

FLIGHT SAFETY TECHNOLOGIES INC
Form 10-Q/A
February 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-Q/A

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For The Quarterly Period Ended November 30, 2008

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

Commission File Number: 000-33305

FLIGHT SAFETY TECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

95-4863690

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

28 Cottrell Street, Mystic, Connecticut 06355

(Address of principal executive offices)

(860) 245-0191



(Issuer's telephone number)



(Former name, former address and former fiscal year, if changed since last report)

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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock outstanding as of January 9, 2009 was 8,945,063 shares.

Explanatory Note

This Amendment No 1. on Form 10-Q/A (this "Amendment") amends our Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2008, as filed with the Securities and Exchange Commission on January 16, 2009 (the "Original Filing"). This Amendment is filed solely to (i) file a corrected Exhibit 10.1/A which is the final version of the Certificate of Designations of the Powers, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series A Convertible Preferred Stock for Flight Safety Technologies, Inc., dated December 15, 2008, which was accurately described in Item 5 of the Original Filing but which, as attached as Exhibit 10.1 to our Original Filing, contained minor deviations from the final form that we adopted and filed with the Nevada Secretary of State; (ii) attach a note immediately after the description of Exhibit 10.6/A in our List of Exhibits under Item 6 of Part II to disclose that we have requested confidential treatment from the U.S. Securities and Exchange Commission of certain information we redacted from the UTRF License Agreement filed as Exhibit 10.6 to our Original Filing and file a new Exhibit 10.6/A that more clearly designates where we redacted the information; and (iii) pursuant to the rules of the SEC, Exhibits 31.1, 31.2 and 32.1 under Item 6 of Part II of the Original Filing have been amended to contain currently-dated certifications from our chief executive officer and chief financial officer, as required by the Sarbanes-Oxley Act of 2002.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety. This Form 10-Q/A only amends and restates the certain information as previously noted, and no other items in the Original Filing are amended hereby. Except for the amended and restated information described above and contained herein, information has not been updated to reflect events subsequent to January 16, 2009, the filing date of the Original Filing.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
BALANCE SHEETS
Unaudited

	ASSETS			November 30, 2008	May 31, 2008
Current assets:					
	Cash and cash equivalents			\$ 67,354	\$ 877,899
	Contract receivables			113,318	64,396
	Investment, at fair value			-	125,000
	Other current assets			119,932	60,512
				300,604	
	Machinery and equipment, net of accumulated depreciation of \$432,447 and \$478,149, respectively			234,978	38,821
Other assets:					
	Intangible assets, net of accumulated amortization of \$16,392 and \$10,662, respectively			307,458	68,188
	Other receivables			-	30,460
	TOTAL ASSETS			\$ 843,040	\$ 1,265,276
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					

	Accounts payable			\$ 212,827		\$ 187,574
	Note payable			85,000		-
	Accrued expenses			159,735		289,739
				457,562		
Stockholders' equity:						
	Preferred stock, \$.001 par value, 5,000,000 shares authorized, none issued and outstanding			-		-
	Common stock, \$.001 par value, 50,000,000 shares authorized, 8,981,363 and 8,431,510 shares outstanding, respectively			8,981		8,432
	Additional paid-in-capital			13,842,776		13,470,027
	Treasury stock, 36,300 shares, at cost			(62,371)		(62,371)
	Accumulated deficit			(13,403,908)		(12,628,125)
				385,478		
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			\$ 843,040		\$ 1,265,276

The accompanying notes are an integral part of these financial statements

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
STATEMENT OF OPERATIONS
FOR THE THREE-MONTHS and SIX-MONTHS ENDED
NOVEMBER 30,
(unaudited)

	Three-months ended November 30,			Six-months ended November 30,		
	2008		2007	2008		2007
Contract revenues	\$ 82,858		\$ 75,144	\$ 137,713		\$ 121,345

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Cost of revenues	35,997		35,265		61,036		78,016
Gross profit	46,861		39,879		76,677		43,329
Operating expenses:							
Selling, general and administrative	427,137		742,980		765,536		1,557,907
Depreciation and amortization	18,753		27,250		25,941		54,500
Research and development	69,644		84,338		90,726		193,760
Other income	(24,281)		-		(24,281)		-
Total operating expenses	491,253		854,568		857,922		1,806,167
Operating loss	(444,392)		(814,689)		(781,245)		(1,762,838)
Interest income, net	2,330		30,793		5,462		70,773
Loss before provision for income taxes	(442,062)		(783,896)		(775,783)		(1,692,065)
Provision for income taxes	-		-		-		-
NET LOSS	\$ (442,062)		\$ (783,896)		\$ (775,783)		\$ (1,692,065)
Net loss per share:							

	Basic	\$ (0.05)		\$ (0.09)		\$ (0.09)		\$ (0.21)
	Diluted	\$ (0.05)		\$ (0.09)		\$ (0.09)		\$ (0.21)
Weighted average number of shares outstanding:								
	Basic	8,919,307		8,278,116		8,662,153		8,252,041
	Diluted	8,919,307		8,278,116		8,662,153		8,252,041

The accompanying notes are an integral part of these financial statements

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOW
FOR THE SIX-MONTHS ENDED NOVEMBER 30,
(unaudited)

