

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-QSB

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

For The Quarterly Period Ended August 31, 2005

[REDACTED]

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

Commission File Number: 000-33305

[REDACTED]



FLIGHT SAFETY TECHNOLOGIES, INC.

[REDACTED]

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

Nevada

[REDACTED]

(State or other jurisdiction of  
incorporation or organization)

95-4863690

[REDACTED]

(IRS Employer Identification No.)

28 Cottrell Street, Mystic, Connecticut 06355

[REDACTED]

(Address of principal executive offices)

(860) 245-0191

[REDACTED]

(Issuer's telephone number)

[REDACTED]

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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  No

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 October 13, 2005 was 8,215,110 shares.

Transitional Small Business Disclosure Format: Yes  No

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**FLIGHT SAFETY TECHNOLOGIES, INC.**

Balance Sheets  
as of  
August 31, 2005 and May 31, 2005  
Unaudited

	<u>August 31, 2005</u>	<u>May 31, 2005</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,967,596	\$ 2,519,837
Contract receivables	660,979	415,617
Investments held to maturity	4,004,246	4,033,759
Investments available for sale at fair value	828,381	835,233
Inventory	108,044	108,044
Other current assets	<u>32,577</u>	<u>51,721</u>
Total current assets	<u>7,601,823</u>	<u>7,964,211</u>
Property and equipment, net of accumulated depreciation of \$357,358 and \$328,608	<u>233,817</u>	<u>208,562</u>
Other Assets:		
Intangible assets, net of accumulated amortization of \$50,032 and \$47,377	180,513	180,562
Investments held to maturity	500,002	500,002
Other receivables	<u>339,270</u>	<u>330,010</u>
Total Other Assets	<u>1,019,785</u>	<u>1,010,574</u>
<b>Total Assets</b>	<b>\$ <u>8,855,425</u></b>	<b>\$ <u>9,183,347</u></b>
 <b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 735,208	\$ 589,313
Accrued expenses	<u>169,115</u>	<u>180,340</u>
Total current liabilities	<u>904,323</u>	<u>769,653</u>
Stockholders' equity:		
Preferred Stock, \$0.001 par value, 5,000,000 shares authorized, none issued and outstanding	---	---
Common stock, \$0.001 par value, 50,000,000 shares authorized, 8,331,410 shares issued	8,331	8,331
Additional paid-in-capital	13,069,863	13,069,863
Treasury Stock, 116,300 shares at cost	(199,827)	(199,827)
Accumulated other comprehensive loss	---	(164,023)
Unearned stock compensation	---	(4,769)
Accumulated deficit	<u>(4,927,265)</u>	<u>(4,295,881)</u>
Total stockholders' equity	<u>7,951,102</u>	<u>8,413,694</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ <u>8,855,425</u></b>	<b>\$ <u>9,183,347</u></b>

The accompanying notes are an integral part of these financial statements

FLIGHT SAFETY TECHNOLOGIES, INC.

Statements of Operations and Other Comprehensive Income (Loss)  
For The Three Month Periods Ended August 31, 2005 and August 31, 2004  
Unaudited

	<b>Three Months <u>August,</u> <u>2005</u></b>	<b>Three Months <u>August,</u> <u>2004</u></b>
Contract Revenues	\$ 1,218,460	\$ 1,435,952
Cost of Revenues	<u>781,930</u>	<u>1,011,844</u>
Gross Profit	436,530	424,108
Operating Expenses		
Research and development	398,451	82,555
Selling, general and administrative	522,740	410,437
Depreciation and amortization	<u>31,405</u>	<u>21,783</u>
Total Operating Expenses	<u>952,596</u>	<u>514,775</u>
Loss from Operations	<u>(516,066)</u>	<u>(90,667)</u>
Other Income (Expense)		
Interest income	61,757	48,255
(Loss) on investments available for sale	<u>(170,875)</u>	=
Loss before provision for income taxes	(625,184)	(42,412)
Provision for income taxes	<u>6,200</u>	<u>6,915</u>
Net (Loss)	(631,384)	(49,327)
Other Comprehensive Income (Loss)		
Unrealized losses arising during period	(6,852)	(15,253)
Less reclassified adjustment for losses included in net income	<u>170,875</u>	=
Comprehensive (loss)	<u>\$(467,361)</u>	<u>\$(64,580)</u>
Net Loss Per Share		
Basic and diluted	\$ (.08)	\$ (.01)
Weighted Average Number of Shares Outstanding		
Basic and diluted	8,215,110	8,226,748

The accompanying notes are an integral part of these financial statements

**FLIGHT SAFETY TECHNOLOGIES, INC.**  
**Statements of Changes in Stockholders Equity**  
**For the Three Months Ended August 31, 2005 and August 31, 2004**  
**Unaudited**

	Common Stock		Additional Paid - In Capital	Treasury Stock	Accumulated Other Comp. loss	Unearned Stock Compensation	Accumulated Deficit	Stockholders' Equity
	Shares	Amount						
Balance at May 31, 2004	8,331,410	\$ 8,331	13,105,863	\$ ---	\$ (119,501)	\$ (150,733)	\$ (2,884,237)	\$ 9,959,723
Unearned stock compensation	---	---	---	---	---	15,741	---	15,741
Other Comprehensive Income (Loss)	---	---	---	---	(15,253)	---	---	(15,253)
Purchase of Treasury stock	---	---	---	(199,827)	---	---	---	(199,827)
Net Loss	---	---	---	---	---	---	(49,327)	(49,327)
Balance at August 31, 2004	<u>8,331,410</u>	<u>\$ 8,331</u>	<u>\$ 13,105,863</u>	<u>\$ (199,827)</u>	<u>\$ (134,754)</u>	<u>\$ (134,992)</u>	<u>\$ (2,933,564)</u>	<u>\$ 9,711,057</u>
Balance at May 31, 2005	8,331,410	\$ 8,331	\$ 13,069,863	\$ (199,827)	\$ (164,023)	\$ (4,769)	\$ (4,295,881)	\$ 8,413,694
Unearned stock compensation	---	---	---	---	---	4,769	---	4,769
Other comprehensive income (loss)	---	---	---	---	164,023	---	---	164,023
Net loss	---	---	---	---	---	---	(631,384)	(631,384)
Balance at August 31, 2005	<u>8,331,410</u>	<u>\$ 8,331</u>	<u>\$ 13,069,863</u>	<u>\$ (199,827)</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (4,927,265)</u>	<u>\$ 7,951,102</u>

The accompanying notes are an integral part of these financial statements

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**FLIGHT SAFETY TECHNOLOGIES, INC.**
**Statements of Cash Flow**  
**For the Three Months Ended August 31, 2005 and August 31, 2004**  
**Unaudited**

	<b>For the Three Months Ended August 31,</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
Cash flows from operating activities:		
Net loss	\$ (631,384)	\$ (49,327)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	31,405	29,465
Non-cash compensation - common stock	4,769	15,741
Loss on investments available for sale	170,875	--
Accretion on investment discounts	(27,647)	--
Changes in operating assets and liabilities:		
(Increase) decrease in other receivables	(9,260)	(62,629)
(Increase) decrease in other current assets	19,144	7,993
(Increase) decrease in contract receivables	(245,362)	125,093
Increase (decrease) in accounts payable and accrued expense	<u>134,670</u>	<u>(243,858)</u>
Net cash used in operating activities	<u>(552,790)</u>	<u>(177,522)</u>
Cash flows from investing activities:		
Purchase of held to maturity securities	(5,047,840)	(4,972,035)
Proceeds from maturity of held to maturity securities	5,105,000	5,985,817
Purchases of property and equipment	(54,005)	(56,510)
Payments for patents and other costs	<u>(2,606)</u>	--
Net cash provided by investing activities	<u>549</u>	<u>957,272</u>
Cash flows from financing activities:		
Purchase of treasury stock	--	<u>(199,827)</u>

Net cash used in financing activities	--	<u>(199,827)</u>
Net increase (decrease) in cash and cash equivalents	(552,241)	579,923
Cash and cash equivalents at beginning of period	<u>2,519,837</u>	<u>2,180,863</u>
Cash and cash equivalents at end of period	<u>\$ 1,967,596</u>	<u>\$ 2,760,786</u>

The accompanying notes are an integral part of these financial statements

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**FLIGHT SAFETY TECHNOLOGIES, INC.**

**Notes To The Financial Statements  
(Unaudited)**

**For The Three Months Ended August 31, 2005 and August 31, 2004**

**Note 1. Summary of Significant Accounting Policies:**

**Basis of Presentation**

These interim financial statements for the three months ended August 31, 2005 and August 31, 2004, included herein, have been prepared, without audit, pursuant to the rules and regulations of the SEC. Results for the three months ended August 31, 2005 and August 31, 2004 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 period 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, 2005 and May 31, 2004 which are included in our annual report on Form 10-KSB filed on August 26, 2005.

Certain reclassifications have been made to the prior period financial statements to conform to current period presentation with no effect to the Company's reported net loss or financial position.

**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 other receivables. Actual results could differ from those estimates.

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## Stock-Based Compensation

The Company accounts for its stock-based compensation using the intrinsic value method provided for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations for stock options issued to employees and directors. Under APB 25, compensation expense is recognized over the vesting period to the extent that the fair market value of the underlying stock exceeds the exercise price of the employee stock award on the date of grant. Stock options issued under our stock option plans generally have no intrinsic value at the grant date, and under APB 25 no compensation cost is recognized for them. Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, establishes a fair-value-based method of accounting for stock-based compensation plans. The Company has adopted the disclosure-only alternative under SFAS No. 123, which requires the disclosure of the pro forma effects on net loss and net loss per share as if the fair value accounting prescribed by SFAS No. 123 had been adopted.

The following table illustrates the effect on net (loss) and net (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three months ended	
	August 31, <u>2005</u>	August 31, <u>2004</u>
Net (loss) as reported	\$<631,384>	\$<49,327>
Add: stock-based employee compensation expense included in net loss	\$4,769	\$15,741
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards	<u>\$&lt;33,131&gt;</u>	<u>\$&lt;18,226&gt;</u>
Pro forma net (loss)	\$< <u>659,746</u> >	\$< <u>51,812</u> >
Earnings per share:		
Basic and diluted - as reported	\$ <.08>	\$ <.01>
Basic and diluted - pro forma	\$ <.08>	\$ <.01>

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The fair value of each option grant is estimated as of the grant date using the Black-Scholes option pricing model. The following weighted average assumptions were used to value the options granted in the quarter ended August 31, 2005:



Risk-free interest rate	4.00%
Expected dividend yield	None
Expected life of options	10 years
Expected volatility	40%
Weighted-average grant-date fair value	\$.51

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share-Based Payment, an Amendment of FASB Statements No. 123 and 95." SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services or incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments. SFAS No. 123(R) requires public entities 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 (with limited exceptions) and recognize the cost over the period during which an employee is required to provide service in exchange for the award. Adoption requires a modified prospective application whereby compensation expense is recognized on or after the required effective date for the portion of the outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards, calculated on a basis consistent with the SFAS No. 123 pro forma disclosures. The Company will adopt SFAS No. 123 (R) on its effective date, commencing with the quarter beginning June 1, 2006. Actual expense recorded related to these options would be reduced by future forfeitures.

### **Earnings 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 three month periods ended August 31, 2005 and August 31, 2004, 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 2,572,634 and 3,073,327 for the three months ended August 31, 2005 and August 31, 2004, respectively.

### **Cash and Cash Equivalents**

Cash represents cash on hand of \$75,339 in checking accounts and \$1,892,257 in money market accounts as of August 31, 2005. Money market accounts earn interest at approximately 3.34% (per annum).

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### **Inventory**

Inventory represents purchasing of long lead SOCRATES® system components to further expand to a thirty-two beam system. Inventory is accounted for at lower of cost or market and on the first-in first-out basis.

### **Revenue and Cost Recognition**

Our contracts with the United States government are cost-reimbursable contracts that provide for a fixed profit percentage 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.

For these contracts, fee revenue is recorded at the time services are performed based upon actual project costs incurred and include 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.

Contracting 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 costs and income and are recognized in the period in which the revisions are determined. Revenue related to claims is recorded at the lesser of actual costs incurred or the amount expected to realized.

### **Intangible Assets**

Intangible assets consist of patent costs. Amortization expense for the three months ended August 31, 2005 and August 31, 2004 was \$2,655 and \$2,940, respectively. Amortization expense for each of the next five years is currently expected to be approximately \$14,400.

