Patient Safety Technologies, Inc
Form 10-K/A
June 01, 2007

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

FORM 10-K/A
Amendment No. 1

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER

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

Delaware	**13-3419202**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.33 per share	The American Stock Exchange

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

The aggregate market value of common stock held by non-affiliates of the Registrant on June 30, 2005, based on the closing price on that date of $3.68 on the American Stock Exchange, was $19,371,895. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates.

There were 6,205,563 shares of the registrant's common stock outstanding as of March 27, 2006.

PATIENT SAFETY TECHNOLOGIES, INC.

**FORM 10-K FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2005**

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"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

We believe that it is important to communicate our plans and expectations about the future to our stockholders and to the public. Some of the statements in this report are forward-looking statements about our plans and expectations of what may happen in the future, including in particular the statements about our plans and expectations under the headings "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Statements that are not historical facts are forward-looking statements. These forward-looking statements are made pursuant to the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. You can sometimes identify forward-looking statements by our use of forward-looking words like "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these terms similar expressions.

Although we believe that the plans and expectations reflected in or suggested by our forward-looking statements are reasonable, those statements are based only on the current beliefs and assumptions of our management and on information currently available to us and, therefore, they involve uncertainties and risks as to what may happen in the future. Accordingly, we cannot guarantee you that our plans and expectations will be achieved. Our actual results and stockholder values could be very different from and worse than those expressed in or implied by any forward-looking statement in this report as a result of many known and unknown factors, many of which are beyond our ability to predict or control. These factors include, but are not limited to, those contained in "Item 1A. Risk Factors" and elsewhere in this report. All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

Our forward-looking statements speak only as of the date they are made and should not be relied upon as representing our plans and expectations as of any subsequent date. Although we may elect to update or revise forward-looking statements at some time in the future, we specifically disclaim any obligation to do so, even if our plans and expectations change.

PART I

Item 1. Business.

Organizational History

Patient Safety Technologies, Inc. (referred to in this report as the ***"Company," "we," "us,"*** and ***"our"***) 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"***).

Through the first half of 2004 we focused our investment strategy on capital appreciation through long-term equity investments in start-up and early stage companies in the radio and telecommunications industries. Beginning in June 2004, we undertook a strategic restructuring and recapitalization plan which culminated in a change in control in our management and a shift in our business focus away from the radio and telecommunications industries toward the medical products, health care solutions, financial services and real estate industries. On March 30, 2005, our shareholders voted to withdraw our election to be treated as a BDC and on March 31, 2005 we filed an election to withdraw the election with the SEC. We are currently engaged in the acquisition of controlling interests in companies and research and development of products and services focused on the health care and medical products field,

particularly the patient safety market. 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.

On February 25, 2005, in furtherance of our restructuring plan, we purchased Surgicount Medical, Inc., a California corporation (***"Surgicount"***), from Brian Stewart and Dr. William Stewart, the former holders of 100% of the outstanding capital stock of Surgicount. Surgicount was not engaged in a business, but was used to hold certain assets. The assets acquired in connection with the Surgicount acquisition consist primarily of intellectual property rights, including one U.S. patent and one European patent, relating to Surgicount's Safety-Sponge™ System. The consideration paid to Brian Stewart and Dr. William Stewart in connection with the acquisition consisted of $340,000 in cash and 600,000 shares (post 3:1 forward split effective April 5, 2005) of common stock. In addition, in the event that prior to the fifth anniversary of the closing of the acquisition the cumulative gross revenues of Surgicount exceed $500,000, Brian Stewart and Dr. William Stewart are entitled to receive an additional 50,000 shares of common stock (for a total of 650,000 shares of common stock). In the event that prior to the fifth anniversary of the closing of the acquisition the cumulative gross revenues of Surgicount exceed $1,000,000, Brian Stewart and Dr. William Stewart will be entitled to receive an additional 50,000 shares of common stock (for a total of 700,000 shares of common stock).

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 Safety-Sponge™ System consists of a handheld scanner and bar-coded surgical dressings. 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. Surgicount is the first acquisition in our plan to become a leader in the patient safety market.

We currently have five wholly-owned operating subsidiaries: (1) Ault Glazer Bodnar Capital Properties, LLC (f/k/a Franklin Capital Properties, LLC), a Delaware limited liability company; (2) Patient Safety Consulting Group, LLC (f/k/a Franklin Medical Products, LLC), a Delaware limited liability company; (3) Surgicount Medical, Inc., a California corporation; (4) Ault Glazer Bodnar Merchant Capital, Inc., a Delaware corporation; and (5) Automotive Services Group, LLC, an Alabama limited liability company wholly owned by Ault Glazer Bodnar Merchant Capital, Inc. Ault Glazer Bodnar Capital Properties, LLC, a real estate development and management company, Patient Safety Consulting Group, LLC, a healthcare consulting services company, and Ault Glazer Bodnar Merchant Capital, Inc., a holding company formed to hold our non-patient safety related assets, all were created to augment our investments in the health care, medical products and financial services and real estate industries. Our prior focus on real estate properties led to the acquisition by Ault Glazer Bodnar Merchant Capital, Inc. of Automotive Services Group, LLC, a company formed to develop properties for the operation of automated car wash sites. We acquired Automotive Services Group, LLC in an effort to increase shareholder value through real estate development. Our corporate structure, including our subsidiaries and our interests in public and private companies that we have purchased, is set forth in the following diagram by reporting segment:

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 intend to target 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 is for a period of two years. After the initial two-year term, the agreement will terminate unless extended by the parties for one or more additional one-year periods. In consideration for Health West's services, we agreed to issue Health West 42,017 shares of common stock, to be issued as follows: (a) 10,505 shares were issued upon signing the agreement; (b) an additional 15,756 shares were issued as a result of Health West's assistance in structuring a comprehensive manufacturing agreement with A Plus Manufacturing, which was entered into on August 17, 2005; and (c) if Health West helps us develop a regional distribution network to integrate the Safety-Sponge™ System into the existing acute care supply chain, then we will issue Health West the remaining 15,756 shares. As incentive for entering into the agreement, we issued Health West a callable warrant to purchase 150,000 shares of common stock with an exercise price of $5.95 per share, exercisable for five years. In addition, we agreed to issue a callable warrant to purchase 25,000 (post 3:1 forward stock split) shares of the common stock with an exercise price of $5.95 per share, exercisable upon assisting us to develop a global distribution strategy and identification of acquisition

candidates. In the event of the death of Bill Adams, who is Health West's Chief Executive Officer, the agreement will automatically terminate. We may terminate the agreement at any time upon delivery to Health West of notice of a good faith determination by our Board of Directors that the agreement should be terminated for cause or as a result of disability of Mr. Adams. Health West may voluntarily terminate the agreement only after expiration of the initial two-year term upon providing 30 days prior written notice to us.

Geographic Areas

We intend to market and sell our patient safety products and services in the United States and 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. 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.

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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. In the event we are successful during the in-service sessions we expect to begin receiving orders for the Safety-Sponge™ System sometime in the first half of 2006.

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 in final preparations to be 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 function. In addition, we are developing relationships with Universities to co-develop and distribute patient safety continuing medical education (CME) products as well as University-developed patient safety products such as guides, specially designed notepads and bedside tools.

In the past we have relied on the professional advice of Dr. Jeffrey Pearl relating to operating room procedures and how to best adapt the Safety-Sponge™ for use in an operating room. Dr. Pearl is the Vice-chair of the Department of Surgery at UCSF, as well as the vice dean of the medical school and a highly respected medical researcher. In August of 2005, Dr. Pearl accepted a one-year consulting contract for continued services relating to operating room procedures and integration of the Safety-Sponge™ System. Integration of the Safety-Sponge™ System covers areas such as teaching nurses to use the system, optimum locations in the operating room, and optimum procedures for how to perform the count. The contract provides for a monthly cash payment of $2,000 and warrants to purchase 12,500 shares of our common stock.

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 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 will collect data on how the Safety-Sponge System saves time, reduces costs and increases patient safety in the operating room. The study will also continue 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. Unless the clinical trial agreement is terminated, we will provide a research grant to Brigham and Women's Hospital over the course of the clinical trial in the aggregate amount of $430,513 of which $107,628 was paid in 2005. We expect the clinical trials will be completed around September 2006.

Manufacturing

While we have not yet begun commercial manufacturing of the Safety-Sponge™ System, we believe that the 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.

In order to meet the expected demand for bar-coded surgical dressings on August 17, 2005, Surgicount entered into an agreement for A Plus International Inc. (***"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 is for a period of five years and will automatically renew for successive three-year periods. Either party may terminate the agreement without cause at any time after eight years upon delivery of 90 days prior written notice.

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, 2005 or 2004 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 intend to 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.

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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 is currently undergoing a reexamination proceeding in the U.S. Patent Office. We have also filed one provisional and one non-provisional patent application in the United States Patent Office covering improved methods and systems for the automated counting and tracking of surgical articles.

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 not 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 several existing individuals/companies that are trying to address the same issues as Surgicount's Safety-Sponge System. Among these are a medical malpractice lawyer named Daniel Ballard and two radio frequency identification (***"RFID"***)-based companies, RF Surgical and ClearCount Medical.

Mr. Ballard's invention and patent revolves around imbedding radio-opaque pellets (similar to BB's) into the sponges. These would be read by placing the used sponges into a special machine after a surgery that would count the pellets, and thus the sponges placed in the machine.

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 the RFID companies are still in the development stage with their 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 ready for manufacturing and distribution, we believe this provides an advantage over the above competing products.

Real Estate Industry and Express Car Wash Business

We had originally intended for our real estate operations to include a mixture of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. Performance of this type of real estate operations would largely have been dependent upon the performance of the operating properties, the current status of our development projects and non-recurring gains or losses recognized when and if real estate assets are sold. The results of operations for these types of real estate operations generally are unpredictable and we probably would have experienced significant year-over-year fluctuations from such operations. All of our real estate holdings are owned by our subsidiary Ault Glazer Bodnar Capital Properties, LLC (f/k/a Franklin Capital Properties, LLC) (***"AGB Capital Properties"***) except for our investment in Automotive Services Group, LLC (***"ASG"***), which is wholly owned by our subsidiary Ault Glazer Bodnar Merchant Capital, LLC (***"AGB Merchant Capital"***). During July 2005 we shifted the focus of our real estate operations to the identification of unimproved land for ASG to develop and operate automated car wash sites under the trade name "Bubba's Express Wash." ASG's first express car wash site, developed in Birmingham, Alabama, had its grand opening on March 8, 2006. On July 18, 2005 our wholly owned subsidiary AGB Merchant Capital purchased 50% of the outstanding equity interests of ASG from West Highland, LLC, an unrelated third party, in exchange for $300,000. The remaining 50% interest in ASG was owned by Darrell W. Grimsley until March 15, 2006 when AGB Merchant Capital entered into a Unit Purchase Agreement to acquire the remaining 50% interest from Mr. Grimsley in exchange for agreeing to issue 200,000 shares of the Company's common stock to Mr. Grimsley. We have consolidated ASG's operations in our financial statements since we determined that we are the primary beneficiary of ASG, a variable interest entity as defined by FIN 46. Pursuant to ASG's operating agreement, Mr. Grimsley had exclusive control over ASG's operations from July 18, 2005 until AGB Merchant Capital purchased the remaining 50% interest on March 15, 2006. AGB Merchant Capital now owns 100% of the outstanding equity interests in ASG and has exclusive control over ASG as its sole managing member. We plan to change the name of AGB Merchant Capital to Automotive Services Group, Inc. to reflect the subsidiaries primary holding in ASG.

In addition to ASG, we had several real estate investments at December 31, 2005. These investments consisted of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas, 0.61 acres of undeveloped land in Springfield, Tennessee, and various loans secured by real estate in Heber Springs, Arkansas. During 2005, we disposed of eight vacant single family buildings and two multi-unit buildings in Baltimore, Maryland and realized a gain of approximately $28,000. Our real estate investments are held by our subsidiary AGB Capital Properties. As of March 29, 2006, we have determined to dispose of all our real estate holdings, including ASG, in order to focus exclusively on patient safety medical products. Our Board of Directors is currently evaluating the available alternatives to determine the most beneficial method to dispose of our real estate holdings. As of December 31, 2005, we had not generated any revenue, nor do we expect to generate any recurring revenue during 2006, on any of our real estate holdings. In the event that we liquidate some or all of our real estate holdings we expect that any gain or loss recognized on the liquidation would be insignificant to us primarily due to the short period of time that the properties were owned combined with the absence of any significant changes in property values in the real estate markets where the real estate holdings are located.

Express Car Wash Business

While we continue to own ASG, we consolidate the operations of its express car wash business with our business. An express car wash is a hybrid of full service conveyor (tunnel) and self-service car wash facilities. At an express wash, customers pay via cash or credit card at an automated kiosk (similar to a drive thru ATM) at the site entrance. The customers remain in their cars while being directed onto a high speed wash tunnel conveyor (2½ minutes +/- to wash completion in tunnel), and have the option of utilizing free vacuum facilities on site prior to exit. Facilities are located at highly visible locations in high automobile traffic locations. Typical sites for a Bubba's Express Wash will require approximately one acre of land for construction of the tunnel and customer detail/vacuum areas. Facilities generally require two employees for operation. A fully staffed facility will typically require five employees (three full-time employees and two part-time employees).

As described above, as of the date of this report ASG presently has one operating Bubba's Express Wash site which opened on March 8, 2006. As of March 29, 2006, our Board of Directors has determined to dispose of ASG along with all of our other non-patient safety related assets. Our Board of Directors is currently evaluating the available alternatives to determine the most beneficial method to dispose of ASG and its express car wash business.

Competition

We have concentrations of investments in Heber Springs, Arkansas and Springfield, Tennessee. We compete with a large number of real estate property owners and developers in those regions. Principal factors of competition are attractiveness of location, the quality of the property and breadth and quality of available uses for the property. Since we have not generated any revenue from our real estate holdings, the relative competitive position of the properties cannot be determined. The potential value that we could realize upon disposing of our real estate holdings depends upon, among other factors, trends of the national and local economies, taxes, governmental regulations, legislation and population trends.

ASG's "express" car wash business competes with other car wash sites, which includes: (a) full service conveyor locations characterized by large numbers of employees required to deliver exterior and interior cleaning services; (b) in-bay automatic facilities (typically at gas stations or convenience stores); (c) self-serve locations (which in the past few years have begun to incorporate in-bay automatic facilities); and (d) full service detailing facilities. Prices generally correspond to the level of personnel required to deliver the service, with the highest prices at detail shops and full service conveyors, lower prices at in-bay facilities, and lowest prices at non-attended self-serve locations. ASG's express car wash business also competes with the ability of automobile owners to wash their vehicles using their home facilities. ASG competes for car wash business by offering superior value delivered quickly, conveniently and inexpensively. ASG believes its "express" car wash facility provides comparable quality to a full service tunnel or a full service detail shop and at considerably less cost to customers comparable to in-bay automatic facilities and self service locations. The "express" car wash facility is also designed to require less time than any of the competing car wash methods. ASG estimates there are less than 150 "express" car wash sites nationwide in the United States, but that this number continues to grow at a considerable rate. This compares with ASG's estimate that there are over 30,000 traditional car was facilities. ASG estimates that its express car wash business represents less than one percent of the car wash market in the United States.

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.

Regulation of the Real Estate Industry

The real estate development industry is subject to substantial environmental, building, construction, zoning and real estate regulations that are imposed by various federal, state and local authorities. In order to develop our properties, we must obtain the approval of numerous governmental agencies regarding such matters as permitted land uses, density, the installation of utility services (such as water, sewer, gas, electric, telephone and cable television) and the dedication of acreage for various community purposes. Furthermore, changes in prevailing local circumstances or

applicable laws may require additional approvals or modifications of approvals previously obtained. Delays in obtaining required approvals and authorizations could adversely affect the profitability of our projects.

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Regulation of the Car Wash Industry

We are not aware of any existing or probable governmental regulations that may have a material effect on the normal operations of ASG's express car wash business. We also are not aware of any relevant environmental laws that require compliance by ASG that may have a material effect on the normal operations of its express car wash business.

Companies which we have a material investment in

Digicorp

At December 31, 2005, we had an investment in Digicorp valued at $3,025,398, which represents 18.9% of our total assets. On December 29, 2004, we entered into a Common Stock Purchase Agreement with certain shareholders of Digicorp (the ***"Agreement"***), to purchase an aggregate of 3,453,527 shares of Digicorp common stock. We purchased 2,229,527 of such shares on December 29, 2004 (2,128,740 shares at a price of $0.135 per share and 100,787 shares at a price of $0.145 per share). We were also required to purchase the remaining 1,224,000 shares from the selling shareholders at a price of $0.145 per share at such time that Digicorp registers the resale of the shares with the SEC. During December 2005 we amended the Agreement and an unrelated third party assumed the obligation to purchase 1,000,000 of the remaining 1,224,000 shares from the selling shareholders. Additionally, we extended loans of approximately $32,500 to the selling shareholders from our working capital. Such loans represented the amount of the remaining obligation to purchase 224,000 shares of Digicorp common stock and are secured by the 224,000 shares of Digicorp common stock presently held by such selling shareholders. Digicorp's common stock is traded on the OTC Bulletin Board, which reported a closing price, at December 31, 2005, of $1.90. In connection with the Agreement, we were entitled to designate two members to the Board of Directors of Digicorp. Our first designee, Melanie Glazer, who is also manager of our subsidiary Ault Glazer Bodnar Capital Properties, LLC, was appointed on December 29, 2004. Milton "Todd" Ault, III, our former Chairman and Chief Executive Officer, was appointed Chief Executive Officer of Digicorp on April 26, 2005. On July 16, 2005, Alice M. Campbell, one of our directors, and Mr. Ault was appointed to the Board of Directors of Digicorp. On July 20, 2005, Lynne Silverstein, our President and Secretary, was appointed as a director of Digicorp, and William B. Horne, our Chief Financial Officer, was appointed as a director and as Chief Financial Officer of Digicorp. On September 30, 2005, Mr. Ault resigned from all positions with Digicorp and Mr. Horne was appointed as the interim Chief Executive Officer. On December 29, 2005, William B. Horne resigned as Chief Executive Officer and Lynne Silverstein and Melanie Glazer resigned as directors.

Since June 30, 1995, Digicorp was in the developmental stage and had no operations other than issuing shares of common stock for financing the preparation of financial statements and for preparing filings for the SEC. On May 18, 2005, Digicorp sold Bodnar Capital Management, LLC 2,941,176 shares of its common stock and warrants to purchase an additional 3,000,000 shares of its common stock with exercise prices ranging from $0.25 to $1.50 per share. Digicorp received gross proceeds of approximately $500,000 from the sale of stock and warrants to Bodnar Capital Management, LLC. As described above under "Financial Condition," Bodnar Capital Management, LLC also is one of our principal stockholders. On October 27, 2005, Bodnar Capital Management, LLC canceled the warrants to purchase 3,000,000 shares of common stock in exchange for the issuance of a warrant to purchase 500,000 shares of Digicorp's common stock with an exercise price of $0.01 per share.