		2008		2007
Cash flows from operating activities:				
	Net loss	\$ (775,783)		\$ (1,692,065)
	Adjustments to reconcile net loss to net cash used in operating activities:			
	Depreciation and amortization	25,941		54,500
	Share-based compensation	23,298		151,970
	Gain on disposition of assets	(18,393)		-
	Changes in operating assets and liabilities:			
	(Increase) decrease in contract receivables	(18,462)		(7,836)
	Decrease in other current assets and other Assets	(59,420)		49,057
	Increase (decrease) in accounts payable and accrued expenses	(104,751)		202,251

	Net cash used in operating activities	(927,570)		(1,242,123)
Cash flows from investing activities:				
	Purchase of furniture and equipment	(20,000)		-
	Proceeds from sale of investment securities	125,000		550,000
	Proceeds from sale of assets	22,025		-
	Payments for patents and trademarks	(95,000)		(49,955)
	Net cash (used in) provided by investing activities	32,025		500,045
Cash flows from financing activities:				
	Proceeds from installment note	85,000		-
	Net cash provided by financing activities	85,000		-
	Net increase (decrease) in cash and cash equivalents	(810,545)		(742,078)
	Cash and cash equivalents at beginning of period	877,899		2,439,911
	Cash and cash equivalents at end of period	\$ 67,354		\$ 1,697,833
Supplemental non-cash disclosures:				
	Issuance of common stock for purchase of furniture and equipment and license fee	\$ 350,000		-

The accompanying notes are an integral part of these financial statements

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTHS ENDED NOVEMBER 30, 2007 and 2008
(Unaudited)

		Common Stock	Additional Paid-in-Capital	Treasury	Accumulated	Stockholders'
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					Stock	Deficit	Equity
		Shares	Amount				
Balance May 31, 2007	8,331,510	\$ 8,332	\$13,125,455		\$(165,463)	\$ (9,341,826)	\$ 3,626,498
Issuance of treasury stock			32,228		103,092		135,320
Share-based compensation			16,650				16,650
Net loss						(1,692,065)	(1,692,065)
Balance November 30, 2007	8,331,510	\$ 8,332	\$ 13,174,333		\$ (62,371)	\$(11,033,891)	\$ 2,086,403
Balance May 31, 2008	8,431,510	\$ 8,432	\$ 13,470,027		\$ (62,371)	\$(12,628,125)	\$ 787,963
Share-based compensation			23,298				23,298
Issuance of stock	549,853	549	349,451				350,000
Net loss						(775,783)	\$ (775,783)

Balance November 30, 2008	8,981,363	\$ 8,981	\$ 13,842,776	\$ (62,371)	\$(13,403,908)		\$ 385,478

The accompanying notes are an integral part of these financial statements

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited)

Note 1. Basis of Presentation

The interim consolidated financial statements include the accounts of Flight Safety Technologies, Inc. and its newly formed wholly-owned subsidiary Advanced Plasma Products, Inc.

On August 7, 2008, the Company executed a letter of intent with the University of Tennessee Research Foundation (UTRF) for the licensing of patent rights related to atmospheric glow plasma technology. The agreement provides for exclusive worldwide rights to commercialize the technology in all but a few fields of use. The letter of intent provides for an initial license fee of \$150,000 payable in shares of common stock of the Company and minimum annual royalty payments starting in year two. Additionally, in a related transaction, on August 28, 2008, Advanced Plasma Products, Inc. purchased the assets of Atmospheric Glow Technologies, Inc., the previous licensee of this technology and a company in bankruptcy. These assets included essential instrument prototypes, engineering drawings, test equipment and a variety of facility related assets. We paid \$125,000 in cash and issued 289,436 shares of our common stock valued at \$200,000. On September 10, 2008, we concluded our agreement with UTRF and subsequently issued 260,417 shares of our common stock as payment for the license fee.

These interim financial statements for the three and six-months ended November 30, 2008 and November 30, 2007, included herein, have been prepared, without audit, pursuant to the rules and regulations of the SEC. Results for the periods presented are not necessarily indicative of results for the entire year. In the opinion of management, all adjustments, consisting of normal recurring adjustments, which are necessary for a fair statement of operating results for the interim periods have been made. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with our financial statements and related footnotes for the years ended May 31, 2008 and 2007 which are included in our annual report on Form 10-KSB filed on August 29, 2008.

Certain reclassifications have been made to prior interim period balances in order to conform to the current year's presentation.

Note 2

. Going Concern and Liquidity

The report of our independent registered public accountant issued in conjunction with our audited financial statements and notes thereto for the year-ended May 31, 2008 indicated that there is substantial doubt about our ability to continue as a going concern.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited) (Continued)

The Company has had recurring losses from operations that have diminished its financial resources. Our liquidity to date has primarily been provided by revenue from government contracts and proceeds from the sale of our equity securities. We have not been successful in securing any additional government funding and we will have to rely on the sale of our equity securities to generate sufficient working capital in order to successfully commercialize our newly acquired technology and to pay for our ongoing operations. As a result of the lack of government funding for our aviation security technologies, we have suspended all related research and develop work. As of November 30, 2008, we had cash on hand of \$67,000 which would be insufficient to fund our operations through the current year. On January 14, 2009, we completed a series of transactions in order to generate additional cash resources. See Note 9 of Notes to Consolidated Financial Statements for a full description of the transactions. As a result of these transactions, the Company anticipates it will have sufficient cash resources into its fiscal 4th quarter, at which time it will need to seek additional working capital. We anticipate the amount of such additional working capital could be in the range of approximately \$350,000 to \$500,000 but cannot predict or estimate such amount with certainty as the ultimate amount will depend on many variables, such as potential third party development or licensing fees, the pace and success of our product development and sales, and cash generated the by the transactions described in Note 9. **In the event we are unable to secure additional working capital we will have to curtail our operations accordingly, thus slowing down our product development and marketing efforts. Any curtailment of our operations could have a material adverse effect on our operations and financial position.**

On September 29, 2008, we were delisted from the American Stock Exchange for failure to maintain the required listing standards. We are currently trading on the Over-the-counter market under the symbol "FLTS".