**Note 2. Equity Transactions:**

During the three months ended August 31, 2005, there were no issuances of common stock. Our last issuance of common stock was February 14, 2004, when 328,600 shares of common stock were issued at a price of \$3.00 per share. The total shares issued as of February 14, 2004 was 8,331,410 and this is the total as of August 31, 2005.

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During the period from June 2, 2004 to June 17, 2004, we purchased 116,300 shares of our common stock at an average price of \$1.71 for a total price of \$199,827. The repurchase was authorized in a stock repurchase plan approved by our Board of Directors. Of the 8,331,410 shares of common stock issued to date, 8,215,110 are outstanding as of August 31, 2005.

**Note 3. Investments in Marketable Securities:**

A summary of investments as of August 31, 2005 is as follows:

	<b><u>Amortized Cost</u></b>	<b><u>Gross Unrealized Gains</u></b>	<b><u>Gross Unrealized (Losses)</u></b>	<b><u>Fair Value</u></b>
<b>Available for Sale</b>				
Mutual bond funds	<u>\$828,381</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$828,381</u>
<b>Held to Maturity</b>				
Corporate bonds	\$4,004,246	\$ 6,255	\$ --	\$4,010,501
U.S. Government securities	<u>500,002</u>	<u>--</u>	<u>(9,222)</u>	<u>490,780</u>
	<u>\$4,504,248</u>	<u>\$ 6,255</u>	<u>\$ (9,222)</u>	<u>\$4,501,281</u>

Contractual maturities of held-to-maturity securities at August 31, 2005 are as follows:

	<b><u>Carrying Amount</u></b>
Due in one year or less	\$4,004,246
Due in one year or more	<u>500,002</u>
	<u>\$4,504,248</u>

In the quarter ended August 31, 2005, the Company recognized an impairment loss of \$170,875 related to investments in a mutual bond fund. The impairment charge was recorded as a loss on investments available for sale in the statement of operations and other comprehensive income (loss). Despite the narrowing of the gap between the yield on the ten year Treasury note and the Consumer Price Index, the price of the investment did not improve as we had expected. The Company considered the severity and duration of these impairments and determined that they were other than temporary, and therefore, recorded the impairment loss.

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**Note 4. Stock Options:**

Options may be granted from time to time for shares of common stock as determined by the Board of Directors, subject to any applicable shareholder approval requirements. The stock options granted to date vest over a period of 36 months. The options are exercisable up to ten years from the date of vesting. The Company granted 632,955 options prior to the year ended May 31, 2004, with an exercise price of \$6.00. As of May 31, 2005, 549,621 of these options remained outstanding with 539,205 vested. On August 31, 2005, 466,287 of these options granted and outstanding as of May 31, 2005 reached their expiration date and were cancelled.

On June 23, 2005, 150,000 options were granted to employees with an exercise price of \$3.50, vesting over a 36 month period and are exercisable up to ten years from the date of grant. A summary of our outstanding stock options for the quarter ended August 31, 2005 is as follows:

	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>
Balance, May 31, 2005	969,621	\$ 4.92
Expired	(466,287)	6.00
Granted	150,000	\$ 3.50
Exercised	<u>    --</u>	<u>    --</u>
Balance, August 31, 2005	<u>653,334</u>	<u>\$ 3.82</u>

The following table summarizes information regarding options outstanding and options exercisable at August 31, 2005:

<u>Options Outstanding</u>			<u>Options Exercisable</u>		
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weight Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$6.00	83,334	1.39	6.00	83,334	\$6.00
\$3.50	<u>570,000</u>	<u>9.40</u>	<u>\$3.50</u>	<u>247,500</u>	<u>\$3.50</u>
	<u>653,334</u>	8.38	\$3.82	<u>330,834</u>	\$4.13

On September 2, 2005 the Board of Director's consented to the adoption of a resolution, subject to shareholders approval, for a Stock Option Incentive Plan. The Plan reserves 1,500,000 shares of Common Stock for issuance under this Stock Option.

**Note 5. Warrants:**

We have 1,919,300 warrants outstanding as of August 31, 2005. These warrants are comprised of 1,514,300 warrants with an exercise price of \$3.30, 270,000 with an exercise price of \$3.60, and 135,000 warrants with an exercise price of \$5.40 which were issued as part of a public offering that expire January 31, 2014.

**Note 6. Other Receivables:**

Other receivables include retained fees on Government contracts which represent up to a 15% payment hold back against billable fees, amounts representing differences in actual and provisional overhead and general administrative rates which we expect are recoverable and will be paid by the Government and other miscellaneous receivables. We do not expect to receive payments for these other receivables in the next year and consider this account a long term asset. The summary below compares the balances for other receivables as of August 31, 2005 and May 31, 2004.

August 31, 2005May 31, 2005

Retained Fee		
Phase III Socrates	\$ 48,226	\$ 39,010
Recoverable Rate difference		
Phase III Socrates	291,000	291,000
Miscellaneous	<u>44</u>	<u>0</u>
Total	<u>\$339,270</u>	<u>\$330,010</u>

Other Receivables includes recoverable rate differences resulting from the difference between the current adjusted general and administrative rate of 41% compared to our provisional rate of 29%, which has created a difference of \$158,000 for the fiscal year ended May 31, 2005. In addition, \$133,000 was the difference between the provisional rate and actual rate for fiscal year ending May 31, 2004 which brings the total recoverable rate difference to \$291,000 as of August 31, 2005.

Of the \$291,000 recoverable rate difference, \$229,428 was received in the form of a contract modification from our sponsoring government agency on September 7, 2005. Of this total \$214,326 can be billed to the government after our rates have been audited by DCAA which is scheduled for October 2005. We expect the balance of the rate difference of \$76,674 will be received from the balance of this contract modification and funds remaining in our current contract after the contract is completed which is estimated to be October 31, 2005.

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## 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 quarterly report on Form 10-QSB for the three month period ending August 31, 2005 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-QSB 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, the outcome of an informal inquiry by the SEC that appears to be in connection with certain analysts reports about us and our press releases, the outcome of pending class action litigation alleging violations of federal securities laws, whether the government will implement Wake Vortex Advisory System at all or with the inclusion of a SOCRATES® wake vortex sensor, the impact of competitive products and pricing, limited visibility into future product demand, slower economic growth generally, difficulties inherent in the development of complex technology, new products sufficiency, availability of capital to fund operations, research and development, fluctuations in operating results, and these and other risks are discussed in the "Known Trends, Risks and Uncertainties" section of this Form 10-QSB. 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-QSB 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.

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## Overview

Our current operations have been funded substantially by U.S. Congressional appropriations resulting in three successive sole source contracts with agencies of the federal government for research, development, and testing of our SOCRATES® wake vortex sensor and related work pertaining to a wake vortex advisory system, sometimes referred to as WVAS, that National Aeronautics and Space Administration (NASA) is developing. We estimate the appropriations to the Federal Aviation Administration (FAA) totaled approximately \$9.6 million in U.S. fiscal years ending September 30, 1997 through September 30, 2000 for research and development of our SOCRATES® wake vortex sensor; and appropriations to NASA for research and development of our SOCRATES® wake vortex sensor totaled approximately \$18.5 million in U.S. fiscal years ending September 30, 2001 through September 30, 2004. From these amounts, we have received three contracts aggregating approximately \$16.2 million. As of August 31, 2005, we have recognized an aggregate of approximately \$15.7 million of contract revenue with \$0.7 million in contract receivable as of August 31, 2005. Our current SOCRATES® government contract backlog is approximately \$0.5 million.

We have entered into these contracts with the Volpe National Transportation Systems Center of the U.S. Department of Transportation (Volpe). Volpe funds our contracts when, as, and if it and other sponsoring federal agencies approve a statement of work and specific task orders under the statement of work. When funded, we invoice the federal government monthly based on our direct costs, including overhead and general and administrative plus a fixed fee for that month and typically receive payment by electronic wire transfer within two weeks of invoicing. Certain costs, such as lobbying, product development, and business development expenses that are not allowable under these contracts, research and development costs we incur over certain cost caps set by the U.S. government, costs incurred while our contracts are not funded, or costs deemed unreasonable by the government are not reimbursable under our government contracts and have been funded primarily by proceeds of our equity offerings. All of our government contracts and funding are subject to the requirements of the Federal Acquisition Regulations.

Without notice to, or opportunity for prior review by us, Volpe circulated a report in October 2001 which recommended curtailing further government expenditure on our SOCRATES® wake vortex sensor due to a high risk assessment of achieving operational feasibility. Together with our major subcontractor, Lockheed Martin Corp., we vigorously disputed and extensively discussed its assertions with Volpe and NASA. Subsequent to these discussions, NASA requested and we submitted a proposal for \$2.221 million of additional SOCRATES® wake vortex sensor research, development and testing with an immediate objective of better characterizing the wake acoustics and background noise. In November 2002, Volpe approved and funded a new work order in the amount of \$1.230 million for the first phase of this proposal and in March 2003, a second work order was approved and funded in the amount of \$991,000. Included in the funding was a 7% fixed fee over and above our research and development costs plus overhead, general and administrative costs. The statement of work continued our previous contract to develop and test our SOCRATES® wake vortex sensor. This funding ended an 11-month period, from December 15, 2001 to November 19, 2002, without government funding to develop our SOCRATES® wake vortex sensor.

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On September 30, 2003, we received our third successive sole source contract from Volpe, titled Phase III SOCRATES®, for an aggregate of \$3.975 million to continue work on developing our SOCRATES® wake vortex sensor. We used these funds to expand our current SOCRATES® wake vortex sensor from a four beam configuration (which was tested at the Denver International Airport (DIA) in September 2003) to eight beams and began engineering for further expansion to sixteen beams. This contract was funded from a U.S. fiscal year 2003 Omnibus Appropriation of \$4.5 million to the NASA budget for research, development, and testing of our SOCRATES® wake vortex sensor.

For U.S. fiscal year ended September 30, 2004, an additional \$5 million NASA appropriation specifically for continued work on project SOCRATES® had been enacted into law. On November 30, 2004, after a three month period without contract funding, our sponsoring agencies approved a \$3.237 million modification and extension of our contract. As and when set forth in the contract modification, statement of work and appropriate work orders, Volpe has advanced funds to us to complete the expansion of our SOCRATES® wake vortex sensor from a eight beam configuration to a sixteen beam configuration and to conduct a test of the expanded sixteen beam SOCRATES® wake vortex sensor, which occurred at DIA in September and October 2005. Although we are cautiously optimistic, there can be no assurance that this test will be successful. Failure to achieve the desired results could limit or delay our prospects for deployment of a SOCRATES® wake vortex sensor.

For U.S. fiscal year ended September 30, 2005, Congress enacted, and the President signed into law on December 8, 2004, the Omnibus Appropriations Bill, Public Law 108-447, which contained a further \$5 million to NASA specifically designated for project SOCRATES®. On September 15, 2005 we received a new contract for \$9.815 million. From the \$5.0 million SOCRATES® funding from NASA we received a task order for \$1.695 million under the new contract. The task order is for the analysis of the data collected from the DIA test in September 2005 and to prepare a technical remediation and system trade off study. In addition we expect a second task order for approximately \$1.5 million in early calendar year 2006. Our ability to earn additional revenue under this new contract is subject to, among other things, further government appropriations and the issuance of additional task orders of which there can be no assurance.

We believe the federal government has indicated a long-term interest in the development of a wake vortex advisory system and our SOCRATES® wake vortex sensor for potential inclusion in such a system. However, the federal government has in the past delayed or reduced and may in the future delay, reduce, or eliminate funding for research and development of our SOCRATES® wake vortex sensor or the wake vortex advisory system as a result of, among other things, a reduction in support or opposition from supervising agencies or the U.S. Congress, lack of progress or setbacks in our SOCRATES® research and development, changes

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in budgetary priorities, fiscal constraints caused by federal budget deficits, or decisions to fund competing systems or components of systems. If any such delays or reductions occur, it will reduce our resources available for research and development of our proprietary technologies, new products or enhancements to SOCRATES® or UNICORN™ technologies and to market our products. Reduction of, or delays, in contract funding from the federal government could delay achievement of our profitability, if any, create a substantial strain on our liquidity, resources and product development, and have a material adverse effect on the progress of our research and development and our financial condition.

We also are pursuing development of a collision and ground proximity warning system we refer to as UNICORN™. We believe that UNICORN™ may have application to unmanned air vehicles operated for a variety of private and governmental purposes. As of August 31, 2005 the cumulative research and development expense for UNICORN™ is approximately \$1,150,000. During August 2005 we tested a UNICORN™ prototype antenna in a proof-of-principle test.