On September 19, 2005, upon entering into an asset purchase agreement with Philip Gatch, who was appointed Digicorp's Chief Technology Officer, Digicorp completed the initial transaction to transform itself from that of a development stage enterprise to a digital media and content delivery company. Digicorp issued Mr. Gatch 1,000,000 shares of its common stock as consideration for the assets purchased, which consisted of the iCodemedia suite of websites and internet properties and all related intellectual property (the ***"iCodemedia Assets"***). The iCodemedia suite of websites consists of the websites www.icodemedia.com, www.iplaylist.com, www.tunecast.com, www.tunebucks.com, www.podpresskit.com and www.tunespromo.com. Digicorp plans to use these websites and the related intellectual property to provide a suite of applications and services to enable content creators the ability to publish and deliver content to existing and next generation digital media devices, such as the Apple iPod and the Sony

PSP, based upon the consumers' expectation for broader and on-demand access to content and services.

On December 29, 2005, Digicorp acquired all of the issued and outstanding capital stock of Rebel Crew Films, Inc., a California corporation (***"Rebel Crew Films"***), in consideration for the issuance of 21,207,080 shares of Digicorp common stock (the ***"Purchase Price"***) to the shareholders of Rebel Crew Films. From the Purchase Price, 4,000,000 shares are held in escrow pending satisfaction of certain performance milestones. In addition, from the Purchase Price, 16,666,667 shares are subject to lock up agreements as follows: (a) 3,333,333 shares are subject to lockup agreements for one year; (b) 6,666,667 shares are subject to lockup agreements for two years; and (c) 6,666,667 shares, of which the 4,000,000 escrowed shares are a component, are subject to lockup agreements for three years.

In connection with the acquisition of Rebel Crew Films, on December 29, 2005 Digicorp entered into a Securities Purchase Agreement with one of the shareholders of Rebel Crew Films, Rebel Holdings, LLC, pursuant to which Digicorp purchased a $556,306.53 principal amount loan receivable owed by Rebel Crew Films to Rebel Holdings, LLC in exchange for the issuance of a $556,306.53 principal amount secured convertible note to Rebel Holdings, LLC. The secured convertible note accrues simple interest at the rate of 4.5%, matures on December 29, 2010 and is secured by all of Digicorp's assets now owned or hereafter acquired. The secured convertible note is convertible into 500,000 shares of Digicorp common stock at the rate of $1.112614 per share. Jay Rifkin, Digicorp's Chief Executive Officer and one of its directors, is the sole managing member of Rebel Holdings, LLC.

Rebel Crew Films was founded in 2001 as a film licensing and distribution company of Latino home entertainment products. Rebel Crew Films currently maintains approximately 300 Spanish language films and serves the some of the nation's largest wholesale, retail, catalog, and e-commerce accounts. Rebel Crew's titles can be found at Wal-Mart, Best Buy, Blockbuster, K-Mart, and hundreds of independent video outlets across the United States and Canada. We believe that the acquisition will allow Digicorp to leverage Rebel Crew Films' Latino content and industry relationships with the iCodemedia Assets to create a compelling digital media and content delivery company.

IPEX, Inc.

ORGANIZATIONAL HISTORY

IPEX, Inc. (the "Company") was incorporated on June 27, 2002 under the corporate laws of the State of Nevada as Tamarack Ventures, Inc. ("Tamarack"). Tamarack was an exploration stage company engaged in the acquisition, and exploration of mineral properties. Because Tamarack was unable to develop business operations as a mineral exploration company, Tamarack discontinued operations and on March 17, 2005 the Company acquired the business of Administration for International Credit and Investment, Inc., an Oregon corporation ("AICI Oregon"). On March 23, 2005 the Company changed its name to IPEX, Inc. to reflect the nature of its changed business through AICI, Inc.

On March 17, 2005, the Company entered into an Agreement and Plan of Merger with AICI, Inc., a Nevada corporation and wholly owned subsidiary of the Company, AICI Oregon, and the shareholders of AICI Oregon. Pursuant to the Agreement and Plan of Merger, the Company acquired all of the outstanding equity stock of AICI Oregon from its shareholders. Upon completion of the transaction, AICI Oregon merged with and into AICI, Inc. and AICI, Inc. survived the merger. As consideration for the acquisition of AICI Oregon, the Company issued 21,875,566 shares of common stock to the AICI Oregon shareholders. Each AICI Oregon shareholder received one share of the Company's common stock for each share of common stock of AICI Oregon that he or she owned. In addition, certain of the Company's shareholders cancelled an aggregate of 3,500,000 outstanding shares of the Company's common stock, and such shares were returned to treasury. On March 23, 2005 the Company changed its name to IPEX, Inc. to reflect the nature of its changed business through AICI, Inc.

AICI Oregon was incorporated in the State of Oregon on November 23, 1999. From inception until February 2004, AICI Oregon had no business operations. On February 25, 2004 Jupiter Telecom, Inc., a California corporation in the business of providing telecommunications services, was merged with and into AICI Oregon. AICI Oregon was the surviving entity from that merger. Joseph Lyle Putegnat III, AICI Oregon's Vice President of Carrier Sales, was a co-founder and the sole shareholder of Jupiter Telecom, Inc. and subsequently became an officer of AICI Oregon. Pursuant to the merger, Mr. Putegnat received 1,286,809 shares of common stock of AICI Oregon, which were subsequently exchanged for 1,286,809 shares of the Company's common stock pursuant to the Agreement and Plan of Merger entered into on March 17, 2005.

ASSET ACQUISITION

On June 7, 2005, the Company entered into two separate purchase agreements for the purchase of certain intellectual property assets. The purchase of the intellectual property assets by the Company closed on June 29, 2005.

The first purchase agreement, dated June 7, 2005, is between the Company, RGB Channel SRL, Massimo Ballerini, B Tech Ltd. and Emanuele Boni (the "RGB Agreement"). Under the RGB Agreement, the Company purchased image processing algorithms, encoder software, decoder software, digital image enhancement tools and encryption algorithms to enhance, compact, store, encrypt, stream and display digital image content over wireless networks and over the Internet (the "RGB Assets"). The Company purchased the RGB Assets from RGB Channel SRL. At the time of the transaction there was no material relationship between RGB Channel SRL and the Company or any of its affiliates, or any director or officer of the Company, or any associate of any such director or officer. The purchase price for the RGB Assets totaled $275,000 cash.

The second purchase agreement, dated June 7, 2005, is between the Company, B Tech Ltd., Massimo Ballerini and Emanuele Boni (the "B Tech Agreement"). Under the B Tech Agreement, the Company purchased quadratic, circular transform algorithms, codes and formulas for image enhancement, compacting and content protection applications (the "B Tech Assets"). The purchased technology and formulas also include the concept of "floating pixels" versus a frame by frame system and the integration of sound into a digital image to stream live content for wireless systems based on 9,6Kbit/s and to be used on full display screens at less than 64Kbit/s (ISDN). The Company purchased the B Tech Assets from B Tech Ltd., Massimo Ballerini and Emanuele Boni. At the time of the transaction there was no material relationship between B Tech Ltd., Massimo Ballerini or Emanuele Boni. and the Company or any of its affiliates, or any director orofficer of the Company, or any associate of any such director or officer. The purchase price for the B Tech Assets consisted of 1,857,585 shares of the Company's common stock valued at $6,000,000, which the Company issued during November 2005.

On February 27, 2006 the Company formed a subsidiary named RGB Channel, Inc., a Nevada corporation. The Company may transfer the RGB Assets and the B Tech Assets to RGB Channel, Inc. and for RGB Channel, Inc. to develop the RGB Assets and B Tech Assets. Throughout this report, references to the "Company" refer to IPEX, Inc. together with its wholly owned subsidiaries AICI, Inc. and RGB Channel, Inc.

OVERVIEW OF BUSINESS

VOIP TELECOM

The Company operates a Voice over Internet Protocol ("VoIP") network that directs long distance telecommunication traffic globally. Customers and suppliers, consisting primarily of communications service providers, gain access to the Company's international routes via the Internet from virtually anywhere in the world. Using VoIP technology, voice, fax and other information can be sent over the Internet far more economically than through a traditional fixed-line telephone network. The Company's VoIP platforms route international traffic based on cost, quality and availability. Its revenues are derived by selling its telecommunications routes to customers worldwide. Through the Company's VoIP platform, customers and suppliers have access to routes and related information in nearly every country in the

world.

RGB IMAGING

The purchased RGB Assets and B Tech Assets are the foundation of unique digital image enhancement and compression technologies that the current management believes are patentable for the purposes of producing marketable imaging applications. These applications range from still image enhancement to improved streaming compression ratios. To date, the Company has devoted marginal financial resources to the development of these technologies.

THE VOIP INDUSTRY

Communications Industry

The communications industry is characterized by changes driven by deregulation in telecommunications markets around the world, an increase in and shift of minutes to wireless and the acceptance of VoIP as an alternative to wireline phone service.

VoIP permits a user to send voice, fax and other information over the Internet, rather than through a traditional fixed-line telephone. VoIP has been used as a low-cost solution to provide wholesale call completion, or termination, to telecommunications services providers. The low cost of launching a telecommunications business with VoIP, coupled with deregulation in telecommunications markets, has driven fragmentation of communications services markets. VoIP is now being used as a way to provide local and long-distance phone service to consumers and enterprises. Cable companies and VoIP service providers are driving current consumer adoption of VoIP and are expected to capture a significant share of the overall voice market.

Global deregulation, combined with rapid technological advances, has enabled the emergence of many new communications service providers in dozens of local markets. The Company's management believes that national carriers, in their efforts to remain competitive, are focusing their capital spending on "last-mile" services such as fixed-line, wireless, and cable. Consequently, communications service providers are looking for ways to expand their ability to serve all of their customers' telecommunication needs, while simultaneously reducing the cost of providing international services. Increasingly, the world's carriers are seeking to outsource international voice traffic to efficient VoIP companies, such as the Company, whose inherently lower infrastructure and transport costs improve a carrier's competitiveness and bottom line, without compromising service quality.

The principal benefits of VoIP are:

· Cost Advantage from Internet Transport. Traditional voice communication networks use circuit-switching technology, which establishes dedicated channels between an originating and terminating point for the duration of a call. Physical facilities (typically fiber and associated equipment) are dedicated to voice traffic between switching nodes, regardless of changes in demand. In contrast, VoIP is based on packet-switching technology. This technology completes a call by digitizing and dividing a speaker's voice into small packets that travel to their destination through networks carrying packets of other Internet traffic, in much the same way as email travels. Using a network of service facilities connected to the Internet for transport is less costly than building a dedicated network as calls share the Internet with other traffic.

· Cost Advantage from VoIP traffic. The cost of operating the Company's business is almost entirely software based which does not require maintenance or technicians. As a result, the costs are low and the scalability is very high, allowing the Company to compete with non-VoIP telecommunications carriers on a much lower cost structure.

· Cost Advantage from Bypass of International Settlement Rates. Traditional international long distance calls are completed through international toll switches that provide access to a terminating network. These networks are often owned by government bodies or telecommunications carriers that charge settlement rates (or tariffs) well in excess

of costs. Although these fees are being reduced in many countries as industry deregulation continues, the charges remain significant. Calls routed over the Internet bypass these toll switches, avoiding a significant portion of these fees, which further lowers the cost of completing calls.

· Positioning for New Services. In contrast to the closed, proprietary structure inherent in a traditional circuit-switched voice network, VoIP embraces an open architecture and open standards, which facilitates innovation at lower cost. Traditional voice networks are designed specifically to provide one basic service, making it difficult and costly to introduce new services over those networks and their proprietary platforms. As data networks convert services into data packets, this allows the exchange of new types of data such as fax, video, IP-television, etc.

Outsourcing VoIP Services

Given the advantages of VoIP, many communication carriers have begun to carry some portion of their voice traffic over IP networks. Despite the move by some large carriers to develop their own international VoIP infrastructures, many carriers are interested in outsourcing international traffic to providers such as the Company. Some of the reasons that carriers prefer to outsource international traffic include:

· the relatively low percentage of revenue that international service represents for many large carriers;

· the disproportionate cost and complexity of deploying and supporting international service infrastructure as compared with domestic investment opportunities;

· a hesitation to build new networks and cannibalize traffic from their traditional voice networks;

· concerns over sufficient in-house VoIP expertise to ensure that voice quality and network reliability are comparable to that of the public-switched telephone network, especially when routing traffic over the Internet versus private networks; and

· generally reduced capital budgets for network investment of any kind.

The global communications services industry continues to evolve, providing significant opportunities and creating competitive pressure for market participants. The industry is experiencing significant changes, including the proliferation of wireless and data products and services, increased voice and data volume, declining unit pricing and the emergence of new participants due to deregulation and low-cost technologies. The growth in competition and associated fragmentation along with declining unit pricing and an industry structure that is characterized by high fixed costs have resulted in increased pressure on communications services providers to offer services at a lower cost to consumers. Unlike with VoIP, most communications services providers must access other providers' public switched telephone networks ("PSTN") to send and receive voice and data traffic. The process of establishing these PSTN interconnections is labor-intensive, costly, time-consuming and highly negotiated, which leads to higher installation, network management, selling, legal, billing and collection costs, creating the need and demand for a centralized and efficient marketplace.

IPEX'S SOLUTION

The Company's software platform provides benefits to customers and suppliers. By routing and clearing voice calls through the platform, buyers and sellers can access multiple buyers and sellers, increase network utilization, achieve better pricing and improve profitability and cash flow by reducing the number of interconnections and reducing selling, legal, billing and collection expenses. The availability of routes is also increased since the Company's software and platforms can handle multiple carriers for one single routing code.

By establishing a single interconnection to the Company's platform, communications services providers gain immediate targeted access to and a link with multiple customers and suppliers. This replaces the lengthy, costly and

highly negotiated process of searching for and interconnecting to other communications services providers on a one-to-one basis and managing each interconnection on an ongoing basis.

The Company handles all invoicing for voice calls and media sold on its platform. Members receive a single payment or invoice from the Company reflecting net buying or selling activity. This settlement reduces administrative costs.

SALES AND MARKETING

The Company markets and sells its services through a direct sales force. The sales process frequently involves a trial process, where a small volume of traffic is run prior to larger volumes being run through the centralized platform. The Company targets voice services sales efforts at the telecommunications industry, and, in particular, the market for international wireline, wireless and VoIP minutes.

INTELLECTUAL PROPERTY

To date, the Company's VoIP operations have not depended in any part on proprietary rights or technology. The Company has been licensed one domestic and one international patent. These patents are related to trading international VoIP traffic and determining the best price and quality for routing and pricing for VoIP calls. The European patent number is EP1131949 and the international patent application number is WO0031954. The validity of these patents and the license of the patent rights to the Company have been questioned by independent counsel hired by the Company's Board of Directors. The Company's current management believes that the Company does not have the legal right to use this intellectual property. To date, the patents have not been applied to or utilized by the Company's VoIP platform and their relevance to the Company's business is not clear.

Related to its RGB technologies, the Company owns image processing algorithms, encoder software, decoder software, digital image enhancement tools and algorithms that enhance, compact, store, encrypt, stream and display digital image content. The Company also acquired a trademark on the name Luminaxys. The trademark is granted for Italy and must be renewed annually.

COMPETITION

The global communications services market is highly competitive. The Company competes with other wholesale telecommunications carriers worldwide. Many of these carriers have more resources, longer operating histories and more established positions in the telecommunications marketplace, and, in some cases, have begun to develop Internet telephony capabilities. The Company also competes with smaller companies, including those that may be specialists in just one or two routes. The Company additionally competes against its customers' ability to carry traffic themselves, whereby either retail carriers develop their own international networks or interconnect with one another and exchange international traffic by "meeting" in a major telecommunications hub. The Company competes principally on quality of service and price.

GOVERNMENT REGULATION

The Federal Communications Commission (the "FCC") has jurisdiction over interstate and international communications in the United States. The FCC's rules, regulations and policies impose obligations on carriers providing facilities-based and/or resale telecommunications services. While the FCC to date has maintained an informal policy that information service providers, including Internet telephony providers, are not telecommunications carriers for regulatory purposes, various entities have challenged this idea, both before the FCC and at various state government agencies. An adverse ruling could subject the Company to licensing requirements and additional fees and subsidies
increasing the costs of providing services.

EMPLOYEES

As of April 21, 2006, the Company had nine full time employees and three part time employees. The Company has not experienced any work stoppages and the Company considers relations with its employees to be good.

DESCRIPTION OF PROPERTY.

The company's principal office and operations during fiscal year 2005 were located at 9255 Towne Center Drive, Suite 235, San Diego, California 92121. These premises consisted of 896 square feet of office space. The related lease agreement expired March 31, 2006. Monthly base rent under the lease agreement was $2,374.40.

Effective March 15, 2006, the Company entered into a new lease agreement for its principal executive office located at 7825 Fay Avenue, Suite 254, La Jolla, CA 92037. The premises consist of 600 square feet of office space. The term of the lease is for six months and automatically renews for another six months at the current base rent plus a seven percent increase unless the Company notifies the landlord on or before July 15, 2006 of its intention not to renew. Base rent under the lease agreement is $2,400 per month. In addition, the Company pays $645 per month pursuant to the lease agreement for phone lines and equipment rental, voicemail, high speed internet and other administrative services.

Effective February 28, 2006, the Company entered into an office lease agreement for an office located at 1900 N.W. Corporate Boulevard, Suite 205W, Boca Raton, Florida 33431. The premises consist of 1,394 rentable square feet of office space. The term of the lease is for 38 months beginning March 1, 2006. Base rent under the lease is approximately $1,859 per month.

LEGAL PROCEEDINGS.

On or about October 7, 2005, the Company was informed that it is a party to an informal SEC investigation.

The Company's subsidiary AICI, Inc., a Nevada corporation, and its predecessor Administration for International Credit & Investment, Inc., an Oregon corporation, is named in an action filed on or about February 21, 2006 in the Superior Court of the State of California for the County of San Diego (Case No. GIC 861542). The plaintiff in the action is Triagon Holding AG, against defendants Interphotonic, Inc., Wolfgang Grabher, Administration for International Credit & Investment, Inc., AICI, Inc., Eureca Marketing GmbH and Does 1-50. The complaint alleges fraud, conversion, unjust enrichment and breach of contract based on allegations, among others, that he was fraudulently induced into depositing $2,454,157.98 into an escrow account as an investment in Interphotonic, Inc. and such money was closed on with out the plaintiff's authorization. The plaintiff is seeking damages in the amount of $2,454,157.98 plus interest at the rate of 10% per annum and costs, as well as a judicial accounting, injunctive and declaratory relief.

On April 20, 2006 the Company filed a lawsuit against Inzon Corporation, a Nevada corporation, and Does 1-50 in the Superior Court of the State of California for the County of San Diego (Case No. GIC 864677). The Company is seeking to recover $525,313.96 plus interest owed to it by the defendants for telecommunications services provided by the Company during 2006 pursuant to a carrier services agreement.

On March 17, 2005, the Company entered into an Agreement and Plan of Merger with AICI, Inc., a Nevada corporation and the Company's wholly owned subsidiary, AICI Oregon, and the shareholders of AICI Oregon. Pursuant to the Agreement and Plan of Merger, the Company acquired all of the outstanding equity stock of AICI Oregon from its shareholders. Upon completion of the transaction, AICI Oregon merged with and into AICI, Inc. and AICI, Inc. survived the merger. As consideration for the acquisition of AICI Oregon, the Company issued 21,875,566 shares of common stock to the AICI Oregon shareholders. In addition, certain of the company's shareholders cancelled an aggregate of 3,500,000 outstanding shares of the Company's common stock, and such shares were returned to

treasury. The merger was accounted for as a recapitalization of AICI Oregon. Accordingly, the Company's historical financial statements prior to March 17, 2005 are those of AICI.