Note 3. Summary of Significant Accounting Policies

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the carrying values of investments, inventory, intangible assets, other receivables and the calculation of share-based compensation. Actual results could differ from those estimates.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited) (Continued)

Share-Based Compensation:

Effective June 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Share-Based Payments (revised 2004)," (SFAS No. 123R) which requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide services in exchange for the award, the requisite service period (usually the vesting period). Under SFAS No. 123R, the Company provides an estimate of forfeitures at initial grant date. The Company elected the modified prospective transition method under SFAS 123R and accordingly has not restated periods prior to adoption. The Company recognized \$11,648, \$8,325, \$23,298 and \$16,650, as compensation expense related to employee stock options in each of the three and six-month periods ended November 30, 2008 and 2007, respectively.

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option pricing model. There were no options granted in each of the six-months ended November 30, 2008 and 2007, respectively.

Loss Per Share:

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. For the interim periods presented the effect of stock options and warrants was anti-dilutive; therefore, they were not included in the computation of diluted loss per share. The number of shares issuable upon the exercise of outstanding stock options and warrants that were excluded from the computation as their effect would be anti-dilutive, were 2,925,737, 3,840,716, 2,963,930, and 3,953,215 for the three and six-month periods ended November 30, 2008 and November 30, 2007, respectively.

Cash and Cash Equivalents:

For purposes of reporting cash flows the Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash and cash equivalents.

Revenue and Cost Recognition:

Our prior contracts with the United States government and our maritime industry customers are cost-reimbursable contracts that provide for a fixed profit percentage (base fee) applied to our actual costs to complete the work. These contracts are subject to audit and adjustment by our customer, and are subject to cost limitations as provided by the contract and the Federal Acquisition Regulations. The government has audited and accepted our rates through our fiscal year ended May 31, 2006.

For these contracts, revenue is recorded at the time services are performed based upon actual project costs incurred including a reimbursement for general, administrative, and overhead costs and the base fee. The general, administrative, and overhead costs are estimated periodically in accordance with government contract accounting regulations and may change based on actual costs incurred subject to approval. Revenue may be adjusted for our estimate of costs that may be categorized as disputed or unallowable as a result of cost overruns or the audit process.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited) (Continued)

Project costs include all direct material, labor and subcontracting costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability and final contract settlements may result in revisions to chargeable costs and revenue recorded and are recognized in the period in which the revisions are determined. Revenue related to additional claims under the contract is recorded at the lesser of actual costs incurred or the amount expected to be realized.

Machinery and Equipment:

Machinery and equipment are stated at original cost or fair value at date acquisition in the case of the bulk purchase of machinery and equipment purchased by Advanced Plasma Products, Inc. ("APP") less accumulated depreciation. Depreciation is computed using the straight-line method. Cost and accumulated depreciation of assets retired or disposed of are removed from the accounts. Gains and losses are recognized upon disposal of assets. The cost of maintenance and repairs is charged to operations as incurred, whereas significant repairs are capitalized.

Estimated useful lives by asset class are as follows:

Machinery & equipment	7 years
Furniture & fixtures	10 years
Automobiles	5 years
Software	3 years

Intangible Assets:

At November 30, 2008, intangible assets consist of patent costs associated with, AWSM, TIICM™ and atmospheric glow technologies. Acquisition costs related to obtaining new patents are capitalized. Patent costs are being amortized using the straight-line method over the lesser of seventeen years from the date incurred or the remaining life of the underlying patent.

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (SFAS 144) the Company assesses its patents for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable. Such circumstances may include a significant adverse change in legal factors or the business climate that could affect the value of the patents. The Company also considers the likelihood of obtaining required research and development funding. In determining recoverability, the Company must determine the asset's fair value, which may require Management to make significant assumptions about the future cash generating ability of the asset. If an asset is determined to be impaired, the difference between the asset's fair value and book value is charged to expense in the period the impairment is identified. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset becomes its new basis. Subsequent reversal of a previously recognized impairment loss is prohibited under SFAS 144.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited) (Continued)

Concentration of Credit Risk:

The Company had amounts in excess of \$100,000 in a single bank during the year. Amounts over \$100,000 are not covered by the Federal Deposit Insurance Corporation. Concentration of credit risk also exists with respect to investment securities and contract receivables. The concentrated risk associated with contract receivables is mitigated by the fact that these receivables are due primarily from the United States Government. The risk for investment securities is mitigated by an Investment Policy which, approved by the Board of Directors, restricts investing in fixed income securities below an "A" rating at the time of purchase and investments in asset backed securities, mortgage backed securities and collateralized mortgage obligations below a "AAA" rating at the time of purchase.

Research and Development:

Company sponsored research and development costs, including proposal costs and un-reimbursed expenditures for developmental activities, are charged to operations as incurred.

Income Taxes:

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is provided on deferred tax assets when it is more likely than not that some portion of the assets will not be realized. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period of enactment.

