARDS		STOCK AWARDS	
Name	Number of Shares Aquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Aquired on Vesting (#)	Value Realized on Vesting ($)
William B. Horne	0	0	18,019	31,081
Bill Adams	0	0	0	0
Lynne Silverstein	0	0	20,000	25,000
Richard Bertran	0	0	0	0
James Schafer	0	0	0	0
Louis Glazer, M.D., Ph.G.,	0	0	15,000	26,100
Milton “Todd” Ault III	0	0	15,000	26,100

Pension Benefits

The Company does not offer a pension benefit plan.

Non-Qualified Deferred Compensation

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

Compensation of Directors

As of December 31, 2007, the cash compensation earned by each director of the Company varies. Arnold Spanger and David Augustine earned $100,000 and $20,000, respectively, whereas the other compensated directors, which include Mr. Langsam, Dr. Glazer and Mr. Brown, were eligible to receive a fee of $500 plus reimbursement of expenses incurred in attending each board meeting. During 2007, the Company did not compensate Mr. Langsam, Dr. Glazer and Mr. Brown in cash and all of Mr. Spangler’s and a portion of Mr. Augustine’s cash compensation was accrued at December 31, 2007. In addition, directors are eligible to receive grants of restricted stock and/or stock options pursuant to the Company’s compensation plans which are described below. The following table provides certain summary information concerning the compensation paid to directors, other than William Horne (our Chief Executive Officer) and Louis Glazer, M.D., Ph.G. (our former Chief Executive Officers), during 2006. All compensation paid to Messrs. Horne and Glazer is set forth in the table under “Executive Compensation.”

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (7)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Arnold Spangler	100,000	151,000	0	0	0	0	151,000
Herbert Langsam	0	26,100	0	0	0	0	0
David Augustine (1)	20,000	10,000	61,802	0	0	0	91,802
Wenchen Lin (2)	0	0	0	0	0	0	0
Alice Campbell (3)	0	26,100	0	0	0	0	26,100
Brigadier General (Ret.) Lytle Brown III (4)	0	26,100	0	0	0	0	26,100
John Francis(5)	0	0	0	0	0	0	0
Steven H. Kane (6)	0	0	0	0	0	0	0

(1) Mr. Augustine was appointed as a director effective January 24, 2007.
(2) Mr. Lin was appointed as a director effective March 28, 2007.
(3) Ms. Campbell resigned as a director effective January 26, 2007.
(4) Mr. Brown resigned as a director effective January 24, 2007.
(5) Mr. Francis was appointed as a director effective November 26, 2007.
(6) Mr. Kane was appointed as a director effective February 7, 2008.
(7) Represents the dollar amount recognized for financial reporting purposes of restricted stock grants and stock options awarded, computed in accordance with SFAS 123(R).

Compensation Committee Interlocks and Insider Participation

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

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

directors) of another entity, one of whose executive officers served as a director of the Company.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Security Ownership of Certain Beneficial Owners and Management

The following tables set forth certain information with respect to beneficial ownership (as that term is defined in the rules and regulations of the SEC) of the Company's common stock and preferred stock as of April 11, 2008, by (1) each person who is known by the Company to be the beneficial owner of more than five percent of the outstanding common stock and preferred stock, (2) each director of the Company, (3) each current executive officer listed in the Summary Compensation Table and (4) all directors and named executive officers of the Company as a group. Except as otherwise indicated, to the Company's knowledge, all shares are beneficially owned and investment and voting power is held as stated by the persons named as owners. The address for all beneficial owners, unless stated otherwise below, is c/o Patient Safety Technologies, Inc., 43460 Ridge Park Drive, Suite 140, Temecula, CA 92590.

Name and Address of Beneficial Owner	Beneficial Ownership Number of Shares of Common Stock (1)	Percent of Class	Number of Shares of Preferred Stock (2)	Percent of Class
Greater than 5% Beneficial Owners :				
Francis Capital Management, LLC 429 Santa Monica Blvd., Suite 320 Santa Monica, CA 90401	2,080,200(3)	16.1%	—	—
Melanie Glazer 1800 Century Park East, Ste. 200 Los Angeles, California 90067	1,360,203(4)	11.0%	8,150(4)	74.4%
DSAM Fund LP 222 Broadway, 6th Floor New York, NY 10038	1,294,000(5)	10.3%	—	—
Ault Glazer Capital Partners, LLC 1800 Century Park East, Ste. 200 Los Angeles, California 90067	1,320,893(6)	9.9%	2,600(6)	23.7%
A Plus International, Inc. 5138 Eucalyptus Avenue Chino, California 91710	1,100,000(7)	8.9%	—	—
Alan E. Morelli 225 Mantua Road Pacific Palisades, California 90272	1,151,351(8)	8.7%	—	—
Steven Bodnar & Bodnar Capital Management LLC 680 Old Academy Road Fairfield, CT 06824	843,750(9)	6.9%	—	—
Directors and Named Executive Officers :				
John P. Francis	2,080,200(3)	16.1%	—	—
Wenchen Lin	1,100,000(7)	8.9%	—	—
Bill Adams	302,017(10)	2.4%	—	—
Arnold Spangler	268,250(11)	2.2%	—	—
William B. Horne	239,035(12)	2.0%	—	—
Richard Bertran	193,889(13)	1.6%	—	—
Louis Glazer, M.D., Ph.G	141,600(14)	1.2%	—	—