In connection with the acquisition of AICI Oregon, on March 18, 2005, the Company completed a private placement of an aggregate of 3,500,000 shares of common stock, 1,750,000 Series A Warrants and 1,750,000 Series B Warrants to 76 accredited investors for aggregate gross proceeds of $3,500,000. Due to prior working capital constraints the Company could only maintain selling to Tier 3 customers on a weekly net 5 basis. The additional working capital provided by the March 18, 2005 private placement allowed the Company to extend credit to five Tier 2 carriers under net 15 terms and two Tier 1 carriers under net 30 terms thereby increasing the number of overall customers.

On March 28, 2005, AICI, Inc., extended a loan in the amount of $400,000 to Joseph L. Putegnat III, who is a shareholder of the Company, former Vice President of AICI, Inc. and the former owner of Jupiter Telecom, Inc. a predecessor in interest to the Company's current business. Although the loan was subsequently assigned to a third party, the Company's Audit Committee retained independent counsel to investigate the loan to Mr. Putegnat and in June 2005, the Audit Committee determined that the loan constituted a "direct or indirect loan to a director or executive officer (or equivalent thereof)," in violation of the Sarbanes-Oxley Act of 2002 and Section 13(k) of the Securities Exchange Act of 1934, as amended. As a result of the investigation and the findings, the Company experienced significant turnover in its management and its Board of Directors. Effective May 21, 2005, the Company's majority shareholder, former Chairman, Chief Executive Officer and President, Wolfgang Grabher, was put on temporary leave of absence and the Company's Chief Financial Officer, Russell Ingledew began serving as Acting President until May 26, 2005 when the Board of Directors appointed Milton "Todd" Ault, III as a director and as the Company's Interim Chief Executive Officer. On June 23, 2005, the Company appointed new members to its Audit Committee and in July 2005 hired then director and Audit Committee member, Gerald Beckwith as Chief Executive Officer, and a new Chief Operating Officer, Sothi Thillairajah. Mr. Beckwith subsequently resigned on February 15, 2006 and Mr. Thillairajah was appointed Chief Executive Officer and a director of the Company.

During the course of the investigation into Mr. Putegnat's loan, the Audit Committee determined to have independent counsel also investigate other potential securities violations alleged by former counsel to the Company, including whether the disclosure made by the Company to investors in its March 18, 2005 private placement was inaccurate or misleading. On October 7, 2005 the Company announced that the SEC had begun an informal investigation of the Company. On December 2, 2005, after completing the Company' internal investigation, the Audit Committee determined that the offering memorandum used in connection with the Company's March 18, 2005 private placement, as well as the Company's Form 8-K dated March 16, 2005, either misstated or omitted certain material information. As a result, on December 19, 2005 the Company amended the March 16, 2005 Form 8-K in an attempt to correct the disclosure and, as recommended by the Audit Committee, the Company obtained restitution from Mr. Grabher by requiring him to return a significant number of shares of the Company's common stock to treasury. On December 14, 2005, the Company entered into a Return to Treasury Agreement with Mr. Grabher, pursuant to which Mr. Grabher agreed to surrender 14,855,900 shares of the Company's common stock within ten business days of December 14, 2005 to be retired and returned to treasury. Such shares represented 49.4% of the Company's outstanding shares of common stock based on approximately 30,100,621 shares outstanding as of December 14, 2005. Mr. Grabher returned the 14,855,900 shares to the Company on February 2, 2006.

As a result of the foregoing, the Company incurred substantial legal expenses totaling $549,400 during the fiscal year ended December 31, 2005, as well as additional business and administrative expenses as detailed in the following sections. These expenses, combined with continuing losses, have caused significant deterioration of the Company's financial condition. The Company's resources continue to be negatively impacted by continuing issues related to the events and changes in management described above.

During 2005, the Company failed to develop a disciplined and sustainable credit risk management system for the telecommunications business. The result was a bad debt expense of $411,606 for the fiscal year ended December 31, 2005. The Company spent less than $100,000 on developing a proprietary exchange platform during the fiscal year ended December 31, 2005.

On June 29, 2005, the Company purchased certain digital imaging related intellectual property assets (i.e., the RGB Assets and the B Tech Assets). The Company intends to develop digital image enhancement and compression software applications based on a licensing model. Less than $100,000 was spent on the development of these technologies during the fiscal year ended December 31, 2005. Current management believes that the maximum value of these assets may be realized through the separation of these assets into its recently formed subsidiary RGB Channel, Inc. However, as of the date this annual report was filed with the SEC the Company has not transferred the assets to RGB Channel, Inc.

The Company has incurred losses during each the past two fiscal years. For the years ended December 31, 2005 and 2004, the Company generated revenue of $12,332,093 and $6,716,114, respectively, and incurred net losses of $6,843,098 and $398,620, respectively. At December 31, 2005, the Company had a working capital deficiency of $167,391 and an accumulated deficit of $7,241,718. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company received $800,000 from a private placement of 10% Secured Convertible Notes to accredited investors in the first quarter of 2006. Based on the Company's current cash and other current assets including accounts receivable and available for sale securities, management believes the Company has sufficient liquidity to fund operations for the next month. Beyond that, additional funding is required for the Company to continue as a going concern. Management believes the Company will require an additional $4,000,000 to develop its VoIP operations and the RGB technology and to continue operations for the twelve months subsequent to the date this report is filed. The Company intends to seek outside debt and/or equity financing through private placements to accredited investors and may request voluntary exercise of outstanding warrants. The Company has no definitive plans or agreements in place to obtain such additional financing and the Company cannot guarantee that any additional equity or debt financing will be available in sufficient amounts or on acceptable terms when needed. If such financing is not available in sufficient amounts or on acceptable terms, the Company may have to discontinue operations. In addition, any equity financing obtained may result in dilution to existing stockholders and may involve securities that have rights, preferences, or privileges that are senior to the Company's common stock, and any debt financing obtained must be repaid regardless of whether or not the Company generates profits or cash flows from
its business activities and may worsen the Company's financial condition.

At December 31, 2005, the Company's cash and cash equivalents totaled $297,232. Cash (including cash equivalents) used in operating activities was $2,673,732 for the year ended December 31, 2005 compared to cash provided by operating activities of $110,470 in the year ended December 31, 2004. The increase in cash used during 2005 resulted primarily from increased expenses during 2005 that included legal expenses of $549,400, executive cash compensation of $287,704 and Board of Directors compensation of $4,500, telecommunications employee and consultant salaries of $454,720, accounting fees of $106,519 and auditor's fees of $128,694. In addition, a former director was paid $116,000 for monies that he claimed were owed to him and $70,000 was paid pursuant to a four month consulting contract with the former AICI Vice President and Jupiter Telecom owner.

Accounts receivable, net at December 31, 2005 was $1,151,555 as compared to $181,519 on December 31, 2004. The increase in accounts receivable is attributable to the increase in telecommunications traffic on longer payment cycles as result of the Company extending higher levels of credit.

Net cash used in investing activities for the year ended December 31, 2005 was $412,651 compared to net cash provided by investing activities of $5,564 for the year ended December 31, 2004. The change in net cash used in investing activities is attributable to $158,033 used for the purchase of property and equipment and $333,700 for the purchase of intellectual property rights, including legal fees of $58,700. As discussed further under Item 1. Description of Business, on June 29, 2005 the Company purchased certain intellectual property assets from RGB Channel SRL for $275,000.

As of December 31, 2005 trade payables were $1,396,687 as compared to $562,599 as of December 31, 2004. The increase in trade payables is attributable to the increase in telecommunications traffic on extended payment term. Specifically, a tier 1 supplier provided the Company with 30 net 30 payment terms and the Company in turn directed 30% of its telecom traffic to this supplier by year end 2005.

Net cash provided by financing activities was $3,382,857 for the year ended December 31, 2005 compared to cash used by financing activities of $115,275 for the year ended December 31,2004. The financing activities during 2005 include proceeds from a stock subscription for $142,837 and a private placement completed on March 18, 2005 of 3,500,000 shares of common stock, 1,750,000 Series A Warrants and 1,750,000 Series B Warrants to 76 accredited investors for proceeds of $3,240,020. The Company's private placement of 10% Secured Convertible Notes caused an adjustment to the exercise price and the number of shares purchasable pursuant to the Series A and Series B Warrants. The current exercise price of the Series A and Series B Warrants is $1.00 per share, and there are now 2,625,000 shares purchasable pursuant to outstanding Series A Warrants and 3,500,000 shares purchasable pursuant to outstanding Series B Warrants. The common stock, Series A and Series B Warrants were sold as Units, with each Unit consisting of two shares of common stock, one Series A Warrant and one Series B Warrant, for a per Unit purchase price of $2.00. Each Series A Warrant initially entitled the holder to purchase one share of common stock at $1.50 per share, exercisable for a period of five years. Each Series B Warrant initially entitled the holder to purchase one share of common stock at $2.00 per share, exercisable for a period of five years.

The Series A Warrants are callable by the Company in the event its common stock trades at or above $2.00 for ten consecutive trading days. The Series B Warrants are callable by the Company in the event its common stock trades at or above $2.50 for ten consecutive trading days. However, the right to call the Series A and Series B Warrants is subject to the following additional conditions: (1) the Company may not call more than 25% of the warrants during any 30 day period; (2) the Company must simultaneously call all Series A and Series B Warrants on the same terms; and (3) the Company may not call the warrants unless all of the shares of common stock issuable thereunder either (a) are registered pursuant to an effective registration statement or (b) may be sold under Rule 144(k) under the Securities Act of 1933.

If at any time until the earlier of (A) the date that 50% of the shares underlying the outstanding Series A and Series B Warrants have been sold by warrant holders or (B) two years after the actual effective date of a registration statement registering the resale of the common stock and common stock issuable upon exercise of warrants, the Company issues or sells, or is deemed to have issued or sold, any shares of common stock for no consideration or for a consideration per share less than the exercise price in effect immediately prior to the time of such issue or sale, then and in each such case the then-existing exercise price will be reduced to the lowest price per share at which any share of common stock was issued or sold or deemed to be issued or sold. This adjustment will not apply in the case of the issuance of capital stock, options or convertible securities issued to directors, officers, employees or consultants pursuant to an equity compensation program approved by the Company's Board of Directors. The Company's private placement of 10% Secured Convertible Notes caused an adjustment to the exercise price and the number of shares purchasable pursuant to the Series A and Series B Warrants.

Sales for the year ended December 31, 2005 rose by 84% to $12,332,093 as compared to sales of $6,716,114 from the prior year ended December 31, 2004. Due to prior working capital constraints the Company could only maintain selling to Tier 3 customers on a weekly net 5 basis. The additional working capital provided by the private placement on March 18, 2005 allowed the Company to extend credit to five Tier 2 carriers under net 15 terms and two Tier 1 carriers under net 30 terms thereby increasing the number of overall customers. The 84% increase in sales is almost entirely attributable to the extension of credit that was made possible by the increase in working capital. The addition of a few new Tier 3 customers added marginally to the increase in sales.

Cost of sales for the year ended December 31, 2005 rose by 83% to $12,212,362 as compared to cost of sales of $6,685,163 from the prior year ended December 31, 2004. The increase in cost of sales is directly attributable to the increase in sales. The cost of sales as a percentage of sales for the year ended December 31, 2005 remained relatively constant at 99% compared to 100% for the year ended December 31, 2004. The failure to achieve a greater improvement in gross margin reflects the Company's inability to secure more attractive rates from suppliers. It also reflects bandwidth costs of $85,493 paid to the Company's switch collocation facility provider.

Gross profit for the year ended December 31, 2005 was $119,731 as compared to $30,951 from the prior year ended December 31, 2004. The increase in gross profit is attributable to the modest increase in gross margin on increased telecom traffic.

Selling, general and administrative expenses for the year ended December 31, 2005 were $5,527,204 compared to $428,863 for the year ended December 31, 2004, representing an increase of $5,098,341, or 1,189%. For the year ended December 31, 2005 selling, general and administrative expenses include non-cash expenses of $656,251 related to a consulting agreement between a related party, Patient Safety Technologies, Inc. and Wolfgang Grabher, the company's former President and Chief Executive Officer, to which the company was designated the third party beneficiary. Other non-cash selling, general and administrative expenses include stock based compensation expense of $1,974,519 related to options and other equity instruments granted and an impairment loss of $1,522,130 recorded in connection with the write off of goodwill. Additional expenses during 2005 include: legal expenses of $549,400, bad debt expenses of $411,606, executive wages of $287,704, and telecommunications employee and consultant salaries totaling $454,720. Accrued expenses also include services provided in 2005 by former directors and executives and a prepaid four month consulting contract with the former AICI Vice President and Jupiter Telecom owner.

Net loss for the year ended December 31, 2005 was $6,843,098 compared to the net loss of $398,620 for the year ended December 31, 2004. The net loss for the year ended is primarily attributable to the increased expenses discussed above.

On August 9, 2005, the Company entered into a binding letter of intent to acquire all of the issued and outstanding shares of capital stock of Vinculum Communications, Inc., a privately owned Delaware corporation ("Vinculum"). Vinculum is a San Diego, California-based international long distance carrier that offers termination services to long distance carriers worldwide. The closing date for the acquisition was scheduled to occur no later than September 30, 2005, unless extended by mutual consent of the parties. Pursuant to the terms of the letter of intent, the Company was to pay an aggregate of $14.5 million for the acquisition of Vinculum, paid as follows: (a) $1 million in cash; (b) $11.7 million in shares of common stock; and (c) $1.8 million of convertible notes. On December 21, 2005, the Company entered into an agreement with Vinculum to terminate the letter of intent and all transactions contemplated pursuant to the letter of intent and the Company paid Vinculum $55,000 which represents reimbursement of expenses incurred by Vinculum in connection with the negotiation of and due diligence associated with the letter of intent and the proposed acquisition. The Company previously advanced $75,000 to Vinculum as a pre-pay deposit for VoIP traffic. The $55,000 payment was deducted from the $75,000 advance, resulting in an outstanding principal sum of $20,000 owed by Vinculum to the Company and was repaid immediately. The parties mutually released each other from all claims which they may have against each other to the date of the termination agreement.

March 21, 2006 Private Placement

On March 21, 2006 the Company entered into a Securities Purchase Agreement for the sale of $800,000 principal amount of 10% Secured Convertible Notes to four accredited investors. The sale of the 10% Secured Convertible Notes closed on March 21, 2006. The 10% Secured Convertible Notes bear interest at the rate of 10% per annum and mature one year from the date of issuance. On the maturity date the outstanding principal amount of the 10% Secured Convertible Notes will automatically convert into shares of common stock of the Company's wholly owned subsidiary RGB Channel, Inc., a Nevada corporation. Before the maturity date the holders may convert the outstanding principal amount of the Notes into either shares of the Company's common stock or shares of common stock of the Company's subsidiary RGB Channel, Inc. If converted into shares of the Company's common stock the conversion price of the Notes is $1.00 per share (the "IPEX Conversion Price"). If converted into shares of common stock of RGB Channel, Inc. the conversion price will equal the lesser of (the "RGB Conversion Price"): (a) $0.50, or (b) the price at which, at any time while the Notes are outstanding, RGB Channel, Inc. sells shares of its common stock or any other securities convertible into or exchangeable for RGB Channel, Inc. common stock.

The conversion price of the 10% Secured Convertible Notes is subject to adjustment in the event the Company issues shares of its common stock or securities convertible into or exchangeable for shares of its common stock at a price less than the IPEX Conversion Price, if the Company pays a stock dividend, subdivides or combines outstanding shares of common stock into a greater or lesser number of shares, or takes any other actions that would otherwise result in dilution of the holders' position. In addition, if at any time when the 10% Secured Convertible Notes are outstanding there is a period of 60 trading days during which the volume weighted average price of the Company's common stock is less than $1.00 per share, then: (a) there will be a one time adjustment to the IPEX Conversion Price to equal the lowest volume weighted average price of the Company's common stock during such 60-trading day period; and (b) there will be a one time adjustment to the RGB Conversion Price to equal 50% of the lowest volume weighted average price of the Company's common stock during such 60-trading day trading period.

At December 31, 2005, we held 1,045,000 shares of common stock and warrants to purchase 225,000 shares of common stock at $1.50 per share and warrants to purchase 225,000 shares of common stock at $2.00 per share of IPEX, Inc. (“***IPEX***”), valued at $1,243,550, which represents 7.8% of our total assets. As described below the exercise price of these warrants was adjusted to $1.00 per share on March 21, 2006. IPEX's common stock is traded on the OTC Bulletin Board, which reported a closing price, at December 31, 2005, of $2.38. The warrants are exercisable for a period of five years and are callable by IPEX in certain instances. On June 23, 2005, Alice M. Campbell, who is one of our directors, was appointed to the Board of Directors of IPEX. In addition, from May 26, 2005 until July 20, 2005, Milton “Todd” Ault, III, our former Chairman and Chief Executive Officer, served as interim Chief Executive Officer of IPEX and Mr. Ault has been a director of IPEX since May 26, 2005.

The Company’s initial investment into IPEX occurred On March 2, 2005 in the amount of $450,000. This investment was part of the private placement that IPEX completed on March 18, 2005. The total amount of IPEX’s private placement was for 3,500,000 shares of common stock, 1,750,000 Series A Warrants and 1,750,000 Series B Warrants for aggregate proceeds of $3,500,000, less issuance costs of $259,980, resulting in net realized proceeds of $3,240,020. The common stock, Series A and Series B Warrants were sold as Units, with each Unit consisting of two shares of common stock, one series A Warrant and one Series B Warrant. Each Series A Warrant entitles the holder to purchase one share of common stock at $1.50 per share, exercisable for a period of five years. Each Series B Warrant entitles the holder to purchase one share of common stock at $2.00 per share, exercisable for a period of five years. Subsequent to the effectiveness of a registration statement covering the re-sale of shares underlying the warrants, the Series A and Series B Warrants are callable by IPEX, under certain circumstances, if IPEX's common stock trades at or above $2.00 and $2.50, respectively, for ten consecutive trading days. In such event IPEX must give us 30 days prior written notice of its intention to call the warrants after which it has the right to repurchase the warrants at a purchase price of $0.01 per share of common stock then purchasable pursuant to the warrants. During such 30 day notice period we would have the right to exercise the warrants. As of March 31, 2006 IPEX has not filed a registration statement covering the re-sale of the shares underlying the warrants and accordingly IPEX does not have a right to call them.

Pursuant to two separate asset purchase agreements entered into during 2005, in consideration for $6,000,000 of IPEX common stock and $275,000 cash, IPEX purchased certain intellectual property assets that may be used to enhance, compact, store, encrypt, stream and display digital image content over wireless networks and over the Internet and for image enhancement, compacting and content protection applications. On March 21, 2006 IPEX reported that it is in the process of transferring ownership of such assets to its subsidiary RGB Channel, Inc.

On March 21, 2006 IPEX sold $800,000 principal amount of 10% secured convertible notes to four accredited investors in a private placement transaction. The 10% secured convertible notes are convertible into either IPEX common stock at a price of $1.00 per share or into common stock of IPEX’s subsidiary RGB Channel, Inc. at a conversion price equal to the lesser of (a) $0.50, or (b) the price at which, at any time while the 10% secured convertible notes are outstanding, RGB Channel, Inc. sells shares of its common stock or any other securities convertible into or exchangeable for RGB Channel, Inc. common stock. The sale by IPEX of the 10% secured convertible notes caused an adjustment to the exercise price of the Series A Warrants and the Series B Warrants to

equal $1.00 per share and an increase in the number of shares of common stock purchasable under such Series A and B Warrants. Pursuant to such warrants that we own, we are now entitled to purchase a total of 787,500 shares of IPEX common stock at an exercise price of $1.00 per share.