Fair Values of Financial Instruments:

The estimated fair value of financial instruments has been determined based on the available market information and appropriate valuation methodologies. The carrying amounts of cash and cash equivalents, accounts receivable (including other receivables), other current assets, accounts payable, notes payable and accrued expenses, approximate fair value at November 30, 2008 and May 31, 2008, because of the short maturity of these financial instruments.

Retirement Savings Plan:

Effective July 1, 2004, the Company established a Retirement Savings Plan (the "Plan") under the provisions of Section 401(k) of the Internal Revenue Code. Employees, as defined in the plan, are eligible to participate on their first day of employment. Under the terms of the Plan, the Company can match up to the employee's contribution of 5% of gross pay. The Company matching funds immediately vest 100%. The Company match for each of the three and six-months ended November 30, 2008 and 2007 were \$0, \$7,780, \$7,456 and \$23,431 respectively.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited) (Continued)

Recent Accounting Pronouncements: Fair Values of Assets and Liabilities:

The Company adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157"), *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. This Statement became effective for the Company on June 1, 2008 and did not have a material impact on the Company's consolidated financial statements. The Company also adopted SFAS No. 159, *The Fair Value Option for*

Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company did not elect fair value treatment for any financial assets or liabilities upon adoption. SFAS 159 also became effective for the Company on June 1, 2008 and did not have a material impact on the Company's consolidated financial statements.

In accordance with SFAS 157, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value:

Level 1

- Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level

2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. For example, Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or mortgage loans held for sale, for which the fair value is based on what the securitization market is currently offering for mortgage loans with similar characteristics.

Level

3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Also, the Company may be required, from time to time, to measure certain other financial assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The Company had no such assets as of November 30, 2008.

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2008 AND 2007
(Unaudited) (Continued)

At May 31, 2008 the investment consisted of an auction market preferred security, valued using Level 2 methodology.

Note 4: Contract Receivables

Accounts receivable consisted of the following at:

	<u>November 30, 2008</u>	<u>May 31, 2008</u>
Contract receivables-billed	\$ 113,318	\$ 64,396
Contract receivables-unbilled	=	<u>30,460</u>
	<u>\$ 113,318</u>	<u>\$ 94,856</u>

The amount classified as other receivables and contract receivables unbilled is a retained fee on a recently completed government contract.

Note 5: Machinery and Equipment

Property and equipment are summarized by major classifications as follows:

	November 30, <u>2008</u>	May 31, <u>2008</u>
Machinery and equipment	\$ 403,836	\$ 225,163
Furniture and fixtures	42,792	16,177
Automobiles	52,730	122,278
Software and computers	<u>168,067</u>	<u>153,352</u>
	667,425	516,970
Less accumulated depreciation	<u>(432,447)</u>	<u>(478,149)</u>
	<u>\$ 234,978</u>	<u>\$ 38,821</u>

Note 6: Intangible Assets

Intangible assets currently consist of costs associated with the newly acquired atmospheric glow technology, as well as the company's existing TIICM and AWSM technologies. As more fully explained in Note 2, above, the company has suspended all further research and development on the TIICM and AWSM technologies. Accordingly, we will be evaluating the carrying value of the TIICM and AWSM technologies to determine if those values have been impaired. The carrying values of TIICM and AWSM at November 30, 2008 were \$53,196 and \$12,676, respectively.

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(Unaudited) (Continued)

Note 7: Note Payable

Note payable consists of an installment note relating to the financing of certain insurance policies. The note is payable is 10 equal installments of \$7,407 commencing December 22, 2008 after a \$12,750 down payment. Interest is at 5.47%

Note 8: Stockholders' Equity

Warrants:

As of both November 30, 2008 and May 31, 2008, the Company had 1,919,200 warrants outstanding with exercise prices ranging from \$3.30 to \$5.40 with an expiration date of January 29, 2009. The weighted average exercise price was \$3.49.

Stock Options:

Under the Company's 2005 Stock Incentive Plan, there are 1,302,000 shares available for future awards at November 30, 2008. During the three and six-month period ended November 30, 2008, no award were made and 275,000 shares were cancelled. The weighted average exercise price of the 1,302,000 options outstanding is \$3.50. The aggregate intrinsic value of the outstanding options is \$0.

As of November 30, 2008 there was \$30,055 of total unrecognized compensation cost related to the non-vested stock options that is expected to be expensed over the next one and one-quarter years.

Note 9: Subsequent Events

We have filed with the Nevada Secretary of State a Certificate of Designations of the Powers, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof of Series A Convertible Preferred Stock for Flight Safety Technologies, Inc. (the "Certificate") designating a Series A Convertible Preferred Stock ("Preferred Stock"), par value \$0.01 per share. Each share of Preferred Stock has a liquidating value of \$100 per share, is convertible into 1,429 shares of Common Stock of the Company (subject to adjustment) and pays a cash dividend of 8% or a dividend in kind of 10%. The dividends are paid quarterly and are based on the original purchase price of the Preferred Stock. No dividends will accrue or be paid for any fiscal quarter where shares of our common stock, on a volume weighted average price, trade in excess of \$0.14. Initially, each share of Preferred Stock will have the equivalent voting rights of 1,429 shares of common stock and will vote with our existing common shareholders as a group on all matters subject to shareholder vote. However, the Preferred Stock shareholders will not be able to vote on issues involving redemption or a liquidation event until there has been an affirmative vote on such issues by our common stock shareholders. In that event,