During the past fiscal year, we also began the exploratory development of a third major technology initiative called TIICM™ (Tactical Integrated Illuminating Countermeasure) in conjunction with Sanders Design International (SDI), a New Hampshire company. TIICM™ is intended to provide a low cost yet highly effective shield of protection for airliners against the threat of certain terrorist-launched missiles. In April 2004, we executed a ten year Teaming Agreement with SDI under which we would be the prime contractor on development of countermeasure technologies to protect aircraft from shoulder-fired missiles. As of August 31, 2005 we have committed approximately \$350,000 of our independent research and development funds to TIICM™. We have entered into additional arrangements with SDI pursuant to which we have to applied for a new patent on TIICM™ with SDI and have joint ownership of any resulting patent. We have also been working on TIICM™ with Analogic Corporation located in Peabody, Massachusetts. There can be no assurance that any new patents on TIICM™ will be issued, or that we will derive any revenue or profit from TIICM™, nor any expectation that we will receive any government or commercial funding for TIICM™.

We have experienced significant losses since our inception. The loss for the three months ended August 31, 2005 was \$631,384. Losses for our three fiscal years ending May 31, 2005, 2004 and 2003 were \$1,411,644, \$424,214, and \$943,974, respectively. The net loss for our fiscal year ended May 31, 2003 was caused primarily by three factors: (1) unallowable expenses under our government contract, (2) rate ceilings; and (3) expenses during unfunded periods for SOCRATES® research and development. With the reinstatement of the government contract funding in November 2003, the loss for our fiscal year ended May 31, 2004 was caused by the remaining two factors: (1) rate ceilings during the first six months, and (2) unallowable expenses

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under our government contract. The loss for the fiscal year ending May 31, 2005 and the three months ended August 31, 2005 was caused by: (1) unallowable expenses, (2) expenses during a partially unfunded period, and (3) unrecoverable expenses. The unreasonable expense category represents general and administrative expenses, primarily legal expenses and independent research and development expense which we believe are necessary but are significantly higher compared to prior years and may be considered unreasonable by the Defense Contract Audit Agency.

Our third consecutive and current government contract and the new contract received September 15, 2005 do not include rate ceilings. If the government deems our allowable expenses to be reasonable, of which there can be no assurance, the absence of rate ceilings should eliminate or reduce a significant source of losses in previous years. We will continue to incur certain unallowable expenses or allowable expenses the government deems unreasonable. We also remain subject to the risk of further delay, reduction or elimination in federal contract funding. However, it is our view that the elimination of rate ceilings is a significant improvement to our historical contract terms.

### **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. At this point in our operations, subjective judgments do not have a material impact on our financial statements except as discussed in the next paragraph.

Federal Acquisitions Regulations require that, among other things, our reimbursable costs are reasonable. We have analyzed our actual overhead rate of 69% and general administrative rate of 70% for the three months ended August 31, 2005. We believe all component costs have been ordinary and necessary but that government auditors may consider our independent research and development expense for UNICORN™ technology, and certain other general and administrative expenses as of the three months ended August 31, 2005 unreasonable for a company our size. For rate setting purposes, we have excluded \$270,000 for potential unreasonable expenses, which reduced the general and administrative rate to 39% for the three months ended August 31, 2005. 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.

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Our financial statements and notes thereto include an item for "Other Receivables" that is described therein. Other Receivables includes recoverable rate differences resulting from the difference between the current adjusted general and administrative rate of 41% compared to our provisional rate of 29%, which has created a difference of \$158,000 for the fiscal year ended May 31, 2005. In addition, \$133,000 was the difference between the provisional rate and actual rate for fiscal year ending May 31, 2004 which brings the total recoverable rate difference to \$291,000 as of August 31, 2005.

Of the \$291,000 recoverable rate difference, \$229,428 was received in the form of a contract modification from our sponsoring government agency on September 7, 2005. Of this total \$214,326 can be billed to the government after our rates have been audited by DCAA which is scheduled for October 2005. We expect the balance of the rate difference of \$76,674 will be received from the balance of this contract modification and funds remaining in our current contract after the contract is completed which is estimated to be October 31, 2005.

## **Results of Operations**

### **For the periods ended August 31, 2005 and August 31, 2004.**

*Revenues.* To date, our revenues have consisted almost entirely of revenues earned from our three successive SOCRATES® wake vortex sensor research and development contracts with the federal government.

Contract revenue for the three months ended August 31, 2005 was \$1,218,460, compared to \$1,435,952 for the three months ended August 31, 2004. The \$217,492 decrease for the fiscal quarter ended August 31, 2005 compared to the same period of the prior year was due primarily to the increased subcontractor costs for material to build a 16 beam SOCRATES® system during the three months ended August 31, 2004. As of August 31, 2005, our contract receivable against our government contract was \$660,979 as compared to \$415,617 as of August 31, 2004.

*Costs of Revenues.* Subcontractor, consultant and direct labor expenses comprise our costs of revenues. Direct contract costs for the three months ended August 31, 2005 was \$781,930 or 64.2% of revenue compared to 1,011,844 or 70.5% for the three months ended August 31, 2004 and, when adjusted for unfunded direct cost, the percent was 68.5% of revenue for the three months ended August 31, 2004. The decrease is primarily due to increased cost from our subcontractor for material to build a 16 beam SOCRATES® system in June and July 2004.

When our government contract is funded, charges to direct costs do not generally negatively impact our operating results because each contract covers its own direct costs. However, during periods when our government contract is not funded or if the actual direct cost of a specific task order exceeds its budgeted funding and the government is not willing to reallocate direct costs between task orders, any such costs we may incur are not reimbursable and must be funded from our own resources.

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*Research and Development.* Our research and development expense for the three months ended August 31, 2005 was \$398,451, compared to \$82,555 for the period ended August 31, 2004. The increase in research and development expenses of \$315,896 was primarily due to the increase of approximately \$30,000 for salaries and wages and approximately \$170,000 for consultants, travel and other miscellaneous expense for our UNICORN™ project. The increase for our UNICORN™ project expenses were for the development of UNICORN™ antenna and radar components and a proof-of-principle test in August 2005. In addition, in the three months ended August 31, 2005, we had research and development expenses of approximately \$115,000 for project TIICM™ (Tactical Integrated Illumination Countermeasure).

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*Operating Expenses.* Government contractors are required to categorize operating expenses as overhead expenses or general and administrative expenses. These two indirect "cost pools" are then divided by their appropriate "direct cost base" combinations of direct contract cost, which determines the contractors overhead and general and administrative rates. These rates, for our first two government contracts, were subject to

ceilings, which were set at 70% for overhead and 20% for general and administrative. Our third contract is not limited by rate ceilings. Instead, we submitted provisional billing rates of 83% for overhead and 29% for general and administrative for our fiscal year ending May 31, 2005. These provisional rates were based on forecasted direct and indirect costs and were audited by the Defense Contract Audit Agency (DCAA) and approved by the DOT/Volpe Center on September 13, 2004. Our actual rates, for our fiscal year ended May 31, 2004, based on actual allowable costs incurred, were submitted to the government for audit on September 16, 2004. When our actual rates have been audited, we will adjust our government contract billings higher or lower to reflect the audited actual rates versus the previous estimated provisional billing rates. As long as the DCAA determines that our actual costs are reasonable, of which there can be no assurance, we can include them in our actual rate and receive reimbursement for them. However, if the government will not approve an increase in contract funding to cover a billing adjustment that is higher than our provisional rates, we may not be able to obtain reimbursement for the increase. Our historical rates are shown below.

	<b>For Year Ended <u>5-31-04</u></b>	<b>For Year Ended <u>5-31-05</u></b>	<b>3 Months Ended <u>08-31-05</u></b>
Overhead Rates	80%	69%	69%
General and Admin. Rates	35%	41%	39%

The above rates for each of the previous periods include only allowable operating expenses. We believe the overhead rate will average over time approximately 70%. We expect that our general and administrative rate which is 39% as of August 31, 2005 and will remain at approximately 39% for our fiscal year ending May 31, 2006. We believe government auditors will consider a 39% rate reasonable, although we can make no assurance in this regard.

Our un-reimbursable non-contract costs include: 1) expenses considered unallowable per Federal Acquisition Regulations (FAR), such as lobbying, stock based compensation and company car expense, 2) over ceiling expenses, 3) expenses incurred during periods without government contract funding and/or 4) expenses the government considers unreasonable. These non-contract costs are not reimbursable under our U.S. government contracts and must be paid from other sources, primarily proceeds from the public and private sales of our equity securities. Non-contract costs have been the primary use of this source of liquidity and have had a significant impact on our operating loss to date. Our non-contract costs are detailed below:

	<b>For the Three Months Ended</b>	
	<b><u>8-31-05</u></b>	<b><u>8-31-04</u></b>
Unallowable expenses (1) & (2)	\$151,494	\$89,990
Over-ceiling expenses	--	--
Expenses during unfunded period	--	73,910
Potential unrecoverable expense	<u>270,000</u>	<u>11,000</u>
Total	<u>\$421,494</u>	<u>\$174,900</u>

Notes:

- (1) Includes \$4,769 of stock based compensation expense for the three months ended August 31, 2005.
- (2) Includes \$15,741 of stock based compensation expense for the three months ended August 31, 2004.

Our total selling, general and administrative expenses consist of allowable and unallowable expenses and for the three months ended August 31, 2005 were \$522,740, compared to \$410,437 for the three months ended August 31, 2004. The increase in selling, general and administrative expense of \$112,303 was primarily due to an increase in unallowable expenses. The unallowable expenses increase of approximately \$61,000 was primarily due to increased legal fees for issues concerning intellectual property and class action suits, directors and officers insurance, company cars, and investor relations. The balance of the increase of approximately \$60,000 was for allowable selling, general and administrative expenses primarily due to increased salary and wages, consulting fees, and allowable legal fees.

Expenses during unfunded periods were \$73,910 during the three months ended August 31, 2004 compared to \$0 for the same period ended August 31, 2005 because some of our contract work was not funded during July and August 2004. We received a contract modification for an additional \$3.237 million in government funding on November 30, 2004 which will fund operations through October 31, 2005. We received a new government contract on September 15, 2005 for \$9.815 million for Project SOCRATES® with a funded task order for \$1.695 million. We



expect the additional funding to cover expenses through January 31, 2006. We do not expect we will incur unfunded operating expenses during the period of September 1, 2005 through January 31, 2006, although we can make no assurance in this regard.

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After a review of our general and administrative expenses, we have determined that some of our research and development for Unicorn testing and certain other expenses for the three months ended August 31, 2005 could be considered unrecoverable. Accordingly, we have excluded \$270,000 for potential unrecoverable expenses, from the calculation of our actual rates, for the three months ended August 31, 2005, compared to \$11,000 for the same period in 2004.

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### **Liquidity and Capital Resources**

Our liquidity is primarily provided by revenue from our government contracts and proceeds from the sale of our equity securities.

Our third contract, titled Phase III SOCRATES®, is the third successive contract that we have received to continue work on our SOCRATES® wake vortex sensor and was initially funded at \$3.975 million. Between August 31, 2004 and November 30, 2004, we were negotiating a modification and extension of our Phase III Contract and during this period there was only partial government funding for SOCRATES® research and development. On November 30, 2004, Volpe approved a contract modification for additional funding of \$3.237 million which we have used to expand our current SOCRATES® wake vortex sensor from its previous four beam configuration to sixteen beams plus other improvements. Our funded contract backlog for the second part of our Phase III contract as of August 31, 2005 was \$530,287. In addition, our new contract and first task order for an additional \$1,695,029 will fund operations to approximately January 31, 2006.

As of August 31, 2005 and May 31, 2005, our cash and investments were \$7,300,225 and \$7,888,831, respectively. The decrease in cash on hand and investments of approximately \$590,000 was primarily attributable to the net losses of approximately \$631,000 for the three month period ended August 31, 2005.

As of August 31, 2005, we had other receivables of \$339,270 compared to \$330,010 as of May 31, 2005. The increase is due to unbilled government contract receivables for retained fees. Of the \$339,270 other receivables, unbilled rate difference represents \$291,000. We expect to recover part of the rate difference from the contract modification for cost growth received September 7, 2005 for \$229,428. We expect to recover the balance from rate adjustments absorbed through the remaining contract funding at the end of our Phase III contract.

We had total current liabilities, including accounts payable, of \$904,323 as of August 31, 2005 compared to \$769,653 as of May 31, 2005. Accounts payable as of August 31, 2005 were \$735,208, which included \$312,418 to our subcontractor, Lockheed Martin Corporation, and \$422,790 in other expenses compared to accounts payable as of May 31, 2005 of \$589,313, which included \$319,391 to Lockheed Martin, and \$269,922 in other expenses. The accounts payable increase for other expenses of \$152,868 was due to increased research and development expenses for the three months ended August 31, 2005.