IPEX operates a Voice over Internet Protocol (***"VoIP"***) routing platform that directs telecommunication traffic. VoIP permits a user to send voice, fax and other information over the Internet, rather than through a regular telephone network system based on switches. IPEX’s VoIP network directs long distance telecommunication traffic globally. Customers and suppliers, consisting primarily of communications service providers, gain access to IPEX’s international routes via the Internet from virtually anywhere in the world. We believe that using VoIP technology, voice, fax and other information can be sent over the Internet far more economically than through a traditional fixed-line telephone network. IPEX’s platforms route international traffic based on cost, quality and availability. IPEX’s revenues are derived by selling its telecommunications routes to customers worldwide. We believe that, through IPEX’s VoIP platform, customers and suppliers have access to routes and related information. The cost of operating IPEX’s business is almost entirely software based which does not require maintenance or technicians. As a result, we believe the costs are low and the scalability is very high, allowing IPEX to compete with non-VoIP telecommunications carriers on a much lower cost structure.

The communications industry is characterized by changes driven by deregulation in telecommunications markets around the world, an increase in and shift of minutes to wireless and the acceptance of VoIP as an alternative to wireline phone service. VoIP has been used as a low-cost solution to provide wholesale call completion, or termination, to telecommunications services providers. We believe that the low cost of launching a telecommunications business with VoIP, coupled with deregulation in telecommunications markets, has driven fragmentation of communications services markets. VoIP is now being used as a way to provide local and long-distance phone service to consumers and enterprises. We believe that cable companies and VoIP service providers are driving current consumer adoption of VoIP and are expected to capture a significant share of the overall voice market. These factors have enabled the emergence of many new communications service providers in dozens of local markets. IPEX believes that national carriers are focusing their capital spending on services such as fixed-line, wireless, and cable. Consequently, communications service providers are looking for ways to expand their ability to serve all of their customers' telecommunication needs, while simultaneously reducing the cost of providing international services. Increasingly, the world's carriers are seeking to outsource international voice traffic to efficient VoIP companies to improve a carrier's competitiveness and bottom line.

Traditional voice communication networks use circuit-switching technology, which establishes dedicated channels between an originating and terminating point for the duration of a call. Physical facilities are dedicated to voice traffic between switching nodes, regardless of changes in demand. In contrast, VoIP is based on packet-switching technology. This technology completes a call by digitizing and dividing a speaker's voice into small packets that travel to their destination through networks carrying packets of other Internet traffic, in much the same way as email travels. We believe that using a network of service facilities connected to the Internet for transport is less costly than building a dedicated network as calls share the Internet with other traffic.

Traditional international long distance calls are completed through international toll switches that provide access to a terminating network. These networks are often owned by government bodies or telecommunications carriers that charge settlement rates (or tariffs) well in excess of costs. Although these fees are being reduced in many countries as industry deregulation continues, the charges remain significant. Calls routed over the Internet bypass these toll switches, avoiding a significant portion of these fees, which we believe further lowers the cost of completing calls.

In contrast to the closed, proprietary structure inherent in a traditional circuit-switched voice network, VoIP embraces an open architecture and open standards, which we believe facilitates innovation at lower cost. Traditional voice networks are designed specifically to provide one basic service, which we believe makes it difficult and costly to introduce new services over those networks and their proprietary platforms. As data networks convert services into data packets, this allows the exchange of new types of data such as fax, video, IP-television, etc.

IPEX’s software platform provides benefits to customers and suppliers. By routing and clearing voice calls through the platform, buyers and sellers can access multiple buyers and sellers, increase network utilization, achieve better pricing and improve profitability and cash flow by reducing the number of interconnections and reducing selling, legal, billing

and collection expenses. By establishing a single interconnection to IPEX's platform, communications services providers gain immediate targeted access to and a link with multiple customers and suppliers. This replaces the lengthy, costly and highly negotiated process of searching for and interconnecting to other communications services providers on a one-to-one basis and managing each interconnection on an ongoing basis.

The global communications services market is highly competitive. The Company competes with other wholesale telecommunications carriers worldwide. Many of these carriers have more resources, longer operating histories and more established positions in the telecommunications marketplace. The Company also competes with smaller companies, including those that may be specialists in just one or two routes. The Company additionally competes against its customers' ability to carry traffic themselves, whereby either retail carriers develop their own international networks or interconnect with one another and exchange international traffic by "meeting" in a major telecommunications hub. The Company competes principally on quality of service and price.

As reflected in IPEX's September 30, 2005 Form 10-Q, sales for the nine months ended September 30, 2005 rose to $8,346,775 as compared to sales of $4,387,882 from the prior year's nine months ended September 30, 2004. Trading revenues represent fees generated from minutes purchased through IPEX's VoIP exchange platform. Revenues from VoIP activities are recognized in the period minutes are delivered through the telecom exchange platform. In the past, due to prior working capital constraints, IPEX could only maintain selling to customers on a weekly net 5 basis (***"Tier 3 carriers"***). The additional working capital provided by the private placement completed in March 2005 allowed IPEX to extend credit to customers under net 15 terms (***"Tier 2 carriers"***) and customers on net 30 terms (***"Tier 1 carriers"***) therefore increasing the number of overall customers.

IPEX's cost of sales as a percentage of sales for the quarter ended September 30, 2005 remained relatively constant at 96% compared to 96% for the quarter ended September 30, 2004. Net loss for the three months ended September 30, 2005 and 2004 was $338,000 and $150,000, respectively. The increase in IPEX's net loss for the three months ended September 30, 2005 is primarily due to increased salaries and wages related to management personnel.

Code of Business Conduct and Ethics

Each executive officer and director as well as every employee of the Company is subject to the Company's Code of Business Conduct and Ethics (the ***"Code of Ethics"***) which was adopted by the Board of Directors on November 11, 2004 and is filed as Appendix D to the definitive proxy materials filed with the SEC on March 2, 2005. The Code of Ethics applies to all directors, officers and certain employees of the Company, including the chief executive officer, chief financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics may be obtained, without charge, upon a written request mailed to: Patient Safety Technologies, Inc., c/o Corporate Secretary, 1800 Century Park East, Ste. 200, Los Angeles, California 90067. The Code of Ethics is also posted on our Internet website, which is located at www.patientsafetytechnologies.com.

Available Information

Copies of our quarterly reports on Form 10-Q, annual reports on Form 10-K and current reports on Form 8-K, and any amendments to the foregoing, will be provided without charge to any shareholder submitting a written request to the Corporate Secretary, Patient Safety Technologies, Inc., 1800 Century Park East, Ste. 200, Los Angeles, California 90067 or by calling (310) 895-7750. You may also obtain the documents filed by Patient Safety Technologies, Inc. with the SEC for free at the Internet website maintained by the SEC at www.sec.gov. The Company does not currently make these documents available on its website.

Item 1A. 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 not made any sales or generated any revenue to date from our Safety-Sponge™ System and a substantial amount of our revenue during 2005 is from a related party. Because of this, you should not rely on our historical results of operations as an indication of our future performance.

We have not made any sales or generated any revenue to date from our Safety-Sponge™ System. Further, of our $562,374 of revenue during the fiscal year ended December 31, 2005, $552,375 was generated from a contract to provide management consulting services to one of our portfolio companies IPEX, Inc., which is considered a related party. 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 typically invested in these industries 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.

Withdrawal of our election to be treated as a BDC may increase the risks to our shareholders since we are no longer subject the regulatory restrictions or financial reporting benefits of the 1940 Act.

Since we withdrew our election to be treated as a BDC, we are no longer subject to regulation under the 1940 Act, which is designed to protect the interests of investors in investment companies. As a non-BDC, we are no longer subject to many of the regulatory, financial reporting and other requirements and restrictions imposed by the 1940 Act including, but not limited to, limitations on the amounts, types and prices at which we may issue securities, participation in related party transactions, the payment of compensation to executives, and the scope of eligible investments.

The nature of our business has changed from investing in radio and telecommunications companies with the goal of achieving gains on appreciation and dividend income, to actively operating businesses in the medical products, health

care solutions, financial services and real estate industries, with the goal of generating income from the operations of those businesses. No assurance can be given that our business strategy or investment objectives will be achieved by withdrawing our election to be treated as a BDC.

Further, our election to withdraw as a BDC under the 1940 Act has resulted in a significant change in our method of accounting. BDC financial statement presentation and accounting utilizes the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, the required financial statement presentation and accounting for securities held is either fair value or historical cost methods of accounting, depending on the classification of the investment and our intent with respect to the period of time we intend to hold the investment.

A change in our method of accounting could reduce the market value of our investments in privately held companies by eliminating our ability to report an increase in the value of our holdings as they occur. Also, as an operating company, we have to consolidate our financial statements with subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

The Company and our subsidiaries may have to take actions that are disruptive to our business strategy to avoid registration under the 1940 Act.

The 1940 Act generally requires companies that are engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities to register as investment companies. A company may be deemed to be an investment company if it owns "investment securities" with a value exceeding 40% of the value of its total assets (excluding government securities and cash items) on an unconsolidated basis, unless an exemption or exclusion applies. Securities issued by companies other than majority-owned subsidiaries are generally counted as investment securities for purposes of the 1940 Act. While on an unconsolidated basis, our subsidiaries' assets which constitute investment securities have not approached 40%, as of December 31, 2005, 37.9% of our assets on a consolidated basis with subsidiaries were comprised of investment securities. If the Company or any of its subsidiaries were to own investment securities with a value exceeding 40% of its total assets it could require the subsidiary and/or the Company to register as an investment company. 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 medical products and healthcare services industries, particularly the patient safety field. Moreover, registration under the 1940 Act would subject us to increased regulatory and compliance costs, and other restrictions on the way we operate. We may also have to take actions, including buying, refraining from buying, selling or refraining from selling securities, when we would otherwise not choose to do so in order to continue to avoid registration under the 1940 Act.

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.

We have received shareholder approval to sell up to $10 million of equity and/or debt securities to certain related parties which may result in dilution to your ownership and voting rights or may result in the incurrence of substantial debt.

We have received shareholder approval to sell equity and/or debt securities up to $10 million in any calendar year to Milton "Todd" Ault, III, Lynne Silverstein, Louis Glazer, M.D., Ph.G., and Melanie Glazer. Mr. Ault is our former

Chairman and former Chief Executive Officer, Ms. Silverstein is our President and Secretary, Mr. Glazer is our present Chairman and Chief Executive Officer and the Chief Health and Science Officer of our subsidiary Patient Safety Consulting Group, LLC, and Ms. Glazer is the Manager of our subsidiary Ault Glazer Bodnar Capital Properties, LLC and also is Mr. Glazer's spouse. If we propose to sell more than $10 million of securities in a calendar year to such persons additional shareholder approval would be required. Although we do not currently anticipate selling equity or debt securities to these persons 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, 2005, patents received in the acquisition of Surgicount Medical, Inc., net of accumulated amortization, represented $4,413,791, or 27.5%, 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., 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, sales and editorial 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 significant potential conflicts of interest with our officers, directors and our affiliated entities which could adversely affect our results from operations.

Certain of our officers, directors and/or their family members have existing responsibilities and, in the future, may have additional responsibilities, to act and/or provide services as executive officers, directors, owners and/or managers of Ault Glazer Bodnar & Company Investment Management LLC and/or some of the companies in which we invest. We currently share office space with Ault Glazer Bodnar & Company Investment Management LLC. William B. Horne, our Chief Financial Officer, and Melanie Glazer, Manager of our subsidiary Ault Glazer Bodnar Capital Properties, LLC, are principals of Ault Glazer Bodnar & Company Investment Management LLC. Mr. Horne devotes approximately 85% of his time to our business, based on a 60-hour, 6-day workweek. Mrs. Glazer works full time for Ault Glazer Bodnar Capital Properties, LLC. Mrs. Glazer is married to Louis Glazer, M.D., Ph.G., our current Chairman and Chief Executive Officer and Chief Health and Science Officer of Patient Safety Consulting Group, LLC. Our former Chairman and Chief Executive Officer, Milton “Todd” Ault, III, also is a principal of Ault Glazer Bodnar & Company Investment Management LLC. Accordingly, certain conflicts of interest may arise from time to time with our officers, directors and Ault Glazer Bodnar & Company Investment Management LLC.

Certain conflicts of interest may also arise from time to time with our officers, directors and the companies in which we invest. Of our $562,374 of revenue during the fiscal year ended December 31, 2005, $552,375 resulted from a contract to provide management consulting services to our portfolio company IPEX, Inc. Mr. Ault is currently a director of IPEX, Inc. and he served as interim Chief Executive Officer of IPEX, Inc. from May 26, 2005 until July 13, 2005. From May 28, 2005 until approximately December 14, 2005 Mr. Ault held an irrevocable proxy to vote 67% of the outstanding shares of IPEX, Inc. owned by the former Chief Executive Officer and a founder of IPEX, Inc. Darrell W. Grimsley, Jr., Chief Executive Officer of Automotive Services Group, LLC, a subsidiary which, as of March 14, 2006, is wholly owned by Ault Glazer Bodnar Merchant Capital, Inc., served as a director of IPEX, Inc. and a member of its Audit Committee from August 30, 2005 until January 30, 2006. Ms. Campbell served as a director of IPEX, Inc. and Chairman of its Audit Committee from June 23, 2005 until January 30, 2006. Mr. Horne is currently Chief Financial Officer and a director of our portfolio company 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. One of our directors and Audit Committee Chairman, Alice Campbell, is currently a director of Digicorp. Mr. Ault served as Chief Executive Officer of Digicorp from April 26, 2005 until September 30, 2005 and Chairman of Digicorp's Board of Directors from July 16, 2005 until September 30, 2005. Ms. Glazer served as a director of Digicorp from December 30, 2004 until December 29, 2005 and Chairman of Digicorp's Board of Directors from December 30, 2004 until July 16, 2005. Ms. Silverstein served as Secretary of Digicorp from April 26, 2005 until December 29, 2005. Mr. Grimsley served as a director of Digicorp from July 16, 2005 until December 29, 2005.

Because of these possible conflicts of interest, such individuals may direct potential business and investment 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 with the business of Ault Glazer Bodnar & Company Investment Management LLC, other than certain of our officers' responsibility to devote their time to provide management and administrative services to Ault Glazer Bodnar & Company Investment Management LLC and its clients from time-to-time. Similarly, our Board of Directors does not believe that it has experienced any losses due to any conflicts of interest with the companies in which we hold investments other than certain of our officers' and directors' responsibility to devote their time to provide management services to some of such companies. However, subject to applicable law, we may engage in transactions with Ault Glazer Bodnar & Company Investment Management LLC and other related parties in the future. 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.

Our management has limited experience in managing and operating a public company. Any failure to comply or adequately comply with federal securities laws, rules or regulations could subject us to fines or regulatory actions, which may materially adversely affect our business, results of operations and financial condition.

Although our present Chairman and Chief Executive Officer, Louis Glazer, M.D., Ph.G., has extensive experience in the medical field, he has limited experience managing and operating a public company. In addition, prior to the change in control that occurred in October 2004, other members of our current senior management were primarily engaged in operating a private investment management firm. In this capacity they developed a general understanding of the administrative and regulatory environment in which public companies operate. However, our senior management lacks practical experience operating a public company and relies in many instances on the professional experience and advice of third parties including its consultants, attorneys and accountants. Failure to comply or adequately comply with any laws, rules, or regulations applicable to our business may result in fines or regulatory actions, which may materially adversely affect our business, results of operation, or financial condition.

We have experienced turnover in our Chief Executive Officer position in recent months and we are presently searching for a new Chief Executive Officer to replace Dr. Louis Glazer. If we are not able to retain a new Chief Executive Officer with significant professional experience in the patient safety or medical markets and pubic market experience, 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 2005, Dr. Glazer has 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. Our future success is dependent on our ability to attract and retain such a candidate. Although we do not believe we have experienced any losses or negative effects from Mr. Ault's resignation and we do not expect any adverse consequences from the resignation of Dr. Glazer, if we are not able to retain a new Chief Executive Officer with significant professional experience in the patient safety or medical markets and public market experience, we may have difficulty implementing our business strategy.

Our former Chief Executive Officer controls a significant portion of our outstanding common stock and his ownership interest may conflict with our other stockholders who may be unable to influence management and exercise control over our business.

As of March 26, 2006, Milton "Todd" Ault, III, our former Chief Executive Officer and Chairman, beneficially owned approximately 26.6% of our common stock. As a result, Mr. Ault may be able to exert significant influence over our management and policies to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our certificate of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- control the outcome of any other matter submitted to the shareholders for vote.

Accordingly, our other stockholders may be unable to influence management and exercise control over our business.

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 August 17, 2005, Surgicount entered into an agreement for A Plus International Inc. to be the exclusive manufacturer and provider of Surgicount's Safety-Sponge™ 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 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 already received 501(k) exempt status 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 $1,000,000. This insurance covers the clinical trial/time study relating to the bar coding of surgical sponges only. In addition, A Plus International, Inc., the manufacturer of our surgical sponges, maintains general liability insurance for claims up to $4,000,000 that covers 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, 2005, 40.9% of the Company's assets on a consolidated basis with subsidiaries were comprised of investment securities, the majority of 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. Although we only recognized a $50,000 impairment charge for the fiscal year ended December 31, 2005, 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 large extent, upon proceeds from sales of investments rather than investment income or revenue generated from operating activities to defray a significant portion of our operating expenses.

The lack of liquidity in our investments may adversely affect our business.

A portion of our investments consist of securities acquired directly from the issuer in private transactions. Some of these investments are subject to restrictions on resale and/or otherwise are illiquid. While most of these investments are in publicly traded companies, the trading volume in such companies' securities is low which reduces the liquidity

of the investment. Additionally, many of such 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 investments 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 investments, 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 investments.

Our investments are primarily in equity securities of other companies. These equity interests may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

There is uncertainty regarding the value of our investments that are not publicly trades 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.

We borrow money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We may borrow from and issue senior debt securities to banks, insurance companies, and other lenders. Lenders of these senior securities have fixed dollar claims on our consolidated assets that are superior to the claims of our common shareholders. If the value of our consolidated assets increases, then leveraging would cause the value of our consolidated assets to increase more sharply than it would have had we not leveraged. Conversely, if the value of our consolidated assets decreases, leveraging would cause the value of our consolidated net assets to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not borrowed.

RISKS RELATED TO OUR REAL ESTATE HOLDINGS

The value of real estate fluctuates depending on conditions in the general economy and the real estate business. These conditions may limit revenues from our real estate properties and available cash.