FLIGHT SAFETY TECHNOLOGIES, INC. AND SUBSIDIARY
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(Unaudited) (Continued)

they will be allowed to vote as a group with the Common Stock shareholders on such issues, in effect, giving them a veto right. In the event of a liquidation of the Company, the Preferred Stock will have a liquidating preference and will participate in any remaining liquidating proceeds on an as-converted basis with the common shareholders after receiving the liquidating value of their Preferred Stock. Each share of Preferred Stock is convertible at the option of the holder at any time into shares of our common stock by dividing the liquidity value of \$100 by a conversion price of \$0.07 per share of common stock. The number of shares of common stock issuable upon conversion is subject to antidilution protections if we issue additional shares of common stock at less than \$0.07 per share and upon stock splits, dividends and certain other events. Reference is made to the Certificate of Designation for a complete description of the terms of the Preferred Stock. We will not register the shares of Preferred Stock or shares of common stock into which it may be converted with the U.S. Securities and Exchange Commission so as to make them eligible for publicly trading, and have no obligation or plans to do so in the future. Such shares will only be eligible to be sold or traded pursuant to the requirements of Rule 144, promulgated by the U.S. Securities and Exchange Commission, and applicable state securities laws.

SALE OF SHARES OF PREFERRED STOCK TO INVESTORS

Pursuant to a Purchase Agreement dated as of January 13, 2009 (the "Investor Purchase Agreement"), we are selling 4,400 shares of Preferred Stock for \$100 per share to a group of investors (the "Investors") in order to raise an aggregate of \$440,000 of equity for working capital purposes. Participating in this transaction are our two senior executives and three key employees (together "Employees"). Payment will be in the form of cash at closing, except for the employees who will purchase an aggregate amount of \$100,000 of Preferred Stock. Four of these employees will purchase shares with a 20% cash payment at closing and by executing a non-interest bearing promissory note payable semimonthly with a maturity date of March 31, 2009. One of these employees will purchase shares with an 8% cash payment at closing and execute a non-interest bearing promissory note payable semimonthly with a maturity date of October 31, 2009. These notes are nonrecourse and collateralized solely by the employee's Preferred Stock. The Preferred Stock sold herewith, is convertible at \$0.07 per share into a total of 6,285,714 shares of the Company's common stock, significantly diluting our existing common stock shareholders. In the Investor Purchase Agreement, we agree to indemnify investors against damages they may suffer as a result of our breach of certain representations and warranties we have made in that Agreement. Reference is made to the Certificate and the Investor Purchase Agreement for a complete description of the terms of the Preferred Stock.

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DESCRIPTION OF OUR ACQUISITION OF CFP WITH SHARES OF PREFERRED STOCK

Pursuant to a Purchase Agreement dated as of January 13, 2009 (the "CFP Purchase Agreement"), we are acquiring from the Cummins Family Limited Partnership, an Idaho limited partnership (the "Purchaser"), 100% of the outstanding stock of Cummins Family Produce, Inc., ("CFP") a potato packing business located in Idaho. The general partner and majority limited partner of the Purchaser is Cummins Family Holdings, LLC, an Idaho limited liability company controlled by Mr. Wes Cummins, a director of the Company. The consideration we are providing is the assumption of a bank promissory note in the amount of approximately \$211,000 owed by Mr. Cummins in connection with the operations of CFP and 20,000 shares Preferred Stock we will issue at closing, valued at \$2 million. Under a performance based earn-out provision, we are obligated to issue an additional number of shares of Preferred Stock, such that the total purchase price is equal to 4.25 times the yearly average EBITDA calculated over the next two years,

less the value of the bank promissory note assumed. Immediately prior to this transaction, CFP will execute (a) a 5-year supply agreement with Southern Slope, Inc., and Black Rock Ag., Inc. (together the "Growers") who will provide their entire potato harvest to the packing facility and (b) a 5-year lease agreement whereby CFP will lease the packing facility and equipment from Cummins Family Holdings, LLC. We believe that both agreements reflect current pricing in the industry. We have no rights to renew these agreements. Mr. Cummins is a majority shareholder in Southern Slope, Inc. and family members of his are the majority shareholders in Black Rock Ag., Inc. The Preferred Stock initially issued to the Purchaser in regard to this transaction is convertible at \$0.07 per share into a total of 28,571,429 shares of our common stock and will substantially dilute our existing common shareholders. As a result of this transaction, Mr. Cummins will control over 60% of the voting shares of the Company.

In the CFP Purchase Agreement, we agree to indemnify the Purchaser against damages it may suffer as a result of our breach of certain representations and warranties we have made in that Agreement. The Purchaser also has agreed to indemnify us against damages that may result if it breaches certain representations and warranties it has made relating to CFP and the Purchaser. Reference is made to, and each investor in the Preferred Stock must review, the CFP Purchase Agreement for a complete description of the terms of the CFP transactions.

RELATED PARTY TRANSACTIONS

As previously stated, Mr. Wesley Cummins is a director and shareholder of the Company, and holds a controlling interest in Cummins Family Limited Partnership, Cummins Family Holdings, LLC and Southern Slope, Inc. Mr. Wesley Cummins' family members hold a controlling interest in Black Rock Ag., Inc.

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Mr. James Schwartz, a director of the Company, is the managing member of Harvey Partners, LLC, a Delaware limited liability company that is the manager of Harvey SMidCap Fund LP, a Delaware limited partnership, and Harvey SMidCap Offshore Fund, Ltd., a Cayman Islands exempted company, which are participating in the Preferred Stock offering.

Mr. Kenneth Wood, President and Chief Executive Officer and a director of the Company is participating in the Preferred Stock offering.