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We anticipate that our funded contract balance for the second part of our Phase III contract of \$530,287 as of August 31, 2005 and our new contract task order for \$1,695,029 will fund our direct contract costs and allowable operating expenses until approximately January 31, 2006. During this period, we have budgeted and expect to incur approximately \$300,000 in non-contract unallowable costs and approximately \$250,000 in research and development. During this period, we have budgeted and expect to receive approximately \$80,000 in fees from our contract billing and approximately \$75,000 of interest income and \$215,000 payment for cost growth which is part of our other receivables. Assuming we operate within budget, as to which we can make no guaranty or assurance, we estimate our available cash and investments should be approximately \$7,120,000 as of January 31, 2006. Any acceleration or delays in the performance of these contracts by us or our subcontractors could, respectively, exhaust or extend our contract funding prior to or after January 31, 2006. In either event, we might be required to draw upon our cash before we anticipate which would reduce the foregoing estimate.

Our use of cash projections does not consider additional funding from our new \$9.815 million contract received September 15, 2005 beyond the current task order funding of \$1.695 million. In order to receive additional contract funding the government will request and we must submit a cost and technical proposal for review and approval of the government. As of the date of this report, we have not received a request for additional task orders. However, we do expect a request from the government for an additional proposal in the amount of approximately \$1.5 million by December 31, 2005. Further task orders will require additional government appropriations of which there can be no assurance. Any delay in obtaining additional government appropriations for contract funding or approved task orders might require us to draw upon our cash to fund our operations.

From time to time, we may consider and execute strategic investments, acquisitions, or other transactions that we believe could benefit us and could require use of some or all of our liquidity. To facilitate such transactions and enhance our liquidity position for these and other purposes,

such as working capital for research and development, we also may conduct from time to time various types of equity offerings, including, but not limited to, public or private offerings of common or preferred stock based on a negotiated fixed share value, or floating market price of our publicly traded shares. If we encounter delays in, or are unable to procure, contract funding from the U.S. government for further research development and testing of our SOCRATES® wake vortex sensor, incur costs over budget, or make a strategic investment, our cash resources will be reduced more rapidly than we presently anticipate. In such event, we may need to obtain additional capital to maintain operations. There can be no guarantee or assurance of our future ability to obtain capital for any of the foregoing purposes and, if obtained, the terms and conditions of such capital may dilute our present shareholders' ownership.

### **Known Trends, Risks and Uncertainties**

**Our business and future success are subject to many risks. The following describes some of the general and specific trends, risks, and uncertainties to which our business is subject and should be read with care.**

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### **Risks Related to Our Business**

**Our limited operating history and lack of commercial operations make it difficult to evaluate our prospects.**

Since we began operations in 1997, we have generated limited revenues solely from three SOCRATES® technology research and development contracts with agencies of the federal government that fund, administer, and oversee these contracts. The federal government has funded these contracts from earmarked U.S. Congressional appropriations to agencies that have awarded these contracts to us on a sole source basis without competitive bidding. Under these contracts, we are reimbursed for certain allowable research and development costs and are paid a fee calculated as a percentage of costs.

We have not as yet received any revenue from the sale of any products. We do not anticipate receiving any such revenue unless and until our SOCRATES®, UNICORN™ or TIICM™ based products become operational, which could take several years. Our estimates of the market size for the products we are developing are based on many assumptions and uncertainties. These estimates are currently being evaluated by an outside consulting firm. The actual markets and price we can charge for our products, if and when we successfully complete their development, could be substantially less and our costs could be greater than our estimates. It therefore is difficult to assess our prospects for commercial sales, revenues and profitability.

**We have incurred and, for the next several years, can be expected to incur operating losses.**

To date, we have incurred significant net losses, including net losses of \$631,384 for the three month ended August 31, 2005, \$1,411,644 for our fiscal year ended May 31, 2005 and \$424,214 for the fiscal year ended May 31, 2004. We had an accumulated deficit of \$4,927,265 as of August 31, 2005. We anticipate we may continue to incur operating losses for at least the next several years. We may never generate material revenues or achieve or maintain profitability. Substantially all our revenues have been devoted to payment of costs incurred in the research, development, and testing of our SOCRATES® or UNICORN™ technology. Our ability to achieve, maintain, and/or increase profitability will depend in large part upon the successful further development and testing of our SOCRATES®, UNICORN™-based, and TIICM™ products, Congressional appropriations and our ability to obtain additional federal research and development contracts for SOCRATES®, UNICORN™ and TIICM™ based products, approval of our SOCRATES®, UNICORN™-based, and TIICM™ products and systems by various agencies of the federal government, procurement of our products and systems by the FAA, airports and the aviation industry, and the availability of funding to finance such procurements.

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**Lack of future funding from the federal government to complete research and development of our SOCRATES® wake vortex sensor could adversely affect our business.**

Without notice to, or opportunity for prior review by us, the John A. Volpe National Transportation Systems Center of the U. S. Department of Transportation's Research and Special Programs Administration, or Volpe, circulated a report in October 2001 which recommended curtailing further government expenditure on our SOCRATES® wake vortex sensor due to a high risk assessment of achieving operational feasibility. Because of this report and the events of September 11, 2001, the government did not fund our SOCRATES® research and development contract from December 15, 2001 to November 19, 2002. Together with our major subcontractor, Lockheed Martin Corporation, we vigorously disputed and extensively discussed its assertions with Volpe and NASA. Subsequently, Volpe and NASA requested and we submitted a

research, development and testing with an immediate objective of better characterizing the wake acoustics and background noise. We received contract funding for this proposal and subsequent proposals and we believe the federal government will continue to have a long-term interest in the development of a wake vortex advisory system and our SOCRATES® wake vortex sensor for inclusion in such a system. However, the U.S. government may terminate our government contract at any time if it determines such termination is in the best interests of the government or may terminate, reduce or modify it because of budgetary constraints or any change in the government's requirements. Furthermore, the federal government has in the past delayed or reduced and may in the future delay, reduce, or eliminate funding for research and development of our SOCRATES® wake vortex sensor or the wake vortex advisory system as a result of, among other things, a reduction in support or opposition from supervising agencies or the U.S. Congress, changes in budgetary priorities, fiscal constraints caused by federal budget deficits, or decisions to fund competing systems or components of systems. If this occurs, it will reduce our resources available for research and development of our proprietary technologies, new products or enhancements to SOCRATES®, UNICORN™ or TIICM™ technologies and to market our products. Reduction of contract funding from the federal government could delay achievement of or increases in profitability, if any, create a substantial strain on our liquidity, resources and product development, and have a material adverse effect on the progress of our research and development and our financial condition.

**The government will not pay us for SOCRATES® research and development if we do not perform on our contract.**

We perform our government contracts pursuant to specific work orders from the government. Such work orders include, but are not limited to, analysis of data, research, development of our SOCRATES® technology, planning and conduct of testing, and preparation of various reports. If we do not perform the contracts in accordance with their terms, the government may withhold payment on our invoices that we submit monthly. Furthermore, if at any point the government considers a test to be a failure, it may cease to approve further work orders or fund further contracts. Loss of funding on our SOCRATES® contract would have a material adverse effect on our business, financial condition, and results of operations.

**Our success depends on our successful product development and testing.**

Our future success will depend upon our ability to successfully complete the development, testing, and commercialization of our technologies and our ability to develop and introduce new products and services to meet industry, government, and client requirements. We are planning to eventually develop a number of products, based on our SOCRATES®, UNICORN™ and TIICM™ technologies. The process of developing such products contains significant technological and engineering hurdles and is extremely complex and expensive. In 2001, Volpe and associated federally funded research centers prepared reports which concluded it was unlikely SOCRATES® would result in a sensor that could be used for any operational procedure and even for research because of technical unknowns relating to an understanding of wake vortices and the need to obtain acceptance of WVAS by controllers and pilots. We believe this conclusion was premature and based on an incomplete understanding of SOCRATES® and its operational potential. In our opinion, the testing and analysis we have conducted has increasingly supported this potential and resulted in the continuation of funding for our government contracts for research, development and testing of our SOCRATES® technology. However, there still are technical, engineering and program integration hurdles we must meet to develop SOCRATES® into an operational sensor, including, but not limited to, expanding the sensor to at least sixteen and as many as thirty-two laser beams, integrating the sensor into and with the other components of WVAS, and developing operating protocols for WVAS that define how it would be used by air traffic controllers and pilots. In the case of UNICORN™, we must successfully overcome development, engineering and testing hurdles to produce an operational product and obtain FAA approval of this product. Furthermore, we will need to extend the term of the experimental license the FCC has granted us and, ultimately, obtain a permanent license from the FCC for the operation of UNICORN™. We might not successfully complete the development of our SOCRATES®, UNICORN™ or TIICM™ technologies into operational products and our products may not be commercially viable. Our failure to complete development of any such products and achieve market acceptance would have a material adverse effect on our business, financial condition, and results of operations.

In addition, certain of our products will require customized installation to address unique characteristics of their environments. Customization could place an additional burden on our resources or delay the delivery or installation of products which, in turn, could have a material adverse effect on our relationship with clients, our business, financial condition, and results of operations.

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**Our success depends on federal government approval of our products and related systems.**

The airport and aviation industry is subject to extensive government oversight and regulation. To introduce our SOCRATES®, UNICORN™ or TIICM™ based products for commercial sale, we must successfully complete research, development, and testing and obtain necessary governmental approvals for their installation. Upon approval by the Federal Aviation Administration, or FAA, our SOCRATES® wake vortex sensor would be part of a multi-component wake vortex advisory system that also will require government approvals before it can be deployed. Any factor that delays or adversely affects this approval process, including delays in development or inability to obtain necessary government approvals, could have a material adverse effect on our business, financial condition, and results of operations, and we can make no assurance when or if all such approvals will be obtained.

**Our business relies on a strategic alliance with Lockheed Martin Corporation.**

In May 1997, we signed a Teaming Agreement with Lockheed Martin Corporation to jointly develop and market SOCRATES® based products. This agreement will expire in May 2007, unless certain earlier termination provisions occur or the agreement is extended by mutual agreement. The agreement stipulates that we serve as prime contractor and Lockheed Martin Corporation as subcontractor in the development and any deployment of our SOCRATES® wake vortex sensor. Although to date we have generally worked in close cooperation with Lockheed Martin Corporation, there is no assurance that this relationship will be sustained. Future disagreements as to work scope, revenue share, profit margins, ownership of intellectual property, or technical, marketing, or management philosophy, could adversely impact the relationship. Since we view our strategic relationship with Lockheed Martin Corporation as a vital element of our business plan, any erosion of this relationship could have a negative impact on our business and future value.

On April 26, 2004, in conjunction with the renewal of a nondisclosure agreement, we were advised by Lockheed Martin Corporation that it owns a certain patent which predates our SOCRATES® patent and, according to Lockheed Martin Corporation, contains some intellectual property related to our SOCRATES® patent. Lockheed Martin Corporation has told us that it was prevented from previously disclosing the patent to us because of a government secrecy order. After consultation with counsel, including our patent counsel, we strongly believe that the Lockheed Martin Corporation patent will not impair the value of our SOCRATES® patent because our SOCRATES® patent is aimed at improving air traffic safety, a use not contemplated by the Lockheed Martin Corporation patent. Furthermore, it is our position that Lockheed Martin

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Corporation acknowledged and accepted our invention of the SOCRATES® technology in the Teaming Agreement between us in May 1997. We have met several times with Lockheed Martin Corporation to discuss the matter and potential opportunities relating to our SOCRATES® patent. To date, Lockheed Martin Corporation continues to disagree with our position. Nevertheless, we believe that management of both companies acknowledged the value and strength of the relationship and the desire to preserve it. We are conducting further discussions with Lockheed Martin Corporation on potential ways to expand and extend the relationship and resolve any intellectual property concerns. We cannot predict or provide any assurance on the outcome of these discussions and whether any outcome will be satisfactory to us.

**We may need to raise additional capital.**

While we completed a public offering in February of 2004 resulting in net proceeds of approximately \$7.6 million, we cannot be certain that such financing will be adequate or sufficient for our future needs. We face many uncertainties with respect to research and development and the timing of commercialization of our SOCRATES®, UNICORN™ and TIICM™ based products, the availability and level of government funding, the FAA approvals required for our products, and the long sales cycle from initial customer contact to actual, if any, revenue generation. Depending on the outcome of these uncertainties, we might not be able to generate sufficient, if any, revenue or investment capital to fund our operations over the period of years we believe are required to commercialize our products. In each of our last three fiscal years, we have incurred substantial operating losses which we have funded, in part, with equity capital that we raised from new investors.