The value of our real estate holdings is affected by many factors including, but not limited to: national, regional and local economic conditions; consequences of any armed conflict involving or terrorist attacks against the United States; our ability to secure adequate insurance; local conditions such as an oversupply of space or a reduction in demand for real estate in a particular area; competition from other available space; whether tenants consider a property attractive; the financial condition of tenants, including the extent of tenant bankruptcies or defaults; whether we are able to pass some or all of any increased operating costs through to tenants; how well we manage our properties; fluctuations in interest rates; changes in real estate taxes and other expenses; changes in market rental rates; the timing and costs associated with property improvements and rentals; changes in taxation or zoning laws; government regulation; potential liability under environmental or other laws or regulations; and general competitive factors. The rents we expect to receive and the occupancy levels at our properties may not materialize as a result of adverse changes in any of these factors. If our rental revenue fails to materialize, we generally would expect to have less cash available to pay our operating costs. In addition, some expenses, including mortgage payments, real estate taxes and maintenance costs, generally do not decline when the related rents decline.

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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.

A significant proportion of our real estate investments are in Heber Springs, Arkansas and Springfield, Tennessee and are affected by the economic cycles and risks inherent to those regions. Like other real estate markets, the real estate markets in these areas have experienced economic downturns in the past, and we cannot predict how the current economic conditions will impact these markets in both the short and long term. Further declines in the economy or a decline in the real estate markets in these areas could hurt our financial performance and the value of our properties. The factors affecting economic conditions in these regions 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 CAR WASH BUSINESS

If a competing car wash facility is opened within the service area of one of our express car wash sites our car wash business may lose revenue.

Our indirect wholly owned subsidiary Automotive Services Group, LLC (***"ASG"***) is in the business of operating express car wash facilities. ASG's first express car wash site, developed in Birmingham, Alabama, had its grand opening on March 8, 2006. ASG chooses locations for its express car wash sites based on the locations' high visibility and proximity to high automobile traffic. Competitors may develop facilities offering similar services within the service area of ASG's express car wash facilities, which could cause ASG's car wash facilities to lose revenue. ASG will attempt to mitigate this risk during site due diligence, conducting discussions with local permitting and zoning personnel to determine if competing facilities have been planned or requested within the relevant service area. However, such due diligence, no matter how extensive, may not always reveal any planned competing businesses in a particular service area. In addition, a competing car wash site may be developed after ASG begins operating a car wash in a particular service area. If competing facilities are developed in the same service area as one or more of ASG's express car wash sites, it could cause ASG to lose a significant amount of revenue and may require ASG to close one or more express car wash sites.

Adverse weather conditions may cause ASG's express car was sites to lose revenue.

Automobile owners generally do not wash their vehicles during extreme weather conditions. During rainy periods automobile owners do not generally wash their vehicles because rain and mud causes the vehicles to quickly become dirty again. During periods of severe drought automobile owners may not desire to wash their vehicles because they do not want to endure extreme outdoor temperatures. Further during severe drought conditions local governments tend to impose restrictions on when and in what amounts residents can use water. Any such adverse weather conditions may cause unpredictable business cycles for ASG and may cause ASG's express car wash sites to lose a significant amount of revenue.

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 $0.30 to $7.33 (as adjusted to reflect a 3:1 forward stock split effective April 5, 2005). 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 listed on the American Stock Exchange (***"AMEX"***). As of March 27, 2006, the average daily trading volume of our common stock over the past three months was approximately 11,589 shares. The last reported sales price for our common stock on March 27, 2006, was $3.09 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.

If we fail to meet continued listing standards of AMEX, our common stock may be delisted which would have a material adverse effect on the price of our common stock.

Our common stock is currently traded on AMEX under the symbol "PST". In order for our securities to be eligible for continued listing on AMEX, we must remain in compliance with certain listing standards. On June 24, 2004, we received a letter from AMEX inquiring as to our ability to remain listed. Specifically, AMEX indicated that our common stock was subject to delisting under sections 1003(a)(i) and 1003(a)(ii) of AMEX's Company Guide because our stockholders' equity was below the level required by AMEX's continued listing standards. Our stockholders' equity fell below the required standard due to years of continued losses. On September 15, 2004, AMEX notified us that it had accepted our proposed plan to comply with AMEX's continued listing standards. Significant events which increased our stockholders' equity in excess of AMEX's continued listing standards were the completion of an approximately $4 million equity financing combined with the acquisition of Surgicount Medical, Inc. which was done primarily through the issuance of common stock. AMEX will normally consider suspending dealings in, or removing from the listing of, securities of a company under Section 1003(a)(i) for a company that has stockholders' equity of less than $2,000,000 if such company has sustained losses from continuing operations and/or net losses in two of its three most recent fiscal years; or under Section 1003(a)(ii) for a company that has stockholders' equity of less than $4,000,000 if such company has sustained losses from continuing operations and/or net losses in three of its four most recent fiscal years. As of June 30, 2005, our second consecutive quarter in which our stockholders' equity was in excess of $4,000,000, we believe we have re-gained compliance with AMEX's continued listing requirements. As of December 31, 2005 our stockholders' equity was still in excess of that required under Section 1003(a)(ii) of AMEX's Company Guide. If we were to again become noncompliant with AMEX's continued listing requirements, our common stock may be delisted which would have a material adverse affect on the price and liquidity of our common stock.

If we are delisted from AMEX, our common stock may be 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.

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.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 1800 Century Park East, Ste. 200, Los Angeles, California 90067, where we occupy our office space with AGB & Company IM. We are responsible for paying approximately 25% of the lease expense associated with our headquarters, which amounts to approximately $8,100 per month. Our office space is currently approximately 12,000 square feet.

Our indirect wholly owned subsidiary, ASG owns property in Birmingham, Alabama. At December 31, 2005, the property was under development to build ASG's first automated car wash site. Development was completed in March 2006 and ASG held its grand opening on March 8, 2006. The fair value of this property, as carried in our financial statements, is approximately $1.1 million.

In addition, we also have several real estate investments in our wholly-owned subsidiary Ault Glazer Bodnar Capital Properties, LLC. These investments range in fair value, as carried in our financial statements, from $50,000 to $250,000 and are comprised of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas, 0.61 acres of undeveloped land in Springfield, Tennessee, and various loans secured by real estate in Heber Springs, Arkansas. Based upon the number of real estate investments, and related fair values, management does not currently believe that the Company's real estate holdings represent a material risk to the Company.

Item 3. Legal Proceedings.

On July 28, 2005, Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. filed a lawsuit against us, Sunshine Wireless, LLC (***"Sunshine"***), and four other defendants affiliated with Winstar Communications, Inc. in the Superior Court of the State of California for the county of Los Angeles, Central District. The plaintiffs are attempting to collect a federal default judgment of $5,014,000 entered against Winstar Global Media, Inc. (***"WGM"***), 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 against us was dismissed on the merits. The Court had previously granted our motion to dismiss the Complaint, but granted plaintiffs leave to amend their Complaint. On March 13, 2006, plaintiffs filed their Amended Complaint asserting similar claims. Our response to the Amended Complaint is due April 26, 2006. An unfavorable outcome in the lawsuit may have a material adverse

effect on our business, financial condition and results of operations. We believe the lawsuit is without merit and we intend to vigorously defend against the lawsuit.

On February 3, 2006, WGM filed a lawsuit against us in the United States District Court, Southern District of New York. The WGM lawsuit attempts to collect upon the $1,000,000 note between the Company and Winstar Communications, Inc. (***"Winstar"***). As part of the purchase price paid by us on August 28, 2001 for an investment in Excelsior Radio Networks, Inc., we issued a $1,000,000 note to Winstar. This note was due February 28, 2002 with interest at 3.54% but in accordance with the terms of the purchase the Company has a right of offset against certain representations and warranties made by Winstar and we believe the amount of the offsets exceed the amount of the note. On March 23, 2006, the Company filed its Answer and raised its affirmative defenses and asserted its offsets. The Court recently held a scheduling conference, and the case is now in the discovery phase. We intend to vigorously defend against the lawsuit.

Item 4. Submission of Matters to a Vote of Security Holders.

The following proposals were submitted to shareholders at our annual meeting of stockholders held November 17, 2005 and were approved by a majority of the shares present at the meeting.

1. To elect two Class II Directors, Alice M. Campbell and Herbert Langsam, to hold office for a three-year term expiring in 2008, or until their successors have been duly elected and qualified or until their earlier death, resignation or removal, in accordance with the Company's bylaws, as amended. This proposal was approved. Results of the voting were as follows:

		No. of Shares	
	Shares For	**Shares Withheld**	**Broker non-votes**
Common Stock	4,509,885	24,984	N/A
Preferred Stock	10,750	0	N/A
Common Stock and Preferred Stock	4,520,635	24,984	

2. To ratify the appointment by the Board of Directors of Rothstein, Kass & Company, P.C. to serve as independent auditors for the fiscal year ended December 31, 2005. This proposal was approved. Results of the voting were as follows:

		No. of Shares		
	Shares For	**Against**	**Abstain**	**Broker non-votes**
Common Stock	4,527,123	5,589	2,157	0
Preferred Stock	10,750	0	0	0
Common Stock and Preferred Stock	4,537,873	5,589	2,157	0

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3. To authorize and approve the Company's Amended and Restated Stock Option and Restricted Stock Plan. This proposal was approved. Results of the voting were as follows:

		No. of Shares		
	Shares For	**Against**	**Abstain**	**Broker non-votes**
Common Stock	3,047,682	51,362	2,692	1,433,133
Preferred Stock	10,750	0	0	0
Common Stock and Preferred Stock	3,058,432	51,362	2,692	1,433,133

4. To ratify certain consulting agreements pursuant to which the Company agreed to issue shares of the Company's common stock and warrants. This proposal was approved. Results of the voting were as follows:

		No. of Shares		
	Shares For	**Against**	**Abstain**	**Broker non-votes**
Common Stock	3,053,772	45,527	2,437	1,433,133
Preferred Stock	10,750	0	0	0
Common Stock and Preferred Stock	3,064,522	45,527	2,437	1,433,133

No other matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

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

Stock Transfer Agent

Mellon Investor Services, 480 Washington Boulevard, 29th Floor, Jersey City, New Jersey (Telephone (800) 522-6645) serves as transfer agent for the Company's common stock. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Market Prices

The Company's common stock is traded on the American Stock Exchange under the symbol "PST." The following table sets forth the range of the high and low selling price of the Company's common stock during each quarter of the last two fiscal years, as reported by the American Stock Exchange.

	Fiscal 2006		Fiscal 2005		Fiscal 2004	
Fiscal Quarter	High	Low	High	Low	High	Low
First Quarter Ended March 31	$ 4.70	$ 2.27	$ 7.33*	$ 4.18*	$ 0.51*	$ 0.35*
Second Quarter Ended June 30	---	---	$ 6.23	$ 3.20	$ 2.97*	$ 0.30*
Third Quarter Ended September 30	---	---	$ 3.90	$ 2.90	$ 4.92*	$ 1.07*

Fourth Quarter Ended December 31	---	---	$ 4.64	$ 3.21	$ 4.25*	$ 3.07*

* Prices adjusted to reflect a 3:1 forward stock split effective April 5, 2005.

Dividends

The Company paid $19,163, $76,650, and $76,652 in dividends to preferred stockholders during 2005, 2004 and 2003, respectively, and has not paid any dividends to common stockholders during the past three years. Dividends to preferred stockholders are cumulative and paid at the rate of 7% a year. We currently have no intention of paying dividends on our common stock.

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Stockholders

As of March 26, 2006, there were approximately 638 registered shareholders of record of the Company's common stock. The Company has 25,000,000 shares of common stock authorized, of which 6,995,276 are issued and 5,820,401 shares are outstanding at March 26, 2006. The Company has 1,000,000 shares of convertible preferred stock authorized, of which 10,950 were issued and outstanding at March 26, 2006.

Recent Sales of Unregistered Securities

The Company sold the following equity securities during the fiscal year ended December 31, 2005 that were not registered under the Securities Act of 1933, as amended (the ***"Securities Act"***).

On February 25, 2005, the Company purchased all of the issued and outstanding capital stock of Surgicount Medical, Inc. in exchange for $340,000 in cash and 600,000 shares (post 3:1 forward split effective April 5, 2005) of common stock issued equally to Brian Stewart and Dr. William Stewart, the former owners of Surgicount Medical, Inc. In addition, in the event that prior to the fifth anniversary of the closing of the acquisition the cumulative gross revenues of Surgicount exceed $500,000, Brian Stewart and Dr. William Stewart are entitled to receive an additional 50,000 shares of common stock (for a total of 650,000 shares of common stock). In the event that prior to the fifth anniversary of the closing of the acquisition the cumulative gross revenues of Surgicount exceed $1,000,000, Brian Stewart and Dr. William Stewart will be entitled to receive an additional 50,000 shares of common stock (for a total of 700,000 shares of common stock). The assets acquired in connection with the Surgicount acquisition consist primarily of intellectual property rights, including one U.S. patent and one European patent, relating to Surgicount's Safety-Sponge™ System. The foregoing issuances were made in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On October 18, 2004, the Company entered into a consulting agreement with Aegis Securities Corp. (the ***"Aegis Agreement"***). Under the Aegis Agreement, the Company retained Aegis Securities Corp. to advise the Company in connection with the Company's acquisition of Surgicount Medical, Inc. The Company issued 150,000 warrants, valued at $536,578, to Aegis Securities Corp. The services provided by Aegis Securities Corp. included an evaluation of and oversight over completion of the transaction. The value of the warrants, along with the purchase price and direct costs incurred as a result of the transaction, were capitalized. The Aegis Warrants have an exercise price of $5.267 per share and expire on March 30, 2010. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On March 30, 2005, the Company issued 27,000 warrants to purchase shares of common stock at $5.27 per share to a consultant. The warrants are immediately exercisable and have a five-year life. The warrants were valued at $96,585 and expensed at the time of issuance. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On April 4, 2005, the Company entered into a consulting agreement with Crescent Communications (the ***"Crescent Agreement"***). The Company retained Crescent Communications to provide investor communications services. The Company agreed to pay Crescent Communications $8,000 per month for Crescent Communications' services under the

Crescent Agreement for a minimum term of six months. In addition to the $8,000 per month, the Company agreed to issue Crescent Communications or its nominee warrants to purchase 100,000 shares of the Company's common stock (the ***"Crescent Warrants"***) valued at $397,340, of which $264,893 was expensed during 2005. The Crescent Warrants have an exercise price of $5.85 per share and expire on April 1, 2010. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

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 the Company establish a comprehensive manufacturing and distribution strategy for its Safety-Sponge™ System worldwide. As consideration for Health West's services, the Company issued Health West 42,017 shares of the Company's common stock, as follows: (a) 10,505 shares were issued upon signing the agreement; (b) the Company issued Health West 15,756 shares in December 2005 when Health West helped the Company structure a comprehensive manufacturing agreement with A Plus Manufacturing; and (c) the Company will issue Health West an additional 15,756 shares when Health West helps the Company develop a regional distribution network to integrate the Safety-Sponge(TM) System into the existing acute care supply chain. As incentive for entering into the agreement, the Company issued Health West a callable warrant to purchase 150,000 (post 3:1 forward stock split) shares of the Company's common stock at an exercise price of $5.95, exercisable for 5 years. In addition, the Company agreed to issue a callable warrant to purchase 25,000 (post 3:1 forward stock split) shares of the Company's common stock at an exercise price of $5.95, exercisable upon meeting specified milestones. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On April 22, 2005, the Company sold 20,000 shares of common stock and warrants to purchase an additional 20,000 shares of common stock to James Colen. The warrants are exercisable for a period of five years, have an exercise price equal to $6.05, and 50% of the warrants are callable. In the event the closing sale price of the Company's common stock equals or exceeds $7.50 for at least five consecutive trading days, the Company, upon 30 days prior written notice, may call the callable warrants at a redemption price equal to $0.01 per share of common stock then purchasable pursuant to such warrants. Notwithstanding, such notice, the warrant holder may exercise the callable warrant prior to the end of the 30-day notice period. The Company received gross proceeds of $100,000 from the sale of stock and warrants. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act.
No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On April 28, 2005, the Company purchased 0.61 acres of vacant land in Springfield, Tennessee from two trusts related to Melanie Glazer, Manager of the Company's subsidiary Franklin Capital Properties, LLC (n/k/a Ault Glazer Bodnar Capital Properties, LLC). The purchase price consisted of approximately $90,000 in cash, 20,444 shares of common stock and 10,221 warrants to purchase common stock at an exercise price of $4.53 and a 5 year contractual life. The common stock and warrants in this transaction were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On May 12, 2005, the Company purchased certain assets from Philip Gatch, the Company's former Chief Technology Officer, for use in a production and post-production media content facility. As consideration for the assets the Company issued Mr. Gatch: (1) 17,241 shares of common stock; and (2) warrants to purchase 8,621 shares of common stock with a five-year term and an exercise price of $5.80 per share. The Company subsequently contributed the assets purchased from Mr. Gatch to Cinapse Digital Media, LLC of which the Company held a 50% ownership interest. On October 14, 2005, the Company sold its 50% interest in Cinapse Digital Media, LLC in exchange for the cancellation of the 17,241 shares of common stock and the warrants to purchase 8,621 shares of common stock issued in the asset purchase. The common stock and warrants in the asset purchase were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited

investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On July 19, 2005, the Company sold 38,000 shares of common stock to an unaffiliated accredited investor in exchange for 12,000 shares of common stock of Tuxis Corporation valued at approximately $102,000. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On September 15, 2005, the Company issued 12,500 warrants to purchase shares of common stock at $3.55 per share to a consultant. The warrants are immediately exercisable and have a three-year life. The warrants were valued at $24,600, of which $17,302 was expensed during 2005. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On October 12, 2005, the Company issued 25,000 warrants to purchase shares of common stock at $3.26 per share to a consultant. The warrants are immediately exercisable and have a three-year life. The warrants were valued at $45,180, of which $11,295 was expensed during 2005. These securities will be issued pursuant to Section 4(2) of the Securities Act of 1933, as amended. These securities were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On October 25, 2005, the Company sold 16,666 shares of common stock to Jay Rifkin, present Chief Executive Officer of the Company’s portfolio company Digicorp, at a price of $3.00 per share, resulting in gross proceeds of $50,000. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On November 3, 2005, the Company sold 28,653 shares of common stock to Herbert Langsam, one of the Company’s current directors, at a price of $3.49 per share, resulting in gross proceeds of $100,000. These securities were sold pursuant to Rule 506 promulgated under the Securities Act of 1933, as amended. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

Item 6. Selected Financial Data.

The following selected financial data for the fiscal year ended December 31, 2005, 2004, 2003, 2002 and 2001 are derived from our financial statements which have been audited by Ernst & Young, LLP (December 31, 2001 through December 31, 2003) and Rothstein Kass (December 31, 2004 and 2005), 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,	**2005**	**2004**	**2003**	**2002**	**2001**
Total assets	$ 16,033,865	$ 6,934,243	$ 3,258,032	$ 4,632,338	$ 4,098,866
Liabilities	$ 6,659,923	$ 3,367,974	$ 1,233,894	$ 1,364,798	$ 1,177,121
Net assets	$ 9,120,950	$ 3,566,269	$ 2,024,138	$ 3,267,540	$ 2,921,745
Shares outstanding	5,672,445	4,670,703	3,060,300	3,148,800	3,224,100

OPERATING DATA for the year ended December 31,	**2005**	**2004**	**2003**	**2002**	**2001**
Revenues from related parties	$ 562,374	$ —	$ 180,000	$ 450,000	$ 120,000
Interest, dividend income and other, net	$ 42,476	$ 11,056	$ 3,159	$ 5,081	$ 72,697
Operating expenses	$ 8,493,493	$ 2,923,983	$ 1,236,623	$ 1,950,049	$ 1,567,394
Realized gains on investments, net	$ 2,014,369	$ 1,591,156	$ 430,883	$ 237,327	$ 522,131
Unrealized gains (losses) on marketable securities, net	$ 32,335	$ (1,054,702)	$ (475,605)	$ 1,663,304	$ (1,553,756)
Net gain (loss) attributable to common shareholders	$ (5,983,223)	$ (2,485,407)	$ (1,217,741)	$ 255,110	$ (2,533,460)
Basic and diluted net income (loss) per common share	$ (1.11)	$ (0.75)	$ (0.39)	$ 0.08	$ (0.78)

Item 7. 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 Form 10-K. 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 "Item 1A. Risk Factors" and elsewhere in this report on Form 10-K.