Mr. Richard S. Rosenfeld, Chief Financial Officer, Vice president of Operations, Secretary/Treasurer is participating in the Preferred Stock offering.

CHANGE IN CONTROL

As a result of these transactions, Mr. Wesley Cummins will exercise or control in excess of 60% of the voting power of the Company.

This change in control will also create limitations to the use of the Company's existing net operating tax loss carryforwards.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

Except for the historical information presented in this document, the matters discussed in this annual report on Form 10-Q for the three and six month periods ended November 30, 2008 or otherwise incorporated by reference into this document, contain "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are identified by the use of forward-looking terminology such as "believes", "plans", "intend", "scheduled", "potential", "continue", "estimates", "hopes", "goal", "objective", "expects", "may", "will", "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. The safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, apply to forward-looking statements made by us. We caution you that no statements contained in this Form 10-Q should be construed as a guarantee or assurance of future performance or results. These forward-looking statements involve risks and uncertainties, which include risks and uncertainties associated with, among other things, availability of capital to fund operations, research and development, the impact of competitive products and pricing, limited visibility into future product demand, generally slower economic growth, difficulties inherent in the development of complex technology, new products sufficiency, fluctuations in operating results, and other risks are discussed in the "Known Trends, Risks and Uncertainties" section of Management's Discussion and Analysis of Financial Conditions and Results of Operations of this Form 10-Q. The actual results that we achieve may differ materially from any forward-looking statements due to such risks and uncertainties. These forward-looking statements are based on current expectations, and, except as required by law, we assume no obligation to update this information whether as a result of new information, future events or otherwise. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-Q and in our annual report on Form 10-KSB and in our other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

Overview

We have four basic developmental technologies, all in the field of aviation security that we were pursuing. These technologies were substantially funded by government contracts. We have been unsuccessful in securing additional funding for these projects, and at May 31, 2008 decided to suspend all efforts on them.

In an effort to reduce our reliance on our aviation security technologies, we have undertaken an effort to identify potential diversifying, technology-based acquisitions to enhance shareholder value and provide better opportunity for profitable operations. To that end, through our wholly owned subsidiary, Advanced Plasma Products, Inc. ("APP"), which is a Nevada corporation, we have licensed patent rights from the University of Tennessee Research Foundation relating to atmospheric glow plasma technology. In addition, APP acquired the key assets from the previous licensee of that technology, hired some of its key employees, and secured a lease on its former facility. We believe that this technology has been advanced to the stage where several products can be commercialized and released to the market within two years.

Atmospheric glow discharge plasma is a technology that produces tailored plasma gas chemistry for a wide range of applications such as air purification, materials processing, decontamination, sterilization and many others. We believe these applications can create market opportunities that cover homeland security, health care, process control, and environmental protection, remediation and control.

The report of our independent registered public accountant issued in conjunction with our audited financial statements and notes thereto for the year-ended May 31, 2008 indicated that there is substantial doubt about our ability to continue as a going concern. We have had recurring losses from operations that have greatly diminished our financial resources. Our liquidity to date has primarily been provided by revenue from government contracts and proceeds from the sale of its equity securities. Because we have not been successful in securing any additional government funding for development of our aviation security technologies, it became apparent that we needed to rely on the sale of equity

securities and/or some type of financial transaction in order to generate sufficient working capital to successfully commercialize our newly acquired plasma gas technology and to pay for ongoing operations. In Item 5 of this Report on Form 10-Q, we described certain transactions we closed on January 14, 2009 which partially fill our need for working capital.

On September 29, 2008, we were delisted from the American Stock Exchange for failure to maintain the required listing standards. Our shares of common stock currently trade on the over-the-counter market under the symbol "FLTS".

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our financial statements that have been prepared according to accounting principles generally accepted in the United States of America. In preparing these financial statements, we are required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We evaluate these estimates on an on-going basis. We base these estimates on historical experiences and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Our management has discussed these estimates and assumptions with our finance and audit committee. Subjective judgments may have a material impact on our financial statements, including the valuation of inventory and intangible assets.

Federal Acquisitions Regulations require that, among other things, our reimbursable costs are reasonable. We have analyzed our actual overhead rate and general administrative rate for the fiscal year ended May 31, 2008. We believe all component costs have been ordinary and necessary but that government auditors may consider some of our selling, general and administrative expenses for the fiscal year ended May 31, 2008 unreasonable for a company our size. The government has audited and accepted our rates through our fiscal year ended May 31, 2006. Since there is a degree of subjectivity in the judgment of what levels of cost are reasonable, we can make no assurance that the government will not require further adjustments.

Results of Operations

Revenues

: Revenues for the three and six months ended November 30, 2008 and 2007 of \$82,858, \$75,144, \$137,713 and \$121,345 respectively, consisted entirely of revenue from our hydrodynamic software development contracts issued by companies in the maritime industry. The level of revenues is dependent upon the hours worked on the tasks required. As of November 30, 2008, we terminated these contracts as the software developer who worked on them resigned. We do not have the personnel to complete these contracts, nor do we believe we can hire such replacement personnel, therefore we expect these contracts to be cancelled.

Cost of revenues:

Cost of revenues for the three and six months ended November 30, 2008 and 2007 were \$35,997, \$35,265, \$61,036 and \$78,016, respectively. It is comprised of subcontract, consultant and direct labor costs. The variances between the periods reported reflects the differences in direct labor hours incurred and billed and whether subcontractors and consultants were used.