Herbert Langsam	175,903(15)	1.2%	—	—
David Augustine	37,500(16)	*	—	—
All directors and named executive officers as a group (9 persons)	4,538,394	32.4%	—	—

* Represents less than 1%

(1) Applicable percentage ownership is based on 12,079,602 shares of common stock outstanding as of April 11, 2008, together with securities exercisable or convertible into shares of common stock within 60 days of April 11, 2008 for each security holder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that a person has the right to acquire beneficial ownership of upon the exercise or conversion of options, convertible stock, warrants or other securities that are currently exercisable or convertible or that will become exercisable or convertible within 60 days of April 11, 2008 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Applicable percentage ownership is based on 10,950 shares of Series A Convertible Preferred Stock outstanding. Each share of Series A Convertible Preferred Stock is convertible into 22.5 shares of common stock. Except as otherwise required by law, each holder of Series A Convertible Preferred Stock is entitled to vote on all matters submitted to our stockholders, voting together with the holders of common stock as a single class, with each shares of Series A Convertible Preferred Stock entitled to one vote per share.

(3) Consists of: (a) 1,272,000 shares of common stock; and (b) warrants for purchase of 808,200 shares of common stock. John Francis has voting and investment control over the securities held by Francis Capital Management, LLC.

(4) Consists of: (a) 1,086,162 shares of common stock; (b) warrants for purchase of 90,666 shares of common stock; and (c) 183,375 shares of common stock issuable upon conversion of 8,150 shares of Series A Convertible Preferred Stock.

(5) Consists of: (a) 820,000 shares of common stock; and (b) warrants for purchase of 474,000 shares of common stock.

(6) Ault Glazer Capital Partners, LLC (***"the Fund"***) is an investment fund. The securities beneficially owned by the Fund include: (a) 76,870 shares of common stock; (b) a Convertible Secured Promissory Note in the principal amount of $2,530,558 that is convertible into 1,012,223 shares of the Company's common stock at a conversion price of $2.50; (c) warrants for purchase of 173,300 shares of common stock; and (d) 58,500 shares of common stock issuable upon conversion of 2,600 shares of Series A Convertible Preferred Stock. The managing member of the Fund, Milton "Todd" Ault, III, may be deemed to beneficially own the securities held by the Fund due to his relationship with the Fund.

(7) A Plus International, Inc. owns 800,000 shares of common stock and warrants to purchase 300,000 shares of common stock. Mr. Lin has the power to vote and direct the disposition of all securities owned by A Plus International, Inc.

(8) Consists of warrants to purchase shares of common stock.

(9) Bodnar Capital Management LLC owns 562,500 shares of common stock and warrants to purchase 281,250 shares of common stock. Mr. Bodnar has the power to vote and direct the disposition of all securities owned by Bodnar Capital Management LLC.

(10) Consists of: (a) 82,017 shares of common stock; (b) 200,000 shares of common stock issuable upon exercise of stock options with an exercise price of $3.50 per share that expire on April 21, 2016; and (c) warrants for purchase of 20,000 shares of common stock.

(11) Consists of: (a) 210,500 shares of common stock; (b) 15,000 shares of common stock issuable upon exercise of stock options with an exercise price of $4.30 per share that expire on January 25, 2016; and (c) warrants for purchase of 42,750 shares of common stock.

(12) Consists of: (a) 141,035 shares of common stock; (b) 78,000 shares of common stock issuable upon exercise of stock options with an exercise price of $5.27 per shares that expire March 30, 2015; and (c) warrants for purchase of 20,000 shares of common stock.