We will continue to incur significant expenses for research and development and testing of our SOCRATES®, UNICORN™ and TIICM™ technology and may continue to experience such losses prior to commercialization and thereafter. If we cannot achieve commercialization of our SOCRATES®, UNICORN™ and TIICM™ technologies with the proceeds of our recent public offering or if we are unable to generate

sufficient working capital from revenue from government funding or private contracts for these purposes, we might need to seek additional capital. In addition, other unforeseen costs and research and development costs of later generation SOCRATES®, UNICORN™ and TIICM™ based products also could require us to seek additional capital. We do not have any credit facilities in place and, should the need for additional capital arise, we may not be able to obtain sufficient, if any, additional capital or raise such capital on acceptable terms. If we need to obtain additional debt or equity capital, it may include our entry into joint ventures or issuance of additional securities, which may cause dilution to our current capital structure and stockholders' ownership. Additional securities also could have a greater priority as to dividends, distributions and other rights than our common stock.

For the life of our public warrants, the underwriter's warrants issued pursuant to our recent public offering, and our existing unregistered warrants, the holders thereof are given the opportunity to profit from a rise in the market for our common stock, with a resulting dilution in the interest of all other stockholders. So long as these warrants are outstanding, the terms on which we could obtain additional capital may be adversely affected. The holders of these warrants might be expected to exercise them at a time when we would, in all likelihood, be able to obtain any needed capital by a new offering of securities on terms more favorable than those provided by these warrants.

**Loss of key personnel could adversely affect our business.**

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers, Samuel A. Kovnat, Chairman of the Board and Chief Executive Officer, William B. Cotton, President and Director, Frank L. Rees, Executive Vice President and Director, David D. Cryer, Chief Financial Officer and Treasurer, C. Robert Knight, General Counsel, Vice President of Administration and Secretary, and Dr. Neal Fine, Senior Vice President for Technology. The sustained unavailability of any one or more of those individuals for any reason could have a material adverse impact on our operations and prospects.

At a recent meeting of our Board of Directors, Mr. Kovnat and Mr. Rees announced their intention to retire on November 30, 2007. The Board intends to develop an orderly plan of succession to appropriately carry the company forward.

We anticipate hiring additional executive officers in the future. We may not be able to complete the hiring of these additional officers in a timely manner or at all. We also depend on the ability of our executive officers and other members of senior management to continue to work effectively as a team.

**Government regulation could adversely affect our business.**

As a result of receiving contract funding from the federal government and our involvement in the field of aviation, our business and operations are subject to numerous government laws and regulations. In the near term, and for so long as we receive funding from the federal government, we will be subject to many procurement and accounting rules and regulations of the federal government. We are also subject to periodic audits by the Defense Contract Audit Agency, or DCAA. To date, we have incurred six audits by the DCAA, and reports have been issued to our government customer which has stated that we are performing in accordance with Federal Acquisitions Regulations. There is no assurance that any of the results or contents of any future audits will portray us favorably. These rules and regulations are complex in nature and sometimes difficult to interpret or apply. Adherence to these rules is reviewed by participating agencies of the federal government. If such agencies suspect or believe that violations of

procurement or accounting rules and regulations have occurred, they may refer such matters to other enforcement divisions of the federal government, such as the U.S. Attorney's Office or the Inspector General's office. If we violate these rules and regulations, even if unintentionally, we may have to pay fines and penalties or could be terminated from receiving further funding from the federal government. If we market, sell and install our products in foreign countries, the laws, rules and regulations of those countries, as well as certain laws of the United States, will apply to us. Existing as well as new laws and regulations of the United States and foreign countries which regulate aviation and airports could also adversely affect our business.

**Our success depends on our ability to protect our proprietary technology.**

Any failure by us to protect our intellectual property could harm our business and competitive position. For example, although we have sought patent protection for our technologies, the steps we have taken or intend to take with regard to protecting our technologies may not be adequate to defend and prevent misappropriation of our technology, including the possibility of reverse engineering and the possibility that potential competitors will independently develop technologies that are substantially equivalent or superior to our technology. Furthermore, any patent we have obtained or may obtain may subsequently be invalidated for any of a variety of reasons. In addition, even if we are issued a patent, we may not be able to gain any commercial advantage from such patent. Existing United States laws afford only limited intellectual property protection.

We intend to use a combination of patent, trade secret, copyright and trademark law, nondisclosure agreements, and technical measures to protect our proprietary technology. We intend to enter into confidentiality agreements with and obtain assignments of intellectual property from all of our employees, as well as with our clients and potential clients, and intend to limit access to and distribution of our technology, documentation and other proprietary information. However, the steps we take in this regard may not be adequate to deter misappropriation or independent third-party development of our technology. In addition, the laws of some foreign countries do not protect proprietary technology rights to the same extent as

do the laws of the United States. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive and could involve a high degree of risk to our proprietary rights if we are unsuccessful in such proceedings. Moreover, our financial resources may not be adequate to enforce or defend our rights in our technology. Additionally, any patents that we apply for or obtain may not be broad enough to protect all of the technology important to our business, and our ownership of patents does not in itself prevent others from securing patents that may block us from engaging in actions necessary to our business, products, or services.

**Other companies may claim that we infringe their intellectual property or proprietary rights.**

If our proprietary technology violates or is alleged to violate third party proprietary rights, we may be required to reengineer our technology or seek to obtain licenses from third parties to continue offering our technology without substantial reengineering. Any such efforts may not be successful or if successful could require payments that could have a material adverse effect on our profitability and financial condition. Any litigation involving infringement claims against us would be expensive and time-consuming, and an adverse outcome may result in payment of damages or injunctive relief that could materially and adversely affect our business.

**Under certain circumstances, the federal government may be able to use our SOCRATES®-related technologies or other technologies developed with government funding without payment to us.**

We have taken certain steps to preserve our rights in our SOCRATES®-related technologies under our contracts with the federal government. However, as is the case with all research and development contracts funded by the federal government, the Federal Acquisition Regulations provide that, under certain circumstances, the federal government may have paid-up rights to use, or have used on its behalf, our SOCRATES®-related technologies or other technologies developed with government funding. We do not expect that the federal government will attempt to use our SOCRATES®-related technologies without compensating us. Nevertheless, if the federal government attempts to exercise these rights, it is difficult to predict what effect, if any, it may have on us. If the federal government succeeds in exercising these rights, it may have a material adverse effect on our business operations and financial performance, which could negatively affect the value of our stock.

**Our future customers, including the FAA, may not accept the price of or be able to finance our products.**

At present, we cannot precisely fix a price for the sale and installation of an initial SOCRATES® wake vortex sensor at airports or UNICORN™-based collision avoidance systems in small aircraft or TIICM™ in commercial airliners. We estimate that the cost of our SOCRATES® wake vortex sensor will be roughly \$9 million to \$20 million per airport installation, depending on, among other things, the number and configuration of runways. Due to developments in the market for general aviation collision warning and avoidance products and information we have obtained from our ongoing research, development and engineering of UNICORN™, we now expect the UNICORN™-based system could be more complex than we originally envisioned.

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As a result, we anticipate the wholesale price of this product could be substantially greater than the \$10,000 price we have previously estimated. As we develop further information on the configuration and components of a UNICORN™-based system for general aviation, related production costs, and rapidly evolving competitive technologies, we will reassess the potential market for a commercial UNICORN™-based collision avoidance system for general aviation. Our current goal is to use and build on the UNICORN™ research and development we have conducted to date for application to unmanned air vehicles, if we can obtain government funding for this purpose. While we have had discussions with the federal government in this regard, it is still too early to assess our prospects for obtaining such funding. Because we have not completed the research, development, and testing of either product or received final approvals for either of them from the federal government, we have not commenced production or marketing efforts. We currently do not anticipate having these products ready for commercial sale for at least several years. We therefore are not yet in a position to gauge the reaction of potential customers to the pricing of these products or future products and whether such potential customers will be able to afford and finance our products.

We believe that the increase in efficiency and safety to airports, airlines, and private aircraft resulting from our products will justify the substantial anticipated cost of sales and installation of these products. However, our customers' ability to afford such costs will depend, in part, on the health of the overall economy, the financial condition and budget priorities of the federal government, particularly the FAA and NASA, profitability of airports, airlines, and aircraft manufacturers, and the availability of private and government sources of funding to finance the sales and acquisition of our products. While a variety of potential funding sources exist, inability of the FAA, airlines or airports to access or obtain funding for purchase and installation of our products could have a material adverse impact on sales of our SOCRATES®, UNICORN™ or TIICM™ based products.

**We may experience long sales cycles.**

We expect to experience long time periods between initial sales contacts and the execution of formal contracts for our products and completion of product installations. The cycle from first contact to revenue generation in our business involves, among other things, selling the concept of our technology and products; developing and implementing a pilot program to demonstrate the capabilities and accuracy of our products; negotiating prices and other contract terms; and, finally, installing and implementing our products on a full-scale basis. We anticipate this cycle will entail a substantial period of time, on average between seven to twelve months, and the lack of revenue experienced during this cycle and the expenses involved in bringing new sales to the point of revenue generation would put a substantial strain on our resources.

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**Our success will depend on our ability to create effective sales, marketing, production and installation forces.**

At present and for the near future, we will depend upon a relatively small number of employees and subcontractors to complete the research and development of our SOCRATES® wake vortex sensor and pursue research and development of other SOCRATES®, UNICORN™ and TIICM™ based products. The marketing and sales of these products will require us to find additional capable employees or subcontractors who can understand, explain, market, and sell our technology and products to airports, airlines, and airplane manufacturers. We also will need to assemble new personnel and/or contractors for production and installation of our products. Upon successful completion of research and development, 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.

**Our business could be adversely affected if our products fail to perform properly.**

Products and systems as complex as ours may contain undetected errors or "bugs," which result in system failures, or failure to perform in accordance with industry expectations. Despite our plans for quality control and testing measures, our products including any enhancements may contain such bugs or exhibit performance degradation, particularly during the early stages of installation, and deployment. Product or system performance problems could result in loss of or delay in revenue, loss of market share, failure to achieve market acceptance, adverse publicity, injury to our reputation, diversion of development resources and claims against us by governments, airlines, airline customers, and others.

**We could be subject to liability claims relating to malfunction of our technology.**

Sale of our products will depend on their ability to improve airport, airline, and airplane safety and efficiency. We will take great care to test our products and systems after installation and before actual operation to insure accuracy and reliability. The FAA acquires air traffic control equipment for U.S. airports, and typically assumes the principal product liability risk for such equipment. However, unforeseen problems, misuse, or changing conditions could cause our products and systems to malfunction or exhibit other operational problems. Such problems could cause, or be perceived to cause, airplane accidents, including passenger fatalities. We may receive significant liability claims if governments, airlines, airports, passengers and other parties believe that our systems have failed to perform their intended functions. Liability claims could require us to spend significant time and money in litigation, pay substantial damages, and increased insurance premiums, regardless of our responsibility for such failure. Although we plan to maintain liability insurance, such coverage may not continue to be available on reasonable terms or be available in amounts sufficient to cover one or more large claims, and the insurer may disclaim coverage as to any claim.

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**We face significant competition from other companies.**

The air safety systems and air traffic control industries are already highly competitive. Other industry participants could develop or improve their own systems to achieve the cost efficiencies and value that we believe our products will provide upon successful completion of research and development. Additional companies may enter the market with competing systems as the size and visibility of the market opportunity increases. In addition, the government could cause us to compete against other companies for research and development or production and deployment of our SOCRATES® wake vortex sensor, when and if we successfully complete its development. Many of our potential competitors have longer operating histories, greater name recognition, substantially greater financial, technical, marketing, management, service, support, and other resources than we do. Therefore, they may be able to respond more quickly than we can to new or changing opportunities, technologies, standards, or customer requirements. Competition could reduce our revenues and margins and have a material adverse effect on our operations.

New products or technologies will likely increase the competitive pressures that we face. Increased competition could result in pricing pressures, reduced margins, or the failure of our products to achieve or maintain market acceptance. The development of competing products or technologies by market participants or the emergence of new industry or government standards may adversely affect our competitive position. As a result of these and other factors, we may be unable to compete effectively with current or future competitors. Such inability would likely have a material adverse effect on our business, financial condition, or results of operations.