Selling, general and administrative expenses:

Selling, general and administrative expenses for the three and six months ended November 30, 2008 and 2007 were \$427,137, \$742,980, \$765,536 and \$1,557,907, respectively. For the three-months ended November 30, 2008 and 2007, the decrease in expenses of \$315,843 resulted from the curtailment of operations in the aviation security part of our business which reduced expenditures by \$408,709, partially offset by expenses relating to acquisition and development of our newly acquired plasma gas technology of \$92,866. For the six months ended November 30, 2008 and 2007, the decrease in expenses of \$792,371 also related to the curtailment of operations in the aviation security part of our business which reduced expenditures by \$885,237, partially offset by expenses of \$92,866 of the plasma gas technology.

Depreciation and amortization:

Depreciation and amortization expense for the three and six months ended November 30, 2008 and 2007 was \$18,753, \$27,250, \$25,941 and \$54,500, respectively. For all periods involved, the reduction in depreciation and amortization related to the write-down or disposition of several assets and the completion of depreciation on other assets, partially offset by depreciation expense relating to the Plasma business.

Research and development:

Research and development expenses for the three and six months ended November 30, 2008 and 2007 were \$69,644, \$84,338, \$90,726 and \$193,760, respectively. The reductions in each of the respected periods resulted from the decision to suspend all development activities on our aviation related technologies until we are able to raise sufficient working capital for such purposes.

Other income:

Other income for the three and six month periods ending November 31, 2008 relates to the disposition of several vehicles and fully-depreciated surplus equipment..

Interest income, net:

Interest income, net for the three and six months ended November 30, 2008 and 2007 was \$2,330, \$30,973, \$5,462 and \$70,773, respectively. The reduction in each of the periods presented was attributable to a reduction in cash available for investment in interest bearing investments and accounts.

Liquidity and Capital Resources

The report of our independent registered public accountant issued in conjunction with our audited financial statements and notes thereto for the year-ended May 31, 2008 indicated that there is substantial doubt about our ability to continue as a going concern. Our sources of liquidity have been primarily from government contracts and equity financings. We have undertaken several actions to mitigate the liquidity issue. We have suspended all research and development activities on our related aviation technologies, as we currently do not have the funds to continue such efforts. In the event third party funding becomes available for this effort we will re-evaluate the resumption of such activities. In addition, our maritime contracts were terminated as a result of the resignation of the employee who specialized in such research and development. The maritime contracts were the Company's sole source of revenue in all periods presented. This lack of funding has had an adverse impact on our ability to develop our current aviation and security related technologies. As a result we have undertaken to diversify our technology base by identifying other technologies to reduce our reliance on our current technologies.

As a result of this diversification effort, on September 10, 2008, we finalized our licensing agreement with the University of Tennessee Research Foundation for the licensing of patent rights related to atmospheric glow plasma technology. The agreement provides for exclusive worldwide rights to commercialize the technology in all but a few

fields of use. The payment for the UTRF license agreement consists of our issuance of 260,417 shares of our common stock to UTRF and on-going royalties which we believe are generally in line with the market for this type of license. The UTRF license agreement is filed as Exhibit 10.6 to this Report on Form 10-Q without certain information proprietary to UTRF that it has required us to redact. We believe this technology can be applied to produce products used for, among other things, the sterilization or cleaning of a wide variety of objects and substances, such as medical instruments and air. Commercialization of this technology will require final product development and for certain applications may require regulatory approval. Additionally, in a related transaction on August 28, 2008, we purchased the assets of the previous licensee of this technology. These assets included essential instrument prototypes, engineering drawings, test equipment and a variety of facility related assets. The payment to the prior licensee for the assets was \$125,000 cash and \$200,000 paid by the issuance of 289,436 shares of our common stock. We have also hired two senior executives to manage the newly acquired technology and oversee the overall growth plan for the Company, due to their experience in growing early stage companies. As of September 2008, we started incurring additional operating costs relating to this new business. The Company's previous senior management had since resigned.

To develop products under the licensed technology and bring products to market, we estimate that we will require approximately \$2.5 million of new working capital. We are looking to obtain this working capital with proceeds from one or more private placements of our securities, some type of financial transaction or a combination of both. On January 14, 2009, we completed a series of transactions in order to generate a portion of the required additional working capital, including the acquisition of a potato packing business located in Idaho known as Cummins Family Produce Inc., an Idaho corporation. In Item 5 of this Report on Form 10-Q, we describe these transactions and their anticipated impact on us and we refer the reader to Item 5 which must be read as a continuation of this discussion of our liquidity and capital resources.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and procedures

a) The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Form 10-Q (the "Evaluation Date"). Based on such evaluation, such officers has concluded that, as of the Evaluation Date, 1) the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports the Company files under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and 2) the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

c) Changes in Internal Controls. Effective September 2, 2008, the Company hired a new Chief Financial Officer. However, we do not believe that this will have a material affect on our internal control over financial reporting. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1

: Legal Proceedings

None

Item 1A: Risk Factors

The following discussion supplements the discussion of the Company's known trends, risks and uncertainties contained in the Company's Annual Report filed on form 10-KSB for the year-ended May 31, 2008.