*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. The entire MD&A should be read in conjunction with Item 6. Selected Financial Data and Item 8. Financial Statements and Supplementary Data appearing elsewhere in this Form 10-K.*

Overview

Until March 31, 2005, Patient Safety Technologies, Inc., a Delaware corporation (referred to herein as the ***"Company," "we," "us,"*** and***"our"***), elected to be a Business Development Company (***"BDC"***) under the Investment Company Act of 1940, as amended (the ***"1940 Act"***). 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, 2005, 37.9% of our assets on a consolidated basis with subsidiaries were comprised of "investment securities" within the meaning of the 1940 Act which could require us to re-register as an investment company under the 1940 Act. A company may be deemed to be an investment company if it owns "investment securities" with a value exceeding 40% of the value of its total assets (excluding government securities and cash items) on an unconsolidated basis, unless an exemption or safe harbor applies. 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 accounting for our assets under GAAP.

We intend to operate as a holding company with a primary focus on the acquisition of controlling interests in companies and research and development of products and services focused on the health care and medical products field, particularly the patient safety markets. 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 is continuing to evaluate available alternatives to determine the most beneficial method to divest ASG and our other real estate assets.

SurgiCount Medical, Inc., developer of the Safety-Sponge™ System, Patient Safety Consulting Group, LLC, a healthcare consulting services company, Ault Glazer Bodnar Merchant Capital, Inc., a holding company for our non-patient safety related assets, Ault Glazer Bodnar Capital Properties, LLC, a real estate development and management company, and ASG, a company formed to develop properties for the operation of automated car wash sites, are wholly-owned operating subsidiaries, which were either acquired or created to enhance our ability to focus our efforts in each targeted industry. We are in the process of changing the name of Ault Glazer Bodnar Merchant Capital, Inc. to Automotive Services Group, Inc. to reflect its sole focus of developing and operating automated car wash sites. The non-patient safety related assets that we previously planned to transfer to Ault Glazer Bodnar Merchant Capital will remain with the parent holding company until such time as they have been divested. Currently, we are evaluating ways in which to monetize these non-core assets. However, the divesture of any assets will be dependent on a number of factors including: (1) lack of a liquid market to dispose of such assets; (2) potential adverse tax effects from a disposition; or (3) our Board of Directors and management may change their decision to dispose of certain of the assets.

Our principal executive offices are located at 1800 Century Park East, Suite 200, Los Angeles, California 90067. Our telephone number is (310) 895-7750. 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. Our most critical accounting policy relates to the valuation of our investments in

non-marketable equity securities.

In the past we invested in illiquid equity securities acquired directly from issuers in private transactions. Our investments are generally subject to restrictions on resale or otherwise are illiquid and generally have no established trading market. Additionally, many of the securities that we have invested in 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 a number of the companies we have invested in may fail. Their success (or lack thereof) is dependent upon product development, market acceptance, operational efficiency and other key business success factors. In addition, depending on their future prospects, they may not be able to raise additional funds when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, likely 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 $50,000 in impairments during year ended December 31, 2005 and no impairments during the year ended December 31, 2004.

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. Our Board may determine, if appropriate, to discount the value where there is an impediment to the marketability of the securities held.

Accounting Developments

In December 2004, Statement of Financial Accounting Standards (***"SFAS"***) No. 123(R), "*Share-Based Payment*," which addresses the accounting for employee stock options, was issued. SFAS 123(R) revises the disclosure provisions of SFAS 123, "*Accounting for Stock Based Compensation*" and supercedes Accounting Principles Board (***"APB"***) Opinion No. 25, "*Accounting for Stock Issued to Employees*." SFAS 123(R) requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. We elected early adoption of SFAS No. 123(R) as of January 1, 2005.
See Note 2 to the consolidated financial statements for a discussion of recent accounting pronouncements.

Financial Condition, Liquidity and Capital Resources

Our cash and marketable securities were $1,003,173 at December 31, 2005, versus $4,334,123 at December 31, 2004. Total current liabilities were $3,953,040 at December 31, 2005, versus $3,367,974 at December 31, 2004. Included in current liabilities at December 31, 2005 and December 31, 2004 is a note payable, and accrued interest on such note, payable to Winstar Communications, Inc. (***"Winstar"***) in the amount of $938,573 and $1,004,962, respectively. As discussed in Note 9 in the notes to the accompanying consolidated financial statements filed with this Form 10-K, the due date on the note payable to Winstar was February 28, 2002. However, as a result of the lawsuits filed against us by Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. the due date of the note is extended until the lawsuit discussed in Note 17 is settled. The note payable has a right of offset against certain representations and warranties made by Winstar and we believe the amount of the offsets exceed the amount of the note payable. It is our contention that the initial lawsuit filed on October 15, 2001, impaired our ability to raise capital. This inability to raise capital ultimately resulted in the premature liquidation of our investment in Excelsior Radio Networks, Inc. (***"Excelsior"***) at a price that was significantly less than what we would have realized had we been able to hold our investment until its subsequent sale to an unrelated third party. Winstar does not agree with this belief and on February 3, 2006 Winstar Global Media, Inc. (***"WGM"***) filed a lawsuit claiming that we were in default under the terms of the note. Accordingly, the only offsets against the principal balance of the note reflected in the accompanying financial statements relate to legal fees attributed to our defense of the lawsuits filed against us. As of December 31, 2005, we had incurred approximately $203,446 in legal fees attributed to our defense of lawsuits filed by Jeffrey A. Leve and Jeffrey Leve Family Partnership, L.P. and the representations and warranties made by Winstar Radio Networks, Inc. These fees have been offset against the note with the remaining principal balance of $796,554 reflected as a note payable on the accompanying balance sheet.

At December 31, 2005 and December 31, 2004, we had $79,373 and $846,404, respectively, in cash and cash equivalents. During 2005 our Board authorized us to invest our cash balances in the public equity and debt markets as appropriate to maximize the short-term return on such assets. Such investments are typically short-term and focus on mispriced domestic public equities and instruments. In the past short selling was a component of the strategy and these trades typically ranged, in any particular month, from 0% to 20% of the total trading activity. The making of such investments entails risks related to the loss of investment and price volatility. Such investments entail risks including the loss of investment and price volatility. We have not engaged in the practice of short selling since the quarter ended September 30, 2005, and do not expect short selling to become a significant component of our strategy in the future.

In August 2005, we entered into an agreement with the financial institution IXIS Derivatives Inc. (***"IXIS"***). The agreement states the terms of the financial contracts that we have entered into with IXIS to borrow against securities. We have relied upon the proceeds from such borrowings with IXIS to cover a portion of our working capital needs. The financial contracts, which extend for 53 weeks, are subject to a premium of up to 6% of the amount of the borrowings which is amortized on a straight line basis over the term of the financial contracts. To the extent the financial contracts are terminated early, we do not incur a premium for the amount of time that the financial contracts are terminated. The agreement also provides that in addition to the securities held by IXIS, we pledge a total of 25% of the value of the securities in cash. The pledged cash is reduced daily by the amount of the earned premium and protects IXIS from decreases in the market value of the securities. Any decrease in the market value of the pledged securities in excess of 5% over the securities notional value requires us to fund additional monies, such that 25% of the initial borrowing, as adjusted by the earned premium, is covered. If we fail to fund additional monies, IXIS has the right to liquidate the pledged securities. In the event the proceeds from liquidation are insufficient to cover the amount of the borrowings, IXIS' sole recourse is against the pledged cash. During December 2005, we received proceeds from our stock appreciation rights in our holding in Excelsior for $847,072, these proceeds provided us with a sufficient level of cash to terminate the financial contracts with IXIS prior to year-end. During January 2006, we entered into a new financial contract with IXIS to borrow against securities.

We had a working capital deficit of approximately $1,707,227 at December 31, 2005 and we continue to have recurring losses. In the past 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. We have received shareholder approval to sell equity and/or debt securities of the Company up to $10 million in any calendar year to our former Chairman and Chief Executive Officer, Milton "Todd" Ault, III, to the Company's President and Secretary, Lynne Silverstein, to our current Chairman and Chief Executive Officer and the Chief Health and Science Officer of our subsidiary Patient Safety Consulting Group, LLC, Louis Glazer, and to the Manager of our subsidiary Ault Glazer Bodnar Capital Properties, LLC and Mr. Glazer's spouse, Melanie Glazer. If we proposed to sell more than $10 million of securities in a calendar year to such persons additional shareholder approval would be required. We do not currently anticipate selling equity or debt securities to these persons and, in the event we elected to pursue such an investment, we cannot guarantee that such persons would be willing to further invest in the Company. We have, however, received funding from Ault Glazer Bodnar Acquisition Fund, LLC (***"AGB Acquisition Fund***"). Ault Glazer Bodnar & Company Investment Management, LLC (***"AGB & Company IM"***) is the managing member of AGB Acquisition Fund. The managing member of AGB & Company IM is Ault Glazer Bodnar & Company, Inc. (***"AGB & Company"***). The Company's former Chairman and Chief Executive Officer, Milton "Todd" Ault, III, is Chairman, Chief Executive Officer and President of AGB & Company.

On April 7, 2005, we issued a $1,000,000 promissory note (the ***"Note"***) to Bodnar Capital Management, LLC, in consideration of a $1,000,000 loan from Bodnar Capital Management, LLC. Steven J. Bodnar is a managing member of Bodnar Capital Management, LLC. Mr. Bodnar, through Bodnar Capital Management, LLC, is one of our principal stockholders. The principal amount of the Note and interest at the rate of 6% per annum is due on May 31, 2006. The obligations under the Note are secured by all real property owned by us.

As of December 31, 2005, AGB Acquisition Fund had loaned an aggregate of approximately $1,117,000 to ASG. The loans were advanced to ASG to pay for the land and constructions costs of ASG's first car wash facility, pursuant to the terms of a Real Estate Note dated July 27, 2005, as amended (the ***"ASG Note"***). The ASG Note bears interest at the rate of 3% above the Prime Rate as published in the Wall Street Journal (7.25% at December 31, 2005). All unpaid principal, interest and charges under the ASG Note are due in full on July 31, 2010. The ASG Note is 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 AGB Acquisition Fund.

From January 11, 2006 through March 6, 2006 AGB Acquisition Fund loaned us a total $442,750 to cover a portion of our operating expenses, of which $340,750 was repaid on February 8, 2006. As consideration for the outstanding balance of $102,000, we issued AGB Acquisition Fund secured promissory notes in the principal amount of $102,000 (the "Notes"), and entered into a security agreement granting AGB Acquisition Fund a security interest our personal property and fixtures, inventory, products and proceeds as security for our obligations under the Notes. The Notes accrue interest at the rate of 7% per annum, which together with principal are due to be repaid sixty days from the dates the notes were issued and will begin to expire on April 24, 2006. At our option, payments of principal and interest may be paid by exchange of any securities owned by us valued on the day before the maturity date of the Note.

On February 8, 2006, AGB Acquisition Fund loaned $686,945 to ASG to purchase land for an additional car wash facility. As consideration for the loan, ASG issued AGB Acquisition Fund a secured promissory note in the principal amount of $686,945 (the "Note") and granted a real estate mortgage in favor of AGB Acquisition Fund relating to certain real property located in Jefferson County, Alabama (the "Property"). The Note bears interest at the rate of 10% per annum and is due on April 10, 2006, or within 30 days thereafter. AGB Acquisition Fund received warrants to purchase 20,608 shares of our common stock at an exercise price of $3.86 per share as additional consideration for entering into the loan agreement. We allocated approximately $44,000 as the estimated value of the warrants. As security for the performance of ASG's obligations pursuant to the Note, ASG granted AGB Acquisition Fund a security interest in all personal property and fixtures located at the Property.

On March 7, 2006 we entered into a Revolving Line of Credit Agreement (the "Revolving Line of Credit") with AGB Acquisition Fund. The Revolving Line of Credit allows us to request advances of up to $500,000 from AGB Acquisition Fund and will be primarily used to cover our operating expenses. The initial term of the Revolving Line of Credit is for a period of six months and may be extended for one or more additional six month periods upon mutual agreement of the parties. Each advance under the Revolving Line of Credit will be evidenced by a secured promissory note and a security agreement. The secured promissory notes issued pursuant to the Revolving Line of Credit must be repaid with interest at the Prime Rate plus 1% within 60 days from issuance and will be convertible into shares of our common stock at the option of AGB Acquisition Fund at a price of $3.10 per share. Our obligations pursuant to such secured promissory notes will be secured by our assets, personal property and fixtures, inventory, products and proceeds therefrom.

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, 2005. 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.

On November 3, 2004, we sold an aggregate of 1,216,875 shares of common stock and warrants to purchase an aggregate of 608,430 shares of common stock in a private placement transaction to certain accredited investors. Pursuant to the terms of the private placement, we held additional closings on November 15, 2004, December 2, 2004, and on December 27, 2004, and sold an aggregate of 300,825 additional shares of common stock and warrants to purchase an aggregate of 150,411 shares of common stock. We received aggregate net proceeds of $3,924,786 from all the closings. We used the net proceeds from the private placement transaction primarily for general corporate purposes and in buying controlling equity stakes in companies and/or assets in the medical products, health care solutions, financial services and real estate industries. We filed a registration statement with the SEC on May 3, 2005 registering the resale of the shares of common stock (including the shares of common stock issuable upon exercise of the warrants) sold in the private placement transactions on a continuous or delayed basis under the Securities Act of 1933. We are required to use our reasonable best efforts to cause the registration statement to become effective within 90 days after the date we filed such registration statement with the SEC.

On April 22, 2005, we sold 20,000 shares of common stock and warrants to purchase an additional 20,000 shares of common stock to James Colen. The warrants are exercisable for a period of five years, have an exercise price equal to $6.05, and 50% of the warrants are callable. In the event the closing sale price our common stock equals or exceeds $7.50 for at least five consecutive trading days, we, upon 30 days prior written notice, may call the callable warrants at a redemption price equal to $0.01 per share of common stock then purchasable pursuant to such warrants. Notwithstanding, such notice, the warrant holder may exercise the callable warrant prior to the end of the 30-day notice period. We received gross proceeds of $100,000 from the sale of stock and warrants.

On October 25, 2005, the Company sold 16,666 shares of common stock to Jay Rifkin, present Chief Executive Officer of the Company’s portfolio company Digicorp, at a price of $3.00 per share, resulting in gross proceeds of $50,000. On November 3, 2005, the Company sold 28,653 shares of common stock to Herbert Langsam, one of the Company’s current directors, at a price of $3.49 per share, resulting in gross proceeds of $100,000. We used the net proceeds from the private placement transaction primarily for general corporate purposes

As of December 31, 2005, other than our office lease, we had no commitments not reflected in our consolidated financial statements. As in prior acquisitions, we intend to use a combination of common stock and warrants as the primary means to acquire companies. Accordingly, our need to raise significant amounts of cash for acquisitions can be minimized, provided the companies we acquire are willing to accept non-cash forms of consideration.

Cash and cash equivalents decreased by $767,031 to $79,373 for the year ended December 31, 2005, compared to an increase of $622,179 for the year ended December 31, 2004.

Operating activities used $1,719,252 of cash for the year ended December 31, 2005, compared to using $2,456,061 for the year ended December 31, 2004.

Operating activities for the year ended December 31, 2005, exclusive of changes in operating assets and liabilities, used $3,900,292 of cash, as the Company's net cash used in operating activities of $1,719,252 included non-cash charges for depreciation and amortization of $285,728, realized gains of $2,014,369, unrealized gains of $32,335 and stock based compensation of $4,504,286. For the year ended December 31, 2004, operating activities, exclusive of changes in operating assets and liabilities, used $2,939,254 of cash, as the Company's net cash used in operating activities of $2,456,061 included non-cash charges for depreciation and amortization of $863, realized gains of

$1,591,156, unrealized losses of $1,054,702 and stock based compensation of $5,094.

Changes in operating assets and liabilities produced cash of $2,181,040 for the year ended December 31, 2005, principally due to net proceeds received from marketable securities, and increases in the level of accounts payable and accrued liabilities and amounts due to broker which were partially offset by increases in our receivables from investments. The amount due to our broker is 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 year ended December 31, 2005, the Company invested its 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. 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. To the extent we have a need for an excess cash balance to meet our financial obligations the amount of securities purchased on margin will either decrease or disappear altogether. However, if we are in a position where we have excess cash with no immediate need for liquidity, and we believe opportunities exist to maximize the short-term return on such assets then we may purchase marketable securities on margin**.** Receivables from investments experienced a significant increase which was primarily due to a receivable in the amount of approximately $900,000 recorded as a result of the sale of our stock appreciation rights in Excelsior. During 2005 we recognized a gain of $1,747,072 from these stock appreciation rights, of which $900,000 was received during February 2006. For the year ended December 31, 2004, changes in operating assets and liabilities produced cash of $483,193 primarily due to an increase in the level of accounts payable and accrued expenses and amounts due broker which were partially offset by increases in accounts receivable.

The principal factor in the $793,586 of cash used in investing activities in the year ended December 31, 2005 was due to our investments in ASG and Surgicount in the total amount of $732,398, an investment in our first automated car wash site by our subsidiary, ASG, in the amount of $603,865, and other long-term investments of $603,173. These investments were offset by proceeds received from the sale of long-term investments, primarily from our stock appreciation rights in our holding in Excelsior for $847,072 and repayment on loans secured by real estate of $350,465. The principal factor in the $788,518 of cash used in investing activities in the year ended December 31, 2004 was due to investments in Ault Glazer Bodnar Capital Properties of $738,518.

Cash provided by financing activities for the year ended December 31, 2005, of $1,745,807 resulted primarily from the proceeds from notes payable of $1,621,627 and the net proceeds from issuance of common stock of $250,000 and payment of preferred dividends of $19,163. Cash provided by financing activities for the year ended December 31, 2004, of $3,866,758 resulted primarily from the net proceeds from issuance of common stock of $3,924,786 and payment of preferred dividends of $76,650. Additionally, during the years ended December 31, 2005 and 2004 the note payable was offset by certain payments made allowed for in the note payable.

Investments

Our financial condition is partially dependent on the success of our investments. Short selling has been a component of the Company's investment strategy in the past and these trades have ranged, in any particular month, from 0% to 20% of total trading activity. The making of such investments entails significant risk that the price of a security may increase resulting in the loss of or negative return on the investment. We have not engaged in the practice of short selling since the quarter ended September 30, 2005, and do not expect short selling to become a significant component of our strategy in the future. 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. Some of our investments are subject to restrictions on resale under federal securities laws and otherwise are illiquid, which will make it difficult to dispose of the securities quickly. Since we will be forced liquidate some or all of the investments on an accelerated timeline, the proceeds of such liquidation may be significantly less than the value at which we acquired the investments. The following is a discussion of our most significant investments at December 31, 2005.