**Rapid technological change could render our systems obsolete.**

Our business in general is characterized by rapid technological change, frequent new product and service introductions and enhancements, uncertain product life cycles, changes in customer requirements, and evolving industry standards which make us susceptible to technological obsolescence. The introduction of new products embodying new technologies, the emergence of new industry standards, or improvements to existing technologies could render our products and systems obsolete or relatively less competitive. Our future success will depend upon our ability to continue to develop and introduce a variety of new products and to address the increasingly sophisticated needs of our customers. We may experience delays in releasing new products and systems or enhancements in the future. Material delays in introducing new products and systems or enhancements may cause customers to forego purchases of our products and systems and purchase products and systems of competitors instead.

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**Failure to properly manage growth could adversely affect our business.**

To implement our strategy, we believe that we will have to grow rapidly. Rapid growth may strain our management, financial, and other resources. To manage any future growth effectively, we must expand our sales, marketing, production, installation, and customer support



organizations, invest in research and development of new products or enhancements to existing systems that meet changing customer needs, enhance our financial and accounting systems and controls, integrate new personnel or contractors, and successfully manage expanded operations. We may not be able to effectively manage and coordinate our growth so as to achieve or maximize future profitability.

**We must hire and retain skilled personnel.**

Our success depends in large part upon our ability to attract, train, motivate, and retain highly skilled employees, particularly sales and marketing personnel, scientists, engineers, and other technical support personnel. Our failure to attract and retain the highly trained technical personnel that are integral to our direct sales, product development, installation, support, and professional services may limit the rate at which we can generate sales or develop new products or system enhancements, which could have a material adverse effect on our business, financial condition, or results of operations.

**Any acquisition we make could disrupt our business and harm our financial condition.**

We may attempt to acquire businesses or technologies that we believe are a strategic fit with our business. We currently have no commitments for any acquisition. Any future acquisition may result in unforeseen operating difficulties and expenditures, and may absorb significant management attention that would otherwise be available for ongoing development of our business. 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, the incurrence of debt, contingent liabilities, amortization of expenses related to other intangible assets and the incurrence of large, immediate write-offs.

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**You should carefully read and evaluate this entire Form 10-QSB and our current SEC filings including the risks it describes and not consider or rely upon any statement, information or opinion about us that is not contained in this Form 10-QSB and our current SEC filings.**

Certain statements, information and opinions about us have appeared and may continue to appear in published news reports, analysts' reports, other media sources and our web site. Some of the information contained in these reports or sources may not be material to understanding our business or may be out of date, erroneous or inconsistent with that disclosed in this Form 10-QSB and our current SEC filings. In making a decision to invest in our securities, you should not rely upon any of these statements, information or opinions and should only rely upon, consider and carefully evaluate the information and risks contained in this Form 10-QSB and our current SEC filings.

**We currently are involved in an informal SEC investigation.**

The staff of the SEC is conducting an informal investigation that appears to be looking into certain analyst reports about us and our press releases. To date, the SEC staff has not asserted that we have acted improperly or illegally. We have voluntarily agreed to cooperate fully with the staff's informal investigation. We believe that we have acted properly and legally with respect to these analyst reports and our press releases. However, we can neither predict the length, scope, or results of the informal investigation nor its impact, if any, on us or our operations. An adverse outcome, which we cannot predict, could negatively impact the market value of our securities and could divert the efforts and attention of our management team from our ordinary business operations.

**We may suffer losses from various investments that we make and related market risks.**

From time to time, we may make various types of investments which include, but may not be limited to, acquisitions of other companies, strategic transactions and joint ventures, repurchase of our shares, and general investment of our available cash in various types of debt and

equity securities. Some of these investments, such as acquisitions or joint ventures, may involve a high degree of risk and we could lose the entire amount of our investment. Other investments are intended to be conservative, e.g., investment of cash reserves in high quality bonds or equity funds, but are subject to judgments about many factors beyond our control which can adversely affect these types of investments. For example, a rise in such interest rates will adversely affect the value of fixed income securities we hold and we may incur a loss of principal if we have to sell under such conditions. A decline in interest rates may reduce our investment income. We

attempt to be prudent in making any of the foregoing investments, which are reviewed and approved by management and our board of directors. These types of transactions are necessary and important for the success of our overall business and our efforts to create value for our shareholders. However, we have suffered losses on certain of these investments and can make no assurance that we will not suffer losses in the future. Any such losses could have a material adverse impact on our results of operations and cash available to support our operations and investment in research and development.

### **Risks Related to Investment in Our Securities**

#### **The price of our securities could be volatile and subject to wide fluctuations.**

The market price of the securities of a pre-commercial, research and development stage aviation technology company, such as ours, can be especially volatile. Thus, the market price of our securities could be subject to wide fluctuations. In fact, the trading volume and price of our shares have fluctuated greatly. Subject to the information set forth in this Form 10-KSB, we are unaware of any specific reasons for this volatility and cannot predict whether or for how long it will continue.

If our revenues do not grow or grow more slowly than we anticipate, we are unable to procure federal contracts for our SOCRATES® wake vortex sensor UNICORN™ or TIICM™ research and development, we encounter technical or engineering obstacles to the successful commercial development of SOCRATES®, UNICORN™ or TIICM™, our operating or capital expenditures exceed our expectations and cannot be adjusted accordingly, or if some other event adversely affects us, the market price of our securities could decline. In addition, if the market for aviation technology stocks or the stock market in general experiences a loss in investor confidence or otherwise fails, the market price of our securities could fall for reasons unrelated to our business, results of operations, and financial condition. The market price of our securities also might decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Furthermore, the sale in the open market of recently sold securities or newly issued securities, which we may sell from time to time to raise funds for various purposes, and securities issuable upon the exercise of purchase rights under existing options and warrants may place downward pressure on the market price of our securities.

Speculative traders may anticipate a decline in the market price of our securities and engage in short sales of our securities. Such short sales could further negatively affect the market price of our securities.

#### **Litigation could adversely affect our operating results and financial condition.**

Companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. We and certain of our officers and current directors are defendants in pending litigation (as described in "Part II - Other Information, Item 1. Legal Proceedings" of this Form 10-QSB) that alleges violations of federal securities laws. We firmly believe that the claims contained in the complaint are without merit and intend to conduct a vigorous defense in this matter. However, defending against existing and potential

securities and class action litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which will adversely affect our results unless covered by insurance or recovered from third parties. If our defenses are ultimately unsuccessful, or if we are unable to achieve a favorable resolution, we could be liable for damage awards that could materially adversely affect our results of operations and financial condition.

**An active trading market for our securities may not be developed or sustained which could limit the liquidity of an investment in our securities.**

There is a limited trading market for our securities. From January 2002 through January 29, 2004, our common stock traded on the OTC Bulletin Board, an inter-dealer automated quotation system for equity securities. The securities sold in our recent public offering, together with the shares that formerly traded on the OTC Bulletin Board, have been approved for listing and are currently trading on the American Stock Exchange. There is no assurance that we will be able to continue to meet the listing requirements and that our securities will remain listed on the American Stock Exchange. If we are delisted from the American Stock Exchange, an investor could find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our securities. Additionally, regardless of which exchange our securities may trade on, an active and liquid trading market may not develop or, if developed, may not be sustained, which could limit security holders' ability to sell our securities at a desired price.

**If any of our securities are delisted from the American Stock Exchange, we may be subject to the risks relating to penny stocks.**

If any of our securities were to be delisted from trading on the American Stock Exchange and the trading price of such security remains below \$5.00 per share on the date such security was delisted, trading in such security would also be 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

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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.

**A large number of shares may be sold in the market following our recent public offering which may cause the price of our securities to decline.**

Sales of a substantial number of shares of our common stock or other securities in the public markets, or the perception that these sales may occur, could cause the market price of our common stock or other securities to decline and could materially impair our ability to raise capital through the sale of additional securities. We have 8,215,110 shares of our common stock outstanding. Of our outstanding shares, 6,460,403 are eligible for public trading.

**Certain events could result in a dilution of your ownership of our common stock.**

We currently have 8,215,110 shares of common stock outstanding and an aggregate of 2,572,634 warrants and options. The exercise price of all of our common stock equivalents ranges from \$3.30 to \$6.00 per share of common stock. Some of these warrants and options may provide antidilution protection to their holders which would result in our issuance of shares in addition to those under the warrant or option, upon the occurrence of sales of our common stock below certain prices, stock splits, redemptions, mergers, and other similar transactions. Furthermore, from time to time we may issue additional shares of common stock in private or public transactions to raise funds for working capital, research and development, acquisitions, or other purposes. If one or more of these events occurs, the number of outstanding shares of our common stock would increase and dilute your percentage ownership of our common stock.

**If we do not maintain an effective registration statement or comply with applicable state securities laws, you may not be able to exercise our public warrants.**

For any holder to be able to exercise our public warrants, the shares of our common stock underlying the public warrants must be covered by an effective and current registration statement and qualify or be exempt under the securities laws of the state or other jurisdiction in which you live. We cannot assure you that we will continue to maintain a current registration statement relating to the shares of our common stock underlying our public warrants or that an exemption from registration or qualification will be available throughout their term. This may have an adverse effect on demand for our public warrants and the prices that can be obtained from reselling them.

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**Our public warrants may be redeemed on short notice. This may have an adverse impact on their price.**

We may redeem our public warrants for \$0.25 per warrant, subject to adjustment in the event of a stock split, dividend or the like, upon 30 days' notice so long as the last reported sale price per share of our common stock as reported by the principal exchange or trading market on which our common stock trades equals or exceeds \$10.00 (subject to adjustment) for twenty consecutive trading days ending on the tenth day prior to the date we give notice of redemption. If we give notice of redemption, holders of our public warrants will be forced to sell or exercise the public warrants they hold or accept the redemption price. The notice of redemption could come at a time when, under specific circumstances or generally, it is not advisable or possible to sell or exercise our public warrants.

**Our officers, directors and 5% stockholders will exercise significant control over us.**

Our current officers, directors and 5% stockholders, in the aggregate, control approximately 25.96% of our outstanding common stock (including common stock issuable to such person or group within 60 days after August 31, 2005). As a result, these stockholders acting together will be able to exert significant control over matters requiring stockholder approval, including the election of directors, approval of mergers, and other significant corporate transactions. This concentration of ownership could delay, prevent, or deter a change in control, and could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of us and could affect the market price of our stock.

**We do not intend to pay cash dividends.**

We have never paid cash dividends on our stock and do not anticipate paying any cash dividends in the foreseeable future.

**We may spend our funds in ways with which our stockholders may not agree.**

The use of proceeds description from our recent public offering reflected our then-current planning and was only an estimate that is subject to change in our discretion. Furthermore, a substantial portion of the net proceeds from our recent public offering was not allocated for specific uses. Consequently, our management can spend our funds in ways with which our stockholders may not agree. We cannot predict that our funds will be invested or otherwise utilized to yield a favorable return.

**Item 3. Controls and Procedures.**

As of the end of the period covered by this quarterly report, the Company's Chief Executive Officer and Principal Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures. Based on their evaluation, the Company's Chief Executive

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Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

Several lawsuits have been filed in the United States District Court for the District of Connecticut, by purchasers of our common stock naming us, certain of our executive officers and directors, and certain underwriters, who sold shares of our common stock to the public, as defendants. The suits assert claims under Section 10b of the Securities Exchange Act of 1933. The complaints allege, among other things, that we failed to disclose material details from a report circulated by Volpe in October 2001, which generally concerned the timetable and our prospects for achieving operational viability of the SOCRATES® wake vortex sensor. The plaintiffs seek unspecified damages on behalf of a purported class of purchasers of our securities.

We firmly believe that the claims contained in the complaints are without merit and intend to conduct a vigorous defense in these matters. These lawsuits could be time-consuming and costly and could divert the attention of our management. These lawsuits or any future lawsuits filed against us could harm our business.

As previously reported, in December 2003, we learned that the SEC staff is conducting an informal investigation that appears to be looking

into certain analyst reports about us, and our press releases. The SEC staff has not asserted that we have acted improperly or illegally. We have acted properly and legally with respect to these analyst reports and our press releases. We can predict neither the length, scope, or results of the informal investigation nor its impact, if any, on us or our operations.

## Item 5. Other Information

None

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## Item 6. Exhibits and Reports on Form 8-K.

### (a) Exhibits

The following is a list of exhibits filed as part of the quarterly report on Form 10-QSB. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated.