(13) Consists of: (a) 10,555 shares of common stock; (b) 133,334 shares of common stock issuable upon exercise of stock options with an exercise price of $5.00 per share that expire on July 18, 2015; and (c) 50,000 shares of common stock issuable upon exercise of stock options with an exercise price of $1.39 per share that expire on October 2, 2017.

(14) Consists of: (a) 6,600 shares of common stock; (b) 60,000 shares of common stock issuable upon exercise of stock options with an exercise price of $4.10 per share that expire on January 31, 2016; and (d) 75,000 shares of common stock issuable upon exercise of stock options with an exercise price of $5.27 per share that expire on March 30, 2015.

(15) Consists of: (a) 93,403 shares of common stock; (b) 15,000 shares of common stock issuable upon exercise of stock options with an exercise price of $4.30 per share that expire on January 25, 2016; (c) 4,500 shares of common stock issuable upon exercise of stock options with an exercise price of $5.27 per share that expire on March 30, 2015; and (d) warrants for purchase of 63,000 shares of common stock.

(16) Consists of: (a) 6,250 shares of common stock; and (b) 31,250 shares of common stock issuable upon exercise of stock options with an exercise price of $1.75 per share that expire on January 24, 2017.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Management believes that all of the below transactions were on terms at least as favorable as could be obtained from unrelated third parties.

Related Transactions with AGB & Company Inc and its Related Entities

Certain of the Company's officers, directors and/or their family members had existing responsibilities to act and/or provide services as executive officers, directors, owners and/or managers of AG Management and its parent company The AG Group. While, certain conflicts of interest between the Company and AG Management and The AG Group may have occurred from time to time, the Company believes that any such conflicts of interest, to the extent they occurred, were resolved in the Company's favor. The officers and directors of the Company are accountable to the Company and to its stockholders as fiduciaries, which requires that the officers and directors exercise good faith and integrity in handling the Company's affairs. Specifically, the Company's former Chairman and former Chief Executive Officer, Milton "Todd" Ault, III, is Chairman, Chief Executive Officer and President of The AG Group, the Company's current Chief Executive Officer and Chief Financial Officer, William B. Horne, was the Chief Financial Officer of The AG Group, and Melanie Glazer, former Manager of the Company's closed subsidiary Ault Glazer Bodnar Capital Properties, LLC, is a director of The AG Group.

The Board does not believe that the Company has any conflicts of interest with the business of AG Management or The AG Group other than the past responsibilities of Mr. Ault, Mr. Horne and Mrs. Glazer to devote time providing certain management and administrative services to The AG Group, AG Management and AG Management's clients from time-to-time. However, subject to applicable law, the Company may engage in transactions with The AG Group and AG Management and related parties in the future, including but not limited to financing transactions, acquisitions and/or joint investments in target industries. These related party transactions may raise conflicts of interest and, although the Company does not have a formal policy to address such conflicts of interest, the Audit Committee intends to evaluate relationships and transactions involving conflicts of interest on a case by case basis.

The Audit Committee will conduct a review of all related party transactions for potential conflict of interest situations on an ongoing basis, and the approval of the Audit Committee will be required for all such transactions. The Audit Committee intends that any related party transactions will be on terms and conditions no less favorable to the Company than those terms and conditions reasonably obtainable from third parties and in accordance with applicable law.

The Company shared office space, telephone, computer, Internet service, office supplies and administrative and secretarial support with AG Management at 1800 Century Park East, Ste. 200, Los Angeles, California 90067. Until recently, the Company was responsible for paying approximately 25% of the lease expense associated with such office space, goods and services, which amounted to approximately $8,100 per month. Effective March 31, 2007, the Company had consolidated its operations in the Company's Temecula office and was no longer required to pay lease expense associated with the 1800 Century Park East location.

During the year ended December 31, 2007 and 2006, the Company received loans from Ault Gazer Capital Partners, LLC (the ***"Fund"***). Ault Glazer & Company Investment Management, LLC (***"AG & Company IM"***) is the managing member of the Fund. The managing member of AG & Company IM is Ault Glazer. Mr. Ault, our former Chairman and Chief Executive Officer, is Chairman, Chief Executive Officer and President of Ault Glazer. Until June 8, 2006, the Company's current Chief Executive Officer and Chief Financial Officer was also Chief Financial Officer of Ault Glazer.