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A summary of our investment portfolio, which is valued at $6,560,731 and represents 40.9% of our total assets is reflected below. Excluding our real estate investments, our investment portfolio represents 37.9% of our total assets. The investment portfolio is comprised of marketable securities of $923,800 and long-term investments of $5,636,931. Our investments in marketable securities that are bought and held principally for the purpose of selling them in the near-term are classified as trading securities. Our remaining investments are classified as long-term investments.

	December 31, 2005	December 31, 2004
Alacra Corporation	$ 1,000,000	$ 1,000,000
Digicorp	3,025,398	532,435
IPEX, Inc.	1,243,550	
Real Estate	481,033	738,518
China Nurse		50,000
Tuxis Corporation	746,580	
U.S. Treasuries		2,016,406
Other	64,170	1,471,313
	$ 6,560,731	$ 5,808,672

Alacra Corporation

At December 31, 2005, we had an investment in Alacra Corporation (***"Alacra"***), valued at $1,000,000, which represents 6.2% of our total assets. On April 20, 2000, we purchased $1,000,000 worth of Alacra Series F Convertible Preferred Stock. Alacra has recorded revenue growth in every year since the Company's original investment, further, 2005 revenues of approximately $16.5 million, were in excess of the prior year's revenues by approximately 45%. At December 31, 2005, Alacra had total assets of approximately $3.5 million with total liabilities of approximately $6.0 million. Deferred revenue, which represents subscription revenues are amortized over the term of the contract, which is generally one year, and represented approximately $2.9 million of the total liabilities. The Company has the right to have the preferred stock redeemed by Alacra for face value plus accrued dividends beginning on December 31, 2006. In connection with this investment, the Company was granted observer rights on Alacra board of directors meetings.

Alacra, a privately held company based in New York, is a global provider of business and financial information. Alacra provides a diverse portfolio of fast, sophisticated online services that allow users to quickly find, analyze, package and present business information. Alacra's customers include more than 750 leading financial institutions, management consulting, law and accounting firms and other corporations throughout the world. Currently, Alacra's largest customer segment is investment and commercial banking, followed closely by management consulting, law and multi-national corporations.

Alacra's online service allows users to search via a set of tools designed to locate and extract business information from the Internet and from Alacra's library of content. Alacra's team of information professionals selects, categorizes and indexes more than 45,000 sites on the Web containing the most reliable and comprehensive business information. Simultaneously, users can search more than 100 premium commercial databases that contain financial information, economic data, business news, and investment and market research. Alacra provides information in the required format, gleaned from such prestigious content partners as Thomson Financial™, Barra, The Economist Intelligence Unit, Factiva, Mergerstat® and many others.

The information services industry is intensely competitive and we expect it to remain so. Although Alacra has been in operation since 1996 they are significantly smaller in terms of revenue than a large number of companies offering similar services. Companies such as ChoicePoint, Inc. (NYSE: CPS), LexisNexis Group, and Dow Jones Reuters Business Interactive, LLC report revenues that range anywhere from $100 million to several billion dollars, as reported by Hoovers, Inc. As such, Alacra's competitors can offer a far greater range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, greater global reach and more established relationships with potential customers than Alacra has. These larger and better capitalized competitors may be better able to respond to changes in the financial services industry, to compete for skilled professionals, to finance investment and acquisition opportunities, to fund internal growth and to compete for market share generally.

Excelsior Radio Networks, Inc.

During the period from August 12, 2003 through October 22, 2004, we liquidated our investment in Excelsior Radio Networks, Inc. (***"Excelsior"***). We sold a total of 1,476,804 shares and warrants to purchase 87,111 shares of Excelsior common stock. Excelsior produces and syndicates programs and services heard on more than 2,000 radio stations nationwide across most major formats. Through its Dial Communications Global Media sales subsidiary, Excelsior sells the advertising inventory radio stations provide in exchange for the Excelsior content. The programming and content includes prep services as well as long form and short form programming. Additionally, Dial Communications Global Media has a number of independent producer clients, which range from talk and music programs to news and traffic services.

We had stock appreciation rights on various sales transactions of Excelsior common stock to Sunshine Wireless, LLC (**"Sunshine"**) and Quince Associates, LP (**"Quince"**). During 2005 Excelsior was sold to Lincolnshire Management for approximately $60,000,000. When Excelsior was sold we became entitled to additional proceeds from these stock appreciation rights. During the year ended December 31, 2005 we recognized a gain of $1,747,072 as a result of the stock appreciation rights. Of this amount we received $847,072 in cash during the year ended December 31, 2005 and an additional cash payment of $900,000 during January 2006.

China Nurse, LLC

During the year ended December 31, 2005, we wrote off our investment in China Nurse LLC (***"China Nurse"***). The amount of the loss was $50,000. We made our initial investment in China Nurse on November 23, 2004, when we entered into a strategic relationship with China Nurse. In connection with this strategic relationship, we agreed to provide referrals and other assistance and we made a capital investment in cash of $50,000 in China Nurse. China Nurse is a developmental stage international nurse-recruiting firm based in New York that focuses on recruiting and training qualified nurses from China and Taiwan for job placement with hospitals and other health care facilities in the United States. China Nurse intends to create an opportunity for hospitals and other health care providers to efficiently recruit skilled professionals from China and Taiwan through its customized approach to matching the qualifications of the nurses with the specific needs of U.S. clients. The primary purpose for this strategic investment was in anticipation of leveraging the relationships that China Nurse developed during the ordinary course of its business for our patient safety products. During the year ended December 31, 2005, we determined that this investment was completely impaired since China Nurse was unable to secure additional interest both in the form of additional investment and from hospitals and health care facilities in the United States.

Digicorp

At December 31, 2005, we had an investment in Digicorp valued at $3,025,398, which represents 18.9% of our total assets. On December 29, 2004, we entered into a Common Stock Purchase Agreement with certain shareholders of Digicorp (the ***"Agreement"***), to purchase an aggregate of 3,453,527 shares of Digicorp common stock. We purchased 2,229,527 of such shares on December 29, 2004 (2,128,740 shares at a price of $0.135 per share and 100,787 shares at a price of $0.145 per share). We were also required to purchase the remaining 1,224,000 shares from the selling

shareholders at a price of $0.145 per share at such time that Digicorp registers the resale of the shares with the SEC. During December 2005 we amended the Agreement and an unrelated third party assumed the obligation to purchase 1,000,000 of the remaining 1,224,000 shares from the selling shareholders. Additionally, we extended loans of approximately $32,500 to the selling shareholders from our working capital. Such loans represented the amount of the remaining obligation to purchase 224,000 shares of Digicorp common stock and are secured by the 224,000 shares of Digicorp common stock presently held by such selling shareholders. Digicorp's common stock is traded on the OTC Bulletin Board, which reported a closing price, at December 31, 2005, of $1.90. In connection with the Agreement, we were entitled to designate two members to the Board of Directors of Digicorp. Our first designee, Melanie Glazer, who is also manager of our subsidiary Ault Glazer Bodnar Capital Properties, LLC, was appointed on December 29, 2004. Milton "Todd" Ault, III, our former Chairman and Chief Executive Officer, was appointed Chief Executive Officer of Digicorp on April 26, 2005. On July 16, 2005, Alice M. Campbell, one of our directors, and Mr. Ault was appointed to the Board of Directors of Digicorp. On July 20, 2005, Lynne Silverstein, our President and Secretary, was appointed as a director of Digicorp, and William B. Horne, our Chief Financial Officer, was appointed as a director and as Chief Financial Officer of Digicorp. On September 30, 2005, Mr. Ault resigned from all positions with Digicorp and Mr. Horne was appointed as the interim Chief Executive Officer. On December 29, 2005, William B. Horne resigned as Chief Executive Officer and Lynne Silverstein and Melanie Glazer resigned as directors.

Since June 30, 1995, Digicorp was in the developmental stage and had no operations other than issuing shares of common stock for financing the preparation of financial statements and for preparing filings for the SEC. On May 18, 2005, Digicorp sold Bodnar Capital Management, LLC 2,941,176 shares of its common stock and warrants to purchase an additional 3,000,000 shares of its common stock with exercise prices ranging from $0.25 to $1.50 per share. Digicorp received gross proceeds of approximately $500,000 from the sale of stock and warrants to Bodnar Capital Management, LLC. As described above under "Financial Condition," Bodnar Capital Management, LLC also is one of our principal stockholders. On October 27, 2005, Bodnar Capital Management, LLC canceled the warrants to purchase 3,000,000 shares of common stock in exchange for the issuance of a warrant to purchase 500,000 shares of Digicorp's common stock with an exercise price of $0.01 per share.

On September 19, 2005, upon entering into an asset purchase agreement with Philip Gatch, who was appointed Digicorp's Chief Technology Officer, Digicorp completed the initial transaction to transform itself from that of a development stage enterprise to a digital media and content delivery company. Digicorp issued Mr. Gatch 1,000,000 shares of its common stock as consideration for the assets purchased, which consisted of the iCodemedia suite of websites and internet properties and all related intellectual property (the ***"iCodemedia Assets"***). The iCodemedia suite of websites consists of the websites www.icodemedia.com, www.iplaylist.com, www.tunecast.com, www.tunebucks.com, www.podpresskit.com and www.tunespromo.com. Digicorp plans to use these websites and the related intellectual property to provide a suite of applications and services to enable content creators the ability to publish and deliver content to existing and next generation digital media devices, such as the Apple iPod and the Sony PSP, based upon the consumers' expectation for broader and on-demand access to content and services.

On December 29, 2005, Digicorp acquired all of the issued and outstanding capital stock of Rebel Crew Films, Inc., a California corporation (***"Rebel Crew Films"***), in consideration for the issuance of 21,207,080 shares of Digicorp common stock (the ***"Purchase Price"***) to the shareholders of Rebel Crew Films. From the Purchase Price, 4,000,000 shares are held in escrow pending satisfaction of certain performance milestones. In addition, from the Purchase Price, 16,666,667 shares are subject to lock up agreements as follows: (a) 3,333,333 shares are subject to lockup agreements for one year; (b) 6,666,667 shares are subject to lockup agreements for two years; and (c) 6,666,667 shares, of which the 4,000,000 escrowed shares are a component, are subject to lockup agreements for three years.

In connection with the acquisition of Rebel Crew Films, on December 29, 2005 Digicorp entered into a Securities Purchase Agreement with one of the shareholders of Rebel Crew Films, Rebel Holdings, LLC, pursuant to which Digicorp purchased a $556,306.53 principal amount loan receivable owed by Rebel Crew Films to Rebel Holdings, LLC in exchange for the issuance of a $556,306.53 principal amount secured convertible note to Rebel Holdings, LLC. The secured convertible note accrues simple interest at the rate of 4.5%, matures on December 29, 2010 and is secured by all of Digicorp's assets now owned or hereafter acquired. The secured convertible note is convertible into 500,000 shares of Digicorp common stock at the rate of $1.112614 per share. Jay Rifkin, Digicorp's Chief Executive Officer and one of its directors, is the sole managing member of Rebel Holdings, LLC.

Rebel Crew Films was founded in 2001 as a film licensing and distribution company of Latino home entertainment products. Rebel Crew Films currently maintains approximately 300 Spanish language films and serves the some of the nation's largest wholesale, retail, catalog, and e-commerce accounts. Rebel Crew's titles can be found at Wal-Mart, Best Buy, Blockbuster, K-Mart, and hundreds of independent video outlets across the United States and Canada. We believe that the acquisition will allow Digicorp to leverage Rebel Crew Films' Latino content and industry relationships with the iCodemedia Assets to create a compelling digital media and content delivery company.

IPEX, Inc.

At December 31, 2005, we held 1,045,000 shares of common stock and warrants to purchase 225,000 shares of common stock at $1.50 per share and warrants to purchase 225,000 shares of common stock at $2.00 per share of IPEX, Inc. ("***IPEX***"), valued at $1,243,550, which represents 7.8% of our total assets. As described below the exercise price of these warrants was adjusted to $1.00 per share on March 21, 2006. IPEX's common stock is traded on the OTC Bulletin Board, which reported a closing price, at December 31, 2005, of $2.38. The warrants are exercisable for a period of five years and are callable by IPEX in certain instances. On June 23, 2005, Alice M. Campbell, who is one of our directors, was appointed to the Board of Directors of IPEX. In addition, from May 26, 2005 until July 20, 2005, Milton "Todd" Ault, III, our former Chairman and Chief Executive Officer, served as interim Chief Executive Officer of IPEX and Mr. Ault has been a director of IPEX since May 26, 2005.

The Company's initial investment into IPEX occurred On March 2, 2005 in the amount of $450,000. This investment was part of the private placement that IPEX completed on March 18, 2005. The total amount of IPEX's private placement was for 3,500,000 shares of common stock, 1,750,000 Series A Warrants and 1,750,000 Series B Warrants for aggregate proceeds of $3,500,000, less issuance costs of $259,980, resulting in net realized proceeds of $3,240,020. The common stock, Series A and Series B Warrants were sold as Units, with each Unit consisting of two shares of common stock, one series A Warrant and one Series B Warrant. Each Series A Warrant entitles the holder to purchase one share of common stock at $1.50 per share, exercisable for a period of five years. Each Series B Warrant entitles the holder to purchase one share of common stock at $2.00 per share, exercisable for a period of five years. Subsequent to the effectiveness of a registration statement covering the re-sale of shares underlying the warrants, the Series A and Series B Warrants are callable by IPEX, under certain circumstances, if IPEX's common stock trades at or above $2.00 and $2.50, respectively, for ten consecutive trading days. In such event IPEX must give us 30 days prior written notice of its intention to call the warrants after which it has the right to repurchase the warrants at a purchase price of $0.01 per share of common stock then purchasable pursuant to the warrants. During such 30 day notice period we would have the right to exercise the warrants. As of March 31, 2006 IPEX has not filed a registration statement covering the re-sale of the shares underlying the warrants and accordingly IPEX does not have a right to call them.

Pursuant to two separate asset purchase agreements entered into during 2005, in consideration for $6,000,000 of IPEX common stock and $275,000 cash, IPEX purchased certain intellectual property assets that may be used to enhance, compact, store, encrypt, stream and display digital image content over wireless networks and over the Internet and for image enhancement, compacting and content protection applications. On March 21, 2006 IPEX reported that it is in the process of transferring ownership of such assets to its subsidiary RGB Channel, Inc.

On March 21, 2006 IPEX sold $800,000 principal amount of 10% secured convertible notes to four accredited investors in a private placement transaction. The 10% secured convertible notes are convertible into either IPEX common stock at a price of $1.00 per share or into common stock of IPEX's subsidiary RGB Channel, Inc. at a conversion price equal to the lesser of (a) $0.50, or (b) the price at which, at any time while the 10% secured convertible notes are outstanding, RGB Channel, Inc. sells shares of its common stock or any other securities convertible into or exchangeable for RGB Channel, Inc. common stock. The sale by IPEX of the 10% secured convertible notes caused an adjustment to the exercise price of the Series A Warrants and the Series B Warrants to equal $1.00 per share and an increase in the number of shares of common stock purchasable under such Series A and B Warrants. Pursuant to such warrants that we own, we are now entitled to purchase a total of 787,500 shares of IPEX

common stock at an exercise price of $1.00 per share.

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IPEX operates a Voice over Internet Protocol (***"VoIP"***) routing platform that directs telecommunication traffic. VoIP permits a user to send voice, fax and other information over the Internet, rather than through a regular telephone network system based on switches. IPEX's VoIP network directs long distance telecommunication traffic globally. Customers and suppliers, consisting primarily of communications service providers, gain access to IPEX's international routes via the Internet from virtually anywhere in the world. We believe that using VoIP technology, voice, fax and other information can be sent over the Internet far more economically than through a traditional fixed-line telephone network. IPEX's platforms route international traffic based on cost, quality and availability. IPEX's revenues are derived by selling its telecommunications routes to customers worldwide. We believe that, through IPEX's VoIP platform, customers and suppliers have access to routes and related information. The cost of operating IPEX's business is almost entirely software based which does not require maintenance or technicians. As a result, we believe the costs are low and the scalability is very high, allowing IPEX to compete with non-VoIP telecommunications carriers on a much lower cost structure.

The communications industry is characterized by changes driven by deregulation in telecommunications markets around the world, an increase in and shift of minutes to wireless and the acceptance of VoIP as an alternative to wireline phone service. VoIP has been used as a low-cost solution to provide wholesale call completion, or termination, to telecommunications services providers. We believe that the low cost of launching a telecommunications business with VoIP, coupled with deregulation in telecommunications markets, has driven fragmentation of communications services markets. VoIP is now being used as a way to provide local and long-distance phone service to consumers and enterprises. We believe that cable companies and VoIP service providers are driving current consumer adoption of VoIP and are expected to capture a significant share of the overall voice market. These factors have enabled the emergence of many new communications service providers in dozens of local markets. IPEX believes that national carriers are focusing their capital spending on services such as fixed-line, wireless, and cable. Consequently, communications service providers are looking for ways to expand their ability to serve all of their customers' telecommunication needs, while simultaneously reducing the cost of providing international services. Increasingly, the world's carriers are seeking to outsource international voice traffic to efficient VoIP companies to improve a carrier's competitiveness and bottom line.

Traditional voice communication networks use circuit-switching technology, which establishes dedicated channels between an originating and terminating point for the duration of a call. Physical facilities are dedicated to voice traffic between switching nodes, regardless of changes in demand. In contrast, VoIP is based on packet-switching technology. This technology completes a call by digitizing and dividing a speaker's voice into small packets that travel to their destination through networks carrying packets of other Internet traffic, in much the same way as email travels. We believe that using a network of service facilities connected to the Internet for transport is less costly than building a dedicated network as calls share the Internet with other traffic.

Traditional international long distance calls are completed through international toll switches that provide access to a terminating network. These networks are often owned by government bodies or telecommunications carriers that charge settlement rates (or tariffs) well in excess of costs. Although these fees are being reduced in many countries as industry deregulation continues, the charges remain significant. Calls routed over the Internet bypass these toll switches, avoiding a significant portion of these fees, which we believe further lowers the cost of completing calls.

In contrast to the closed, proprietary structure inherent in a traditional circuit-switched voice network, VoIP embraces an open architecture and open standards, which we believe facilitates innovation at lower cost. Traditional voice networks are designed specifically to provide one basic service, which we believe makes it difficult and costly to introduce new services over those networks and their proprietary platforms. As data networks convert services into data packets, this allows the exchange of new types of data such as fax, video, IP-television, etc.

IPEX's software platform provides benefits to customers and suppliers. By routing and clearing voice calls through the platform, buyers and sellers can access multiple buyers and sellers, increase network utilization, achieve better pricing and improve profitability and cash flow by reducing the number of interconnections and reducing selling, legal, billing and collection expenses. By establishing a single interconnection to IPEX's platform, communications services providers gain immediate targeted access to and a link with multiple customers and suppliers. This replaces the lengthy, costly and highly negotiated process of searching for and interconnecting to other communications services providers on a one-to-one basis and managing each interconnection on an ongoing basis.

The global communications services market is highly competitive. The Company competes with other wholesale telecommunications carriers worldwide. Many of these carriers have more resources, longer operating histories and more established positions in the telecommunications marketplace. The Company also competes with smaller companies, including those that may be specialists in just one or two routes. The Company additionally competes against its customers' ability to carry traffic themselves, whereby either retail carriers develop their own international networks or interconnect with one another and exchange international traffic by "meeting" in a major telecommunications hub. The Company competes principally on quality of service and price.