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation (1)
3.2	By-Laws (2)
10.1	Employment Agreement effective as of November 4, 2003, between Flight Safety Technologies, Inc. and Samuel A. Kovnat (3)
10.2	Employment Agreement effective as of November 4, 2003, between Flight Safety Technologies, Inc. and William B. Cotton (4)
10.3	Employment Agreement effective as of November 4, 2003, between Flight Safety Technologies, Inc. and David D. Cryer (5)
10.4	Employment Agreement effective as of November 4, 2003, between Flight Safety Technologies, Inc. and Frank L. Rees (6)
10.5	Teaming Agreement dated May 1, 1997, by and between FSTO and Lockheed Martin Corporation (7)
10.6	Share Exchange Agreement between Reel Staff, Inc. and Flight Safety Technologies, Inc., dated June 24, 2002, as amended July 15, 2002 (8)
10.7	Cost Reimbursement Research Project Agreement between Flight Safety Technologies, Inc. and Georgia Tech Applied Research Corporation (9)
10.8	Phase III Contract issued by U.S. Department of Transportation/RSPA/Volpe Center, dated September 30, 2003 (10)
10.9	Agreement between Flight Safety Technologies, Inc. and Advanced Acoustics Concepts, Inc., dated January 14, 2000 (11)
10.10	*Phase IV Contract Issued by U.S. Department of Transportation/RITA/Volpe Center, dated September 1, 2005
31.1	*Chief Executive Officer Certification as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
31.2	*Chief Financial Officer Certification as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.1	*Certification of Chief Executive Officer and Chief Financial Officer as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

\*Submitted herewith

- (1) Incorporated by reference to Exhibit 3.1 on our Form 10-QSB, which was filed on April 6, 2004.
- (2) Incorporated by reference to Exhibit 3.2 on our Form SB-2, which was filed on August 9, 2001.
- (3) Incorporated by reference to Exhibit 10.1 on our Form SB-2/A, which was filed on January 29, 2004.
- (4) Incorporated by reference to Exhibit 10.2 on our Form SB-2/A, which was filed on January 29, 2004.
- (5) Incorporated by reference to Exhibit 10.3 on our Form SB-2/A, which was filed on January 29, 2004.
- (6) Incorporated by reference to Exhibit 10.4 on our Form 10-QSB, which was filed on April 6, 2004.
- (7) Incorporated by reference to Exhibit 10.7 on our 8-KA, which was filed on November 6, 2002.
- (8) Incorporated by reference to Exhibit 10.1 on our Form 8-K, which was filed on July 18, 2002.
- (9) Incorporated by reference to Exhibit 10.7 on our Form SB-2/A, which was filed on November 26, 2003.
- (10) Incorporated by reference to Exhibit 10.8 on our Form SB-2/A, which was filed on November 26, 2003.
- (11) Incorporated by reference to Exhibit 10.9 on our Form SB-2/A, which was filed on November 26, 2003.

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### (b) Reports on Form 8-K

On June 3, 2005, we filed a Current Report on Form 8-K. The report contained an Item 7.01 Regulation FD disclosure announcing that we will

be providing a corporate overview of the June 4, 2005 National Small Capital Conference of the Southern California Investment Association in Irvine, California.

On June 7, 2005, we filed a Current Report on Form 8-K. The report contained an Item 7.01 Regulation FD disclosure announcing that Mr. C. Robert Knight has joined the company as a full time employee and has been named Vice President for Business Administration and General Counsel.

On August 16, 2005, we filed a Current Report on Form 8-K. The report contained an Item 7.01 Regulation FD disclosure announcing that we completed our planned first test of the UNICORN™ alerting radar at the Georgia Tech Research Institute (GTRI) in Marietta, Georgia.

#### SIGNATURES

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Flight Safety Technologies, Inc.  
a Nevada corporation

October 14, 2005

By:



Samuel A. Kovnat  
Chairman and Chief Executive Officer

October 14, 2005

By:



David D. Cryer  
Chief Financial Officer and Treasurer

<b>SOLICITATION, OFFER AND AWARD</b>			1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700)		RATING		PAGE OF PAGES 1   43		
2. CONTRACT (Proc. Inst. Ident.) NO. <b>DTRT57-05-D-30115</b>		3. SOLICITATION NUMBER <b>DTRT57-05-R-20120</b>		4. SOLICITATION TYPE [ ] SEALED BID (IFB) [X] NEGOTIATED BID (RFP)		5. DATE ISSUED <b>09/01/2005</b>		6. REQUISITION/PURCHASE NUMBER <b>53-3699</b>	
7. ISSUED BY			CODE <b>DTS-852</b>		8. ADDRESS OFFER TO (If other than Item 7)				
<b>USDOT/RITA/Volpe Center Acquisition Management Division 55 Broadway Cambridge MA 02142</b>									
NOTE: In sealed bid solicitations "offer" and "offeror" mean "bid" and "bidder"									
<b>SOLICITATION</b>									
9. Sealed offers in original and _____ copies for furnishing the supplies or services in the Schedule will be received at the place specified in Item 8, or if hand carried, in the depository located in _____ SEE BLOCK #7 _____ until _____ 1200 ET _____ local time 09/06/2005									
CAUTION: LATE Submissions, Modifications and Withdrawals: See Section L, Provision No. 52.214-7 or 52.215.1. All offers are subject to all items and conditions contained in this solicitation.									
<b>10. FOR INFORMATION CALL</b>		A. NAME <b>Michael, Raymond</b>		B. TELEPHONE (NO COLLECT CALLS)			C. E-MAIL ADDRESS <b>raymondm@volpe.dot.gov</b>		
		AREA CODE <b>617</b>	NUMBER <b>494-2313</b>		EXT.				
<b>11. TABLE OF CONTENTS</b>									
(X)	SEC.	DESCRIPTION	PAGE(S)	(X)	SEC.	DESCRIPTION	PAGE(S)		
PART I - THE SCHEDULE				PART II - CONTRACT CLAUSES					
	A	SOLICITATION/CONTRACT FORM		X	I	CONTRACT CLAUSES	28		
X	B	SUPPLIES OR SERVICES AND PRICE/COST	3	PART III - LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.					
X	C	DESCRIPTION/SPECS./WORK STATEMENT	5	X	J	LIST OF ATTACHMENTS	33		
X	D	PACKAGING AND MARKING	9	PART IV - REPRESENTATIONS AND INSTRUCTIONS					
X	E	INSPECTION AND ACCEPTANCE	10	X	K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	34		
X	F	DELIVERIES OR PERFORMANCE	11						
X	G	CONTRACT ADMINISTRATION DATA	17	X	L	INSTR., CONDS., AND NOTICES TO OFFERORS	35		
X	H	SPECIAL CONTRACT REQUIREMENTS	22	X	M	EVALUATION FACTORS FOR AWARD	37		
OFFER (Must be fully completed by offeror)									
Note: Item 12 does not apply if the solicitation includes the provisions at 52.214-16, Minimum Bid Acceptance Period.									
12.	In compliance with the above, the undersigned agrees, if this offer is accepted within _____ calendar days (60 calendar days unless a different period is inserted by the offeror) from the date for receipt of offers specified above, to furnish any or all items upon which prices are offered at the price set opposite each item, delivered at the designated point(s), within the time specified in the schedule.								
13.	DISCOUNT FOR PROMPT PAYMENT (See Section I, Clause No. 52-232-8)	10 CALENDAR DAYS (%)	20 CALENDAR DAYS (%)	30 CALENDAR DAYS (%)	CALENDAR DAYS (%) <b>15 Days .5%</b>				
14.	ACKNOWLEDGEMENT OF AMENDMENTS (The offeror acknowledges receipt of amendments to the SOLICITATION for offers and related documents numbered and dated):	AMENDMENT NO.		DATE	AMENDMENT NO.		DATE		
15A.	NAME AND ADDRESS OF OFFEROR	CODE	112073119	FACILITY	NAME AND TITLE OF PERSON AUTHORIZED TO SIGN OFFER (Type or print) <b>Sam Kovnat</b>				

<b>Flight Safety Technologies, Inc.</b> <b>28 j Cottrell Street</b> <b>Mystic, CT 06355</b>			<b>Chairman &amp; CEO</b>		
15B. TELEPHONE NUMBER			15C. CHECK IF REMITTANCE ADDRESS IS DIFFERENT FROM ABOVE - ENTER SUCH ADDRESS IN SCHEDULE.	17. SIGNATURE	18. OFFER DATE
AREA CODE <b>860</b>	NUMBER <b>245-0191</b>	EXT.			
AWARD (To be completed by government)					
19. ACCEPTED AS TO ITEMS NUMBERED <b>0001 to 0009</b>		20. AMOUNT <b>\$9,815,140.00</b>		21. ACCOUNTING AND APPROPRIATION <b>See Task Order T0001</b>	
22. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION: <input type="checkbox"/> 10 U.S.C. 2304 (e) ( ) <input type="checkbox"/> 41 U.S.C. 253(e) ( )				23. SUBMIT INVOICES TO ADDRESS SHOWN IN <i>(4 copies unless otherwise specified)</i>	
24. ADMINISTERED BY (If other than Item 7)		CODE	<b>DTS-852</b>	25. PAYMENT WILL BE MADE BY	CODE
					<b>DTS-823</b>
See Schedule G				See Schedule G	
26. NAME OF CONTRACTING OFFICER (Type or print) <b>Carol Ferante</b>				27. UNITED STATES OF AMERICA  <i>(Signature of Contracting Officer)</i>	
28. AWARD DATE					
IMPORTANT - Award will be made on this Form, or on Standard Form 26, or by other authorized official written notice.					
AUTHORIZED FOR LOCAL REPRODUCTION Previous edition is unusable				STANDARD FORM 33 (Rev. 9-97) Prescribed by GSA - FAR (48 CFR) 53.214(c)	

<b>CONTINUATION SHEET</b>		REFERENCE NO. OF DOCUMENT BEING CONTINUED <b>DTRS57-05-R-20120</b>			PAGE OF 2   43	
NAME OF OFFEROR OR CONTRACTOR <b>Flight Safety Technologies, Inc.</b>						
ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)	



Period of Performance: 09/30/2005 to 09/28/2010

NSN 7540-01-152-8067

OPTIONAL FORM 336 (4-86)  
Sponsored by GSA  
FAR (48 CFR) 53.110

DTRT57-05-R-20120

**SECTION B - SUPPLIES OR SERVICES AND PRICES/COSTS**

**B.1 CONTRACT TYPE**

A. This is an indefinite delivery/indefinite quantity (IDIQ) task order contract, with cost-plus-fixed-fee provisions. Requirements will be placed under this contract through the issuance of task orders on a completion form basis

B. Individual cost-plus-fixed-fee task orders will be issued on a completion type basis pursuant to FAR 16.306 (d) (1) whenever possible. If a completion type task order is not appropriate, a term type task order may be issued, pursuant to FAR 16.3 06(d) (2).

C. The services and material to be ordered hereunder shall be reimbursed in accordance with the provisions of the clauses herein entitled, Allowable Cost and Payment (FAR 52.216-7) and Fixed Fee (FAR 52.216-8), the terms of which are construed to apply, on an individual basis, to each task order issued. For the purpose of establishing the fixed fee for each task order issued under this contract, refer to the clause in Section G.5 entitled, Payment of Fee - IDIQ.

**B.2 CONTRACT LIMITATIONS**

**B.2.A Maximum Contract Value**

The value of all task orders placed under this contract shall not exceed Fill in Time of Award.

**B.2.B. Minimum Guarantee**

The minimum guarantee is at least \$2,500.00 worth of task orders to be issued under this contract. The minimum guarantee amount will be satisfied by the issuance of the first task order under this contract done concurrently with the contract award.

**B.2.C Availability of Funds**

Please note that the award of the contract is subject to FAR 52.232-18, entitled "Availability of Funds". The text of the clause is as follows:

"Funds are not presently available for this Contract. The Government's obligation under this contract is contingent upon the availability of appropriated funds from which payment for contract purposes can be made. No legal liability on the part of the Government for any payment may arise until funds are made available to the Contracting Officer for this contract and until the Contractor receives notice of such availability, to be confirmed in writing by the Contracting Officer."

**B.3 CONTRACT SCOPE (MAY 1999)**

The Contractor, acting as an independent contractor and not as an agent of the Government, shall furnish all personnel, facilities, support, and management necessary to provide the services required under this contract and its subsidiary task orders. The scope of this effort is defined in the Statement of Work (SOW). Specific requirements will be stated in individual task orders.