On February 8, 2006, Ault Glazer Capital Partners, LLC (formerly AGB Acquisition Fund) (the ***"Fund"***), a related party, loaned $687,000 to ASG. As consideration for the loan, ASG issued the Fund a secured promissory note in the

principal amount of $687,000 (the ***"ASG Note"***) and granted a real estate mortgage in favor of the Fund relating to certain real property located in Jefferson County, Alabama (the ***"ASG Property"***). The ASG Note, as amended, had an interest rate of 10% per annum and was due on September 15, 2006. The Fund received warrants to purchase 20,608 shares of the Company's common stock at an exercise price of $3.86 per share as additional consideration for entering into the loan agreement. As security for the performance of ASG's obligations pursuant to the ASG Note, ASG had granted the Fund a security interest in all personal property and fixtures located at the ASG Property. During the year ended December 31, 2007 and 2006, the Company incurred interest expense, excluding amortization of debt discount, of $28,000 and $61,000, respectively, on the ASG Note.

As of December 31, 2006, the Fund loaned $1,495,000 to ASG in addition to the ASG Note. The loans were advanced to ASG, pursuant to the terms of a Real Estate Note dated July 27, 2005, as amended (the ***"Real Estate Note"***). The Real Estate Note had an interest rate of 3% above the Prime Rate as published in the Wall Street Journal. All unpaid principal, interest and charges under the Real Estate Note were due in full on July 31, 2010. The Real Estate Note was collateralized by a mortgage on certain real estate owned by ASG pursuant to the terms of a Future Advance Mortgage Assignment of Rents and Leases and Security Agreement dated July 27, 2005 between ASG and the Fund. During the year ended December 31, 2007 and 2006, the Company incurred interest expense of $70,000 and $160,000, respectively, on the Real Estate Note.

Effective June 1, 2007, the entire unpaid principal and interest under the ASG Note and Real Estate Note were restructured into a new Convertible Secured Promissory Note (the ***"AG Partners Convertible Note"***) in the principal amount of $2,530,558 with an effective date of June 1, 2007. The AG Partners Convertible Note bears interest at the rate of 7% per annum and is due on the earlier of December 31, 2010, or the occurrence of an event of default. In the event that the average closing price of the Company's common stock is in excess of $5.00 per share for thirty (30) consecutive trading days, the Company will have the right to redeem the promissory note in shares or in cash. In the event of redemption in shares, the principal is convertible into shares of the Company's common stock at a conversion price of $2.50. The promissory note is secured by all of the Company's assets. Should the Company raise up to $2,000,000 in a new credit facility, including any replacement credit facilities, the Fund is required to subordinate its security interest in favor of the new credit facility. During the year ended December 31, 2007, the Company incurred interest expense of $103,000 on the AG Partners Convertible Note.

From March 7, 2006 through October 16, 2006, the Fund loaned the Company a total of $524,000, of which $130,000 was repaid during 2006. The loans were advanced to the Company pursuant to a Revolving Line of Credit Agreement (the ***"Revolving Line of Credit"***) entered into with the Fund on March 7, 2006. The Revolving Line of Credit allowed the Company to request advances of up to $500,000 from the Fund. Each advance under the Revolving Line of Credit was evidenced by a secured promissory note and a security agreement. The secured promissory notes issued pursuant to the Revolving Line of Credit required repayment with interest at the Prime Rate plus 1% within 60 days from issuance. The outstanding principal balance of $394,000 and accrued interest of $28,000, which was in default, was converted into 337,439 shares of the Company's common stock at a conversion price of $1.25 per share. During the year ended December 31, 2007 and 2006, the Company incurred interest expense of $15,000 and $16,000, respectively, on the Revolving Line of Credit.

The Company retained Ault Glazer & Co., LLC (***"AG & Co."***) as a consultant to the Company. AG & Co. is a registered broker-dealer that is wholly owned by The AG Group. Mr. Ault, as a principal of AG & Co., has been advising the Company with respect to potential capital raising transactions and other strategic financial matters. Mr. Ault has not been, and does not expect to be, compensated for such services. However, AG & Co. was successful in assisting the Company with completing a series of capital raising transactions whereby the Company received $2,286,000 in debt financing during 2006, $298,000 in equity financing during 2006 and $1,530,000 in equity financing during 2007, and as a result the Company agreed to pay AG & Co. aggregate cash fees of $215,000, of which $92,000 related to 2006. Additionally, the Company issued AG & Co. 56,340 warrants to purchase shares of common stock at $1.25 per share and 116,960 warrants to purchase shares of common stock at $2.00 per share. Management believes the fees paid to AG & Co. as a result of its successful efforts in assisting the Company to raise both debt and equity capital are on terms at least as favorable as could be obtained from an unrelated third party.