As reflected in IPEX's September 30, 2005 Form 10-Q, sales for the nine months ended September 30, 2005 rose to $8,346,775 as compared to sales of $4,387,882 from the prior year's nine months ended September 30, 2004. Trading revenues represent fees generated from minutes purchased through IPEX's VoIP exchange platform. Revenues from VoIP activities are recognized in the period minutes are delivered through the telecom exchange platform. In the past, due to prior working capital constraints, IPEX could only maintain selling to customers on a weekly net 5 basis (***"Tier 3 carriers"***). The additional working capital provided by the private placement completed in March 2005 allowed IPEX to extend credit to customers under net 15 terms (***"Tier 2 carriers"***) and customers on net 30 terms (***"Tier 1 carriers"***) therefore increasing the number of overall customers.

IPEX's cost of sales as a percentage of sales for the quarter ended September 30, 2005 remained relatively constant at 96% compared to 96% for the quarter ended September 30, 2004. Net loss for the three months ended September 30, 2005 and 2004 was $338,000 and $150,000, respectively. The increase in IPEX's net loss for the three months ended September 30, 2005 is primarily due to increased salaries and wages related to management personnel.

Tuxis Corporation

At December 31, 2005, we held 108,200 shares of common stock of Tuxis Corporation (***"Tuxis"***) valued at $746,580, which represents 4.7% of our total assets. Tuxis, a real estate holding company, is a Maryland corporation currently registered under the 1940 Act as a closed-end management investment company. Tuxis previously received Board of Directors and shareholder approval to change the nature of its business so as to cease to be an investment company and on May 3, 2004, filed an application with the SEC to de-register as an investment company. Tuxis' common stock is traded on the American Stock Exchange, which reported a closing price, at December 31, 2005, of $7.50. At September 30, 2005, Tuxis had reportable net assets of approximately $8.6 million. During the quarter ended March 31, 2006, we liquidated the majority of our shares of Tuxis common stock.

Ault Glazer Bodnar Capital Properties, LLC

At December 31, 2005, we had several real estate investments, valued at $481,033, which represents 3.0% of our total assets. We hold our real estate investments in Ault Glazer Bodnar Capital Properties, LLC ***("AGB Properties")***, a Delaware limited liability company and a wholly owned subsidiary. AGB Properties is in the process of liquidating its real estate holdings. AGB Properties' primary focus was on the acquisition and management of income producing real estate holdings. AGB Properties real estate holdings consist of approximately 8.5 acres of undeveloped land in Heber Springs, Arkansas, 0.61 acres of undeveloped land in Springfield, Tennessee, and various loans secured by real estate in Heber Springs, Arkansas. During the year ended December 31, 2005, we liquidated properties with a cost basis of approximately $113,000, which resulted in a gain of approximately $28,000. We expect that any future gain or loss

recognized on the liquidation of some or all of our real estate holdings would be insignificant primarily due to the short period of time that the properties were owned combined with the absence of any significant changes in property values in the real estate markets where the real estate holdings are located.

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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 “Net loss attributable 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, and our proportionate share of income or losses from investments accounted for under the equity method of accounting;
- “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.

“Realized gains (losses) on investments, net” and “Unrealized gains (losses) on marketable securities, net” are directly related. When a security is sold to realize a gain, the net unrealized gain decreases and the net realized gain increases. When a security is sold to realize a loss, the net unrealized gain increases and the net realized gain decreases.

We generally earn interest income from loans, preferred stock, corporate bonds and other fixed income securities. The amount of interest income varies based upon the average balance of our fixed income portfolio and the average yield on this portfolio.

Revenues

We recognized revenues of $562,374, $0, and $180,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Revenues for the year ended December 31, 2003 relate to management fees earned by us from Excelsior, a related party. The management agreement with Excelsior expired on December 31, 2003, thus, we have not recognized any revenues from this source during the years ended December 31, 2005 and 2004.

Although none of the revenues that we recognized during the year ended December 31, 2005 related to sales of our Safety-Sponge™ System we expect to begin recognizing revenues from the Safety-Sponge™ System during the three month period ending June 30, 2006 based in part upon the results of initial usage of the Safety-Sponge™ System in hospital operating rooms. We expect these revenues will initially have an insignificant impact on our results of operations, however, during the three month period ending December 31, 2006 we expect that revenues from our Safety-Sponge™ System will provide a material source of funds to cover a portion of our operating costs.

The revenue earned during the year ended December 31, 2005 was the result of a consulting agreement, consented to by IPEX, whereby Wolfgang Grabher, the majority shareholder of IPEX, former President, former Chief Executive Officer and former director of IPEX, retained us to serve as a business consultant to IPEX. In consideration for the services, Mr. Grabher personally agreed to pay us either 500,000 shares of common stock of IPEX, or $1,500,000 in cash, as a non-refundable consulting fee. Whether the consulting fee was paid in the form of IPEX common stock or cash was the sole discretion of Mr. Grabher. Although the determination of whether we would receive IPEX common stock or cash was in the discretion of Mr. Grabher, we operated under the assumption that we would most likely receive 500,000 shares of IPEX common stock as payment for the services and in December 2005 did in fact receive the 500,000 shares. Mr. Grabher owned 18,855,900 shares of IPEX's 28,195,566 outstanding shares of common stock and in May 2005 granted Mr. Ault, our former Chairman and former Chief Executive Officer, an irrevocable voting proxy for his shares for a period of three years or earlier if independent counsel hired by IPEX clears Mr. Grabher of any wrongdoings in connection with IPEX’s operations, if Mr. Ault releases the proxy or if Mr. Grabher sells the subject shares. IPEX’s audit committee determined that the offering memorandum used in connection with IPEX’s March 18, 2005 private placement (described above under “Investments”) and in IPEX’s Form 8-K dated March 16, 2005 either misstated or omitted certain material information and Mr. Grabher is alleged to have been involved in drafting those documents. The irrevocable voting proxy was granted to Mr. Ault while he served as interim Chief Executive Officer and a director of IPEX in order to distance Mr. Grabher from control over IPEX amid allegations of wrongdoing. The irrevocable voting proxy was terminated by agreement between Messrs. Ault and Grabher during December 2005**.** On December 14, 2005 Mr. Grabher agreed to surrender 14,855,900 of the shares of IPEX common stock owned by him to IPEX to be retired and returned to treasury. Such shares represented 49.4% of IPEX’s outstanding shares of common stock at the time. At December 31, 2005, we held 7.8% of IPEX’s outstanding shares of common stock. On June 30, 2005, we agreed with IPEX as to the scope of such consulting services and the consideration for such services. We have provided and/or will provide if reasonably necessary within the 12 month period ending June 30, 2006, the following services to IPEX: (a) substantial review of IPEX's business and operations in order to facilitate an analysis of IPEX's strategic options regarding a turnaround of IPEX's business; (b) providing advice in the following areas: (i) identification of financing sources, (ii) providing capital introductions of financial institutions and/or strategic investors, (iii) evaluation and recommendation of candidates for appointment as officers, directors or employees, (iv) making our personnel available to IPEX to provide services to IPEX on a temporary or permanent basis, (v) evaluation and/or negotiation of merger or sale opportunities, or such other form of transaction or endeavor which IPEX may elect to pursue, and (vi) providing any other services as are mutually agreed upon in writing with Mr. Grabher from time to time; and (c) assisting IPEX in installing a new management team. Our former Chairman and former Chief Executive Officer, Mr. Ault, has been a director of IPEX since May 26, 2005 and Mr. Ault served as interim Chief Executive Officer of IPEX from May 26, 2005 until July 13, 2005. Darrell W. Grimsley, Jr., Chief Executive Officer of our indirect wholly owned subsidiary Automotive Services Group, LLC, served as a director of IPEX and a member of its Audit Committee from August 30, 2005 until January 30, 2006. Alice M. Campbell, a member of our Board of Directors and our audit and compensation committees, served as a director of IPEX and chairman of its audit committee from June 23, 2005 until January 30, 2006.

At December 31, 2005, we had performed a significant amount of the services stipulated under the terms of the consulting agreement, including but not limited to: (i) a review of the business and operations (ii) advice in connection with IPEX’s purchase of certain intellectual property assets; (iii) the hiring by IPEX of a new Chief Executive Officer, Chief Operating Officer and a Vice President of Research & Development, none of which would be deemed related parties; and (iv) IPEX’s appointment of two new members to its Board of Directors. We have deferred approximately $103,875 of revenue relating to this consulting agreement which management expects will be substantially recognized during the three months ending March 31, 2006.

Expenses

Operating expenses were $8,493,493, 2,923,983, and $1,236,623 for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, respectively.

The increase in operating expenses for the year ended December 31, 2005 when compared to December 31, 2004, was primarily the result of stock based compensation expenses, and to a lesser extent printing, stock exchange and transfer agent fees. Until October 22, 2004, the date our shareholders approved certain proposals relating to our restructuring plan to change from a business development company to an operating company, our principal activities involved the management of existing investments. As such, compensation expense was primarily the salaries of our Chief Executive Officer and to a lesser extent the Chief Financial Officer. Since the restructuring plan, we have aggressively focused on expanding into the health care and medical products field, particularly the patient safety markets, and up until October 2005, the financial services and real estate industries. A significant component of this strategy has resulted in the acquisition of assets. We have hired personnel in order to meet the increased needs of our current business focus which has resulted in increases in almost every expense category.

Printing, Amex stock exchange, and transfer agent fees for the year ended December 31, 2005 increased by $49,949, $62,033 and $54,846, respectively, over the year ended December 31, 2005. The increase is primarily attributable to work performed on our proxy statements, registration statements, annual report and related annual meeting of shareholders. All of these reports required a significant amount of additional time to prepare due to our change from a business development company to an operating company. Printing fees increased as a direct result of the greater number of printed documents, including business cards and stationary, as well as revisions to those documents. Amex stock exchange fees primarily increased as a result of a non-recurring fee associated with our 3 for 1 stock split.

Printing, Amex stock exchange, and transfer agent fees are a component of the $851,653 increase reflected in general and administrative expenses for the year ended December 31, 2005. An increase in travel related expenses of $239,639, sample product of $62,147, and a research grant to Brigham and Women’s Hospital of $107,628, also contributed to the overall increase in general and administrative expenses. Travel related expenses increased as a result of expenses incurred in identifying and reviewing investment opportunities and attendance at trade shows and conventions to promote our patient safety products. Travel related expenses also increased because of the need to visit prospective customers and demonstrate our Safety-Sponge™ System. These demonstrations created a need to order sample product for distribution at trade shows as well as to prospective customers.

On April 26, 2005 we entered into a clinical trial agreement with Brigham and Women's Hospital, the teaching affiliate of Harvard Medical School, relating to our Safety-Sponge™ System. The clinical trial is the result of an on-going collaboration between Harvard and us to refine the Safety-Sponge™ System in a clinical optimization study. Under terms of the agreement, Brigham and Women's Hospital will collect data on how the Safety-Sponge System saves time, reduces costs and increases patient safety in the operating room. The study will also continue 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. Unless the clinical trial agreement is terminated by either us or Brigham and Women’s Hospital, we will provide a research grant to Brigham and Women’s Hospital over the course of the clinical trial in the aggregate amount of $430,513 of which $107,628 was paid in 2005. We anticipate that the remaining amount of the research grant, of $322,885 will be paid during the nine months ended September 30, 2006. The remaining increase in general and administrative expenses is a direct result of an overall increase in business activity associated with being an operating company with increased personnel. These expenses, which are not significant individually, include but are not limited to office supplies, research material, postage, marketing and maintenance costs.

A majority of our operating expenses consist of employee compensation, which increased by $3,282,404. The most significant component of employee compensation is stock based compensation expense. For the year ended December 31, 2005, we recorded approximately $1,596,825 relating to grants of nonqualified stock options and $1,519,849 related to restricted stock awards to our employees and non-employee directors, all of which were expensed in accordance with SFAS 123(R). During the year ended December 31, 2004, our total stock based compensation expense, which was caused from the issuance of 26,250 options to members of our Board of Directors, was $5,094. Thus, the increase in expenses related to the issuance of stock options and restricted stock awards to our employees and non-employee directors amounted to $3,111,580. The remaining increase in employee compensation of $170,824 is attributed to an increase in salaries and benefits of $661,816, attributed to the increased number of employees, offset by the lack of severance payments. At December 31, 2005, we had 13 full time employees as opposed to 7 full time employees at December 31, 2004. Further, of our full time employees at December 31, 2004, 3 were hired during the three months ended December 31, 2004. Included in compensation expense for the year ended December 31, 2004, was a non-recurring severance package paid to Stephen L. Brown, our former Chairman and Chief Executive Officer, of $483,000.

At December 31, 2005, three of our executives were covered under employment agreements. Our Chief Financial Officer, William B. Horne, is covered under a two year employment agreement with annual base compensation of

$150,000; our President of Sales and Marketing of Surgicount Medical, Inc., Richard Bertran, is 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, is covered under a two year employment agreement with annual base compensation of $100,000. 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. We believe, as with all our operating expenses, that our existing cash resources, together with proceeds from investments and anticipated revenues from our operations, should be adequate to fund our salary obligations.

The second largest component of our operating expenses is professional fees, which increased by $1,038,892. As in the case of employee compensation, stock based compensation expense is the most significant component of professional fees for year ended December 31, 2005. We incurred approximately $918,132 relating to the issuance of warrants and $469,480 related to restricted stock awards to our consultants performing services for us.

A significant amount of the warrants relate to a consulting agreement that we entered into in April 2005 with Health West Marketing Incorporated (***"Health West"***) where we agreed, as an incentive for entering into the agreement, 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 $527,958 related to these warrants. In addition to the warrants, we have recognized expenses of $156,253 related to the issuance and future issuance of 26,261 shares of our common stock, as follows: (a) 10,505 shares valued at $62,505 were issued upon signing the agreement; and (b) on August 17, 2005, we entered into a comprehensive manufacturing agreement with A Plus Manufacturing and as a result issued 15,756 shares, valued at $93,748, to Health West. In the event that Health West helps us develop a regional distribution network to integrate the Safety-Sponge™ System into the existing acute care supply chain we will then issue Health West an additional 15,756 shares and at that time recognize an additional expense of $93,748.

In addition to the stock based compensation that we recognized as a result of our agreement with Health West, we have issued additional warrants to purchase shares of common stock and granted restricted shares of common stock to various consultants performing services for us. These services have primarily related to investor relations and legal services.

All of our stock based compensation issued to employees, non-employee directors and consultants were expensed in accordance with SFAS 123(R). 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%, 3.75%, three to five years and 83%, respectively. The restricted stock awards were valued at the closing price on the date the restricted shares were granted. The overall increase in expenses related to the issuance of stock options, warrants and restricted stock awards amounted to $4,499,192.

We also issued 150,000 warrants, valued at $536,578, to Aegis Securities Corp., a nonaffiliated consultant, for providing advisory services in connection with the acquisition of Surgicount Medical, Inc. The services provided by Aegis Securities Corp. included an evaluation of and oversight over completion of the transaction. The value of the warrants, along with the purchase price and direct costs incurred as a result of the transaction, were capitalized. The entire capitalized costs, valued at $4,684,576, have been allocated to Surgicount's patents, with an approximate useful life of 14.4 years. Amortization expense related to the patents, for the year ended December 31, 2005, was approximately $270,000 as opposed to no expense during the year ended December 31, 2004.

Interest, dividend income and other, net

We had interest income of $42,476, $11,056 and $3,159 for the years ended December 31, 2005, December 31, 2004, and December 31, 2003, respectively.

The increase in interest income for the year ended December 31, 2005 when compared to December 31, 2004, was primarily the result of an increased amount of fixed income investments held throughout the period. At March 31, 2005, we held in marketable securities approximately $2.5 million in U.S. Treasuries which were liquidated during the three month period ended June 30, 2005. During the prior years our primary contributing asset to interest income was our cash balance which was insignificant since we did not raise capital through the issuance of equity securities until November 2005.

Realized gains (losses) on investments, net

During the years ended December 31, 2005, we realized net gains of $2,014,369 primarily from our stock appreciation rights in our holding in Excelsior for $1,747,072.

During the year ended December 31, 2004, we realized net gains of $1,591,156. We realized a gain of $1,448,014 from the sale of 908,804 shares and warrants to purchase 87,111 shares of Excelsior common stock. Additionally, we realized a net gain of $143,142 from the sale of marketable securities.

During the year ended December 31, 2003, we realized net gains of $430,883. We realized a gain of $432,900 from the sale of 568,000 shares of Excelsior Radio Networks, Inc. common stock which was offset by a loss of $2,017 from the sale of marketable securities.

We have relied and we continue to rely to a large extent upon proceeds from sales of investments rather than investment income to defray a significant portion of our operating expenses. Because such sales cannot be predicted with certainty, we attempt to maintain adequate working capital to provide for fiscal periods when there are no such sales.

Unrealized gains (losses) on marketable securities, net

Unrealized appreciation of investments increased by $32,335 during the year ended December 31, 2005, due to the price appreciation of our marketable securities.

Unrealized appreciation of investments decreased by $1,054,702 during the year ended December 31, 2004, primarily due to the sale of 908,804 shares and warrants to purchase 87,111 shares of Excelsior common stock. When we exit an investment and realize a gain, we make an accounting entry to reverse any unrealized appreciation we had previously recorded to reflect the appreciated value of the investment.

Unrealized appreciation of investments decreased by $475,605 during the year ended December 31, 2003, primarily due to the sale of a portion of the Company’s holdings of Excelsior offset by the increased valuation of Excelsior.

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, 2005, we classified all of our restricted holdings in IPEX and Digicorp as available-for-sale. At December 31, 2005, the unrealized gains (losses) on our restricted holdings in IPEX and Digicorp amounted to ($327,749) and $2,702,607, respectively. We did not hold any investments classified as available-for-sale at either December 31, 2004 or December 31, 2003.

Taxes

We are taxed under Title 26, Chapter 1, Subchapter C of the Internal Revenue Code of 1986, as amended, and therefore subject to federal income tax on the portion of our taxable income.

At December 31, 2005, we had a net operating loss carryforward of approximately $11.8 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, 2004. Based upon an analysis of purchase transactions of our equity securities during 2004, we believe that our net operating loss carryforward utilization is limited to approximately $755,000 per year.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of December 31, 2005:

Contractual obligations	**Payments Due by Period**			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**
Operating lease obligations	$ 605,622	$ 131,258	$ 347,253	$ 127,111
Note Payable to Bodnar Capital Management, LLC	1,000,000	1,000,000	—	—
Note Payable to Winstar (1)	796,554	796,554	—	—
Note Payable to Ault Glazer Bodnar Acq. Fund, LLC,	1,116,838	—	—	1,116,838
Employment Agreements	1,658,333	600,000	908,333	150,000
Clinical Trial Research Grant	322,885	322,885	—	—
Total	**$ 5,500,232**	**$ 2,850,697**	**$ 1,255,586**	**$ 1,393,949**

(1) We initially purchased Excelsior securities on August 28, 2001. As part of the purchase price we issued a $1,000,000 note. This note was due February 28, 2002 with interest at 3.54% but has a right of set-off against certain representations and warranties made by Winstar Radio Networks, Inc. The due date of the note has been extended indefinitely until the action described under Item 3. Legal Proceedings is settled.

Item 7A. 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