RISKS RELATING TO CONTINUATION OF OUR BUSINESS

To develop products under the licensed technology and bring products to market, we estimate that we will require approximately \$2.5 million of new working capital. We are looking to obtain this working capital with proceeds from one or more private placements of our securities, some type of financial transaction or a combination of both. On January 14, 2009, we completed a series of transactions in order to generate additional working capital. See Item 5 in this Form 10-Q for a full description of the transactions. As a result of these transactions, we anticipate we will have sufficient cash resources into the middle of our fiscal 4th quarter, i.e., approximately April 15, 2009, at which time we will need to seek additional working capital. We anticipate the amount of such additional working capital could be in the range of approximately \$350,000 to \$500,000 but cannot predict or estimate such amount with certainty as the ultimate amount will depend on many variables, such as potential third party development or licensing fees, the pace and success of our product development and sales, and cash generated the by the transactions described in Note 9. **In the event we are unable to secure additional working capital we will have to curtail our operations accordingly, thus slowing down our product development and marketing efforts. Any curtailment of our operations could have a material adverse effect on our operations and financial position.**

Risks Related to Our Business

CONTINUING OPERATING LOSSES

We have a history of incurring significant operating losses, including an operating loss of \$775,783 for the six-months ended November 30, 2008. We anticipate that we will continue to incur operating losses until such time as we are able to successfully commercialize our newly licensed technology. However, we can provide no assurances as to when, if ever, we will achieve operating profits or if we do, that we will be able to sustain such profitability and at what level of profitability.

OUR SUCCESS DEPENDS ON OUR SUCCESSFUL COMMERCIALIZATION OF THE ATMOSPHERIC GLOW PLASMA TECHNOLOGY

Our future success will depend on our ability to execute our operating plan to commercialize our newly acquired atmospheric glow plasma technology. On September 2, 2008 we organized a wholly owned subsidiary named Advanced Plasma Products, Inc. ("APP") to develop our 'plasma products line of business. APP has no history of operations or experience in commercialization of technology. We believe that our new senior management will be able to provide the necessary expertise to manage the commercialization of the technology, including the identification, acquisition and retention of the necessary resources. However, we estimate we will need approximately \$2.5 million of working capital to execute our operating plan. There can be no assurances that we will be successful in obtaining this working capital at all or in a timely manner.

GOVERNMENT APPROVAL OF OUR PRODUCTS

Certain markets to be targeted by APP will require that our products receive governmental approval before they can be offered for sale. There can be no assurances that we will be able to secure such governmental approval or that we can get such governmental approval on a timely basis to take advantage of market conditions.

LOSS OF KEY PERSONNEL

The future success of APP depends to a significant degree on the skills, experience and efforts of Messrs. Wood and Rosenfeld and certain key employees of APP and of the Company. The loss of any one or more of those individuals for any reason could have a material adverse impact on the operations of APP and the Company. We anticipate hiring additional expertise so as to minimize this risk, but will be unable to do so until we have raised sufficient working capital. However, there is no assurance that we will be able to hire the additional expertise or be able to do so in a timely manner.

SUCCESSFUL SALES AND MARKETING

The sales and marketing of our products will require us to find additional capable employees or distributors and manufacturer's representatives, who can understand, explain, market, and sell our technology and products to our targeted markets. We may not be successful in attracting, integrating, motivating or retaining new personnel for this effort.

SUCCESSFUL PRODUCTION

We also will need to assemble new personnel for the production of our products or identify an outside manufacturer for the production of our products. These demands will require us to rapidly increase the number of our employees, vendors, and subcontractors. There is intense competition for capable personnel in all of these areas, and we may not be successful in attracting, integrating, motivating, or retaining new personnel, vendors, or subcontractors for these required functions.

SIGNIFICANT COMPETITION

In many of our targeted markets, we may face significant competition in areas such as price, performance, perceived value, product recognition and availability of financial resources. Our strategy will be to design and position our products so that we can overcome these risks. However, we cannot guarantee that we will be able to overcome any or all of these competitive issues.

ACQUISITIONS COULD DISRUPT OUR BUSINESS

We may attempt to acquire businesses or technologies that we believe are a strategic or financial fit with our business. Any future acquisitions may result in unforeseen operating difficulties and expenditures and may absorb significant management attention. Since we may not be able to accurately predict these difficulties and expenditures, these costs may outweigh the value we realize from a future acquisition. Future acquisitions could result in issuances of equity securities that would reduce our stockholders' ownership interest.

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Risks Related to Investment in Our Securities

RISKS RELATING TO PENNY STOCKS

On September 29, 2008 our securities were delisted from the American Stock Exchange because we were unable to meet the continuing listing requirements relating to minimum stockholders' equity, share price and our history of

continuing losses. Our share price was \$.20 at the time our delisting. Securities trading below \$5.00 per share are subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934. These rules require additional disclosure by broker-dealers in connection with any trades involving a security defined as a penny stock and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors, generally institutions. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of such securities and the ability of purchasers to sell our securities in the secondary market. A penny stock is defined generally as any non-exchange listed equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. Shares of our common stock are now trading over-the-counter.

RISKS RELATING TO SHAREHOLDER DILUTION

We have indicated that we need to raise an additional approximately \$2.5 million dollars in working capital. The transactions we describe in Item 5 to this Report on Form 10-Q result in substantial dilution to our shareholders. With the trading range of the share price of our common stock between approximately \$.02 and \$.50, any future issuance of securities will significantly dilute the position of current shareholders.

YOU SHOULD CAREFULLY READ AND EVALUATE THIS ENTIRE FORM 10-Q AND OUR CURRENT SEC FILINGS INCLUDING THE RISKS IT DESCRIBES AND NOT CONSIDER OR RELY UPON ANY STATEMENT OR OPINION ABOUT US THAT IS NOT CONTAINED IN THIS FORM 10-Q AND OUR CURRENT SEC FILINGS.