Sale of Stock to Director

During March 2007, the Company sold 240,000 shares of common stock and warrants to purchase 120,000 shares of common stock to certain current directors and officers of the Company, at a price of $1.25 per share, resulting in gross proceeds of $300,000. The warrants are exercisable for a period of five years, have an exercise price equal to $2.00, and 50% of the warrants are callable upon the occurrence of any one of a number of specified events when, after any

such specified occurrence, the average closing price of the Company's common stock during any period of five consecutive trading days exceeds $4.00 per share. We used the net proceeds from the private placement transaction primarily for general corporate purposes.

SELLING STOCKHOLDERS

The following table sets forth the common stock ownership of the selling stockholders as of November 16, 2007, including the number of shares of common stock issuable upon the exercise of warrants and conversion of a convertible promissory note held by the selling stockholders. The selling stockholders acquired their securities through (1) our private placement of common stock in August 2006; (2) our private placement of a convertible note and warrants in November 2006; (3) our private placement of common stock and warrants in December 2006; (4) our private placement of common stock and warrants in March 2007; and (5) as compensation for services, the material terms of which are described elsewhere in this prospectus. All of such transactions were made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. Other than as set forth in the following table, the selling stockholders have not held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years.

Name	Number of Shares Beneficially Owned Prior to Offering (1)	Number of Shares Offered Pursuant to this Prospectus	Shares Beneficially Owned After the Offering (2)	
			Number	Percent
A Plus International, Inc. (3)	1,100,000	1,100,000	0	*
David and Susan Wilstein as Trustees of the Century Trust (4)	36,000	36,000	0	*
Nite Capital, LP (5)	120,000	120,000	0	*
DSAM Fund, LP (6)	1,230,000	640,000	590,000	4.8%
Ajayan B Nair & Lena Ajay Ttee, Maya Ajay Nair Irrev Trust Dtd 09/14/2005 (7)	32,400	21,600	10,800	*
Anna L Gillilan & Roderic W Gillilan JTWROS (8)	44,400	29,600	14,800	*
Carmel D Wimber (9)	26,400	17,600	8,800	*
Charles A Stalker (10)	48,000	32,000	16,000	*
Claude Wayne Hudson IRA Rollover Charles Schwab & Co Custodian (11)	39,600	26,400	13,200	*
David Allen & Dallas Allen Ttee, Allen Family Trust U/A DTD 02/04/2003 (12)	42,000	28,000	14,000	*
David Armstrong & Joan Armstrong Ttee Armstrong Family Trust Investment Acct DTD 09/22/83 (13)	88,800	59,200	29,600	*
Dan Landa & Deno Landa Ttee Landa Family Trust U/A DTD 08/23/2003 (14)	76,800	51,200	25,600	*
Deborah Stalker & Michael Stalker Ttee Stalker Family Tr U/A DTD 10/02/1990 (15)	44,400	29,600	14,800	*
Dan A Hanson & Durene C Hanson Ttee Hanson Family Trust DTD	54,000	36,000	18,000	*

04/07/1993 (16)				
Edward J Fotsch Ttee Edward J Fotsch Trust DTD 10/23/2006 (17)	63,600	42,400	21,200	*
George E Hanson, Roth IRA Charles Schwab & Co. Custodian (18)	66,000	44,000	22,000	*

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Greg & Stephanie Loos Living Trust DTD 09/22/2006 (19)	24,000	16,000	8,000	*
James F Loos & Sherry Loos Ttee Loos Family Trust DTD 10/10/1991 (20)	84,000	56,000	28,000	*
Kent Fergusson & Kristine Fergusson Ttee Fergusson Joint Trust U/A DTD 05/18/2006 (21)	72,000	48,000	24,000	*
Kathy Rost, IRA Rollover Charles Schwab & Co. Cust (22)	60,000	40,000	20,000	*
Kent D Fergusson Roth IRA Charles Schwab & Co. Custodian (23)	36,000	24,000	12,000	*
Mattox L. Purvis, Jr. (24)	64,800	43,200	21,600	*
Nan M. Phifer Roth IRA Charles Schwab & Co. Custodian (25)	33,600	22,400	11,200	*
Patrice O'Brien (26)	93,600	62,400	31,200	*
Roger E Schlesinger & Sharon Schlesinger Ttee Schlesinger Family Tr DTD 09/02/1982 (27)	75,600	50,400	25,200	*
Richard McCall & Alan McCall Ttee Richard E & Naomi McCall Credit Shelter Tr Dtd 05/15/75 (28)	42,000	28,000	14,000	*
Raymond Thagard & Raymond Thagard Ttee, Raymond G Thagard Living Tr Dtd 07/25/1985 (29)	43,200	28,800	14,400	*
Richard D Meltebeke (30)	49,200			