**B.4 SERVICES AND PRICES**

CLIN	SUPPLIES/SERVICES	QTY	UNIT ESTIMATED COST	UNIT FIXED FEE	ESTIMATED COST PLUS FIXED FEE
0001	Task 1 Denver 2005 Data Analysis & Report	1	_____	_____	_____
0002	Task 2 System Expansion to 32 Beams	1	_____	_____	_____
DTRT57-05-R-20120					
0003	Task 3 System Software Upgrade	1	_____	_____	_____
0004	Task 4 Technical Risk Mitigation	1	_____	_____	_____
0005	Task 5 Billboard Configuration	1	_____	_____	_____
0006	Task 6 RIV Noise Reduction	1	_____	_____	_____
0007	Task 7 WVNS ConOps	1	_____	_____	_____
0008	Task 8 Field Test Preparation	1	_____	_____	_____
0009	Task 9 Program Management	1	_____	_____	_____
	<b>TOTAL (0001-0009)</b>		_____	_____	_____

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**SECTION C - DESCRIPTION/SPECIFICATIONS/WORK STATEMENT**

**C.1 Background**

National Aeronautics and Space Administration (NASA) and the Federal Aviation Administration (FAA) have jointly prepared a Wake Turbulence Research Management Plan (WTRMP), which has been discussed extensively with non-governmental stakeholder organizations (commercial air carriers, aircraft manufacturers, pilot unions and controller unions). This plan is comprised of FAA-led near-term wake-vortex-mitigation procedural changes (primarily for closely spaced parallel runways), joint FAA/NASA mid-term procedural changes that incorporate new weather collection/prediction technologies, and long-range active wake prediction solutions led by NASA. The objective of this research is to reduce the current wake turbulence (WT) separation requirements without compromising safety. NASA seeks to accomplish this by developing a system to inform controllers when new, reduced separation standards could not be used safely and current, larger separation distances would be employed. This system would provide for weather and wake vortex monitoring, analysis, and prediction. It would include a controller display indicating safe separation intervals for the operative weather conditions. The ultimate success of the NASA elements of the WTRMP will only occur upon FAA acceptance of these new systems/procedures into the National Airspace System (NAS) based on a finding that they are safe and effective.

The purpose of this Statement of Work (SOW) is to record the agreements between NASA's Langley Research Center (LaRC) and the U.S. Department of Transportation (DOT) Volpe National Transportation Systems Center (Volpe Center). The tasks to be accomplished by the Volpe Center will support NASA LaRC's development of a system concept and operational capability for a wake vortex advisory system (WVAS) at airports to improve airport safety and capacity. Specifically, this work seeks to develop a wake sensor based on wake acoustic emissions that employs an array of laser beams termed the SOCRATES<sup>1</sup> concept.

**C.2 Scope**

Under this Agreement, the Contractor shall support the Government in following areas:

- Expand and enhance the previously developed SOCRATES sensor by increasing the number of beams and the sensitivity of individual beams;
- Prepare for a test to determine its capability as an airport operational wake turbulence sensor;
- Expand and build on prior work on Theory and Modeling of the formation and behavior of wake turbulence acoustic emanations;
- Continue the development of a Concept of Operations for a wake vortex advisory system;

- Conduct activities needed for an anticipated test of the prototype SOCRATES system at Denver International Airport during the summer of 2005 and 2006.

The services include some, but not all efforts required for development of a wake turbulence advisory system, associated field logistics, test plan development, conduct of field testing, reporting on the effectiveness of the wake turbulence advisory system and integration within the airport environment.

### C.3 Objective

The objective of this work is the development and testing of a prototype laser-acoustic wake vortex detection and tracking system with potential applicability within an operational airport environment. Airport capacity is dependent upon numerous factors, including weather, airport configuration, aircraft types and the wake vortex spacing requirements. With the modernization of the NAS, which includes improved weather sensors and the exchange of aircraft data, new sensors and data will assist with the improvement of airport capacity. However, wake vortices and the present conservative spacing requirements can limit the improvements in NAS capacity. An important potential NAS improvement is an adaptive aircraft separation system for takeoffs and landings that requires the ability to localize and track wakes in both lateral and vertical position, so that the determination can be made whether a wake is or will be in a specific airspace volume of significance to other aircraft. Development of a laser-acoustic wake vortex sensor has the potential to provide NAS users with the benefits of new procedures to improve airport capacity without compromising safety.

1 SOCRATES: Sensor for Optically Characterizing Remote Turbulence Emanating Sound	

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### C.4 Tasks

#### Task 1: Denver 2005 Data Analysis and Report

The Contractor shall perform a detailed analysis of the data recorded during the September 2005 field test of the 16-beam SOCRATES™ sensor at Denver International Airport, including additional off-line analyses suggested by the "quick-look" test results and data from environmental, acoustic, or other wake-tracking sensors operated by the Government or other contractors. The Contractor shall document the analysis results in a Test Report that includes, where possible, comparisons to data recorded from other sensors, as well as recommendations for relating SOCRATES™ sensor data to vortex behavior predictions from NASA's Aircraft Vortex Spacing System (AVOSS) algorithms.

#### Task 2: System Expansion to 32 Beams

The Contractor shall complete the expansion of the current 16-beam SOCRATES™ prototype sensor to a 32-beam system. The Contractor shall further enhance the SOCRATES™ sensor capabilities to detect and, to the extent possible, classify and localize wake vortices both in and out of ground effect and, in particular, in the landing approach corridor. The Contractor shall provide documentation on all enhancements to the SOCRATES™ sensor. As part of the development effort, the Contractor shall prepare and present a Preliminary Design Review (PDR) and Critical Design Review (CDR) for Government review and approval.

#### Task 3: System Software Upgrade

The Contractor shall design and implement capability improvements to the SOCRATES™ System Software as required for the expansion of the sensor and for improvements in detection, classification and tracking of wake vortices. Improvements shall include the use of focused array beamforming to estimate the position of wakes in the approach volume of landing aircraft, as well as increases in processing speed and reliability. As part of the software upgrade the Contractor shall prepare and present a Preliminary Design Review (PDR) and Critical Design Review (CDR) for Government review and approval.

#### Task 4: Technical Risk Mitigation

The Contractor shall develop a candidate set of technical risk mitigation steps that address both the system hardware and software elements. The Contractor shall consider, but not be limited to the following candidates: improved laser and optical system performance, careful analysis and factory testing of the support structure that will be used in the billboard array field test, and reduced receiver noise based on reduced-temperature electronics. The Contractor shall present the candidate set to the Government for approval, and upon approval shall implement those found to have the greatest benefit.

#### Task 5: Billboard Configuration

The Contractor shall design the components for a 32-beam laser-acoustic wake detection/tracking system based on the SOCRATES™ concept. The system shall be capable of operation with the plane of the laser array oriented at or near vertical relative to the ground, and capable of deployment off the runway centerline. The 32 beams shall be capable of operation in a single, "focused" configuration, or with the beams "split" into two groups of 16, to provide estimates of both range and angular position of the wake vortices. The system shall be designed to have the ability to distinguish between relatively loud sound generated by approaching aircraft and the relatively weak acoustic signal emanating from the wake.

#### Task 6: RIV Noise Reduction

The Contractor will pursue technical approaches to the suppression and mitigation of noise from both internal and external sources, with particular emphasis on Refractive-Index Variability (RIV) noise the effect of various-sized volumes of air with varying temperature and humidity moving through the laser beams. This will include refinement of methodologies for mounting laser projectors and reflecting mirrors and shielding the fiber optic transmissions and internal system electronics from noise and vibration sources. The Contractor will conduct experiments to quantify the gains available from this technology.

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#### Task 7: WYAS ConOps

The Contractor shall continue refinement and expansion of the Government's Phase 3 Concept of Operations (ConOps) addressing WakeVAS airport operations including a sensor based on the SOCRATES™ concept. The ConOps shall relate requirements for weather and vortex behavior monitoring to take best advantage of information provided by the SOCRATES™ sensor, and shall describe additional sensors, communications and display subsystems that may be needed in an implementation of a WakeVAS. The Contractor will work closely with Government and industry partners to design a WakeVAS emulation during the field test to be executed under future Government sponsorship. The Contractor shall also support the Government in briefing airports and other stakeholders on WakeVAS.

#### Task 8: Field Test Preparation

The Contractor shall prepare the system for deployment/testing at a site to be determined by the Government. Contractor activities shall include: review of system design to determine fragile elements. Design/selection of packing containers, arrangement for transportation, and interaction with Government personnel performing Task V3.

#### Task 9: Project Management

The Contractor shall provide monthly management status reports describing the previous month's accomplishments and next month's activities. The Monthly Report shall also include a financial summary, which shall include last month's expenditures and next month's anticipated expenditures. The financial summary shall also include a spend plan indicating projected spending as a function of task and month. The Contractor's financial progress will be monitored against the spend plan. If the Contractor exceeds the spend plan, the Contractor shall proffer solutions to reduce the cost to the cost submitted to the Government at the time of proposal.

The Contractor shall meet with the Government, at least every third month, to discuss status and progress of technical activities and to engage in an interactive discussion of related technical activities with other participating organizations.

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## APPENDIX 1

### WAKE TURBULENCE DEFINITIONS

In the course of discussing the various aspects of wake behavior both in ground effect and out of ground effect, a number of terms have been used that have not been defined sufficiently to avoid confusion since there does not seem to be universally accepted definitions of these terms. Also, since some of these terms are also used not only in discussions and conversation relative to wake behavior but also in contract statements of work, it is essential that a consistent set of definitions be used. In this volume, the terms Detection, Classification, Localization, Tracking, and Characterization, as they apply to wake turbulence, will be defined.

The definitions of the terms that apply to this SOW are as follows:

1. **Detection:** The sensing of an atmospheric phenomenon during a given dynamic sensor search sequence that was not there during the previous search sequence and persists for some number of subsequent sensor sequences. For non-search sensors, static sensors, it may also be defined as the appearance of information that is sustained signifying the existence of an atmospheric phenomenon. ( $D_D$ ,  $D_S$ )
2. **Classification:** The unique identification of wake turbulence from the variety of possible atmospheric phenomena. ( $C_w$ )
3. **Localization:** Identification of the position in space of the wake turbulence. This must further be clarified as to whether it is a two or three-dimensional localization. ( $L_2$ ,  $L_3$ )
4. **Tracking:** The localization of the wake turbulence as a function of time as determined by the sensor search sequence rate. Tracking may also be interpreted as locking onto and following the wake in its motion path. The former may be called passive tracking since it is really continuous localization. The latter may be called active tracking and may require additional sensor system capabilities including active position extrapolation through prediction. ( $T_p$ ,  $T_A$ )
5. **Characterization:** Defining the state of the wake. Some of the properties of the state of the wake are circulation and, perhaps, axial orientation. Additional properties, and this is not intended to be an all inclusive listing of properties of interest, such as wake stability, turbulence, acoustics, and the velocity profile may also, under some circumstances, be defined as part of characterization. ( $C_c$ ,  $C_0$ ,  $C_s$ ,  $C_T$ ,  $C_A$ ,  $C_V$ )

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## SECTION D - PACKAGING AND MARKING

### **D.1 MARKING (MAY 1999)**

All items submitted to the Government shall be clearly marked as follows:

- A. NAME OF CONTRACTOR;
- B. CONTRACT NUMBER;
- C. TASK ORDER NUMBER; (If Applicable)
- D. DESCRIPTION OF ITEMS CONTAINED THEREIN;
- E. CONSIGNEE'S NAME AND ADDRESS; and
- F. If applicable, packages containing software or other magnetic media shall be marked on external containers with a notice reading substantially as follows: 'CAUTION: SOFTWARE/MAGNETIC MEDIA ENCLOSED. DO NOT EXPOSE TO HEAT OR MAGNETIC FIELDS'.

### **D.2 PACKAGING (MAY 1999)**

The Contractor shall ensure that all items are preserved, packaged, packed, and marked in accordance with best commercial practices to meet the packing requirements of the carrier and ensure safe delivery at destination

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## SECTION E - INSPECTION AND ACCEPTANCE

### **E.1 FAR 52.252-2 Clauses Incorporated by Reference. (FEB 1998)**

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in fill text. Upon request, the Contracting Officer will make their fill text available. Also, the fill text of a clause may be accessed electronically at this/these address(es):

<http://www.dot.gov/ost/m60/tamtar>  
<http://farsite.hill.af.mil/vjfr.htm>  
<http://www.arnet.gov/far>

52.246.3	Inspection of Supplies - Cost Reimbursement	MAY 2001
52.246-5	Inspection of Services - Cost Reimbursement	APR 1984

## **E.2 GOVERNMENT REVIEW AND ACCEPTANCE (MAY 1999)**

A. Technical inspection and acceptance of all work, performance, reports, and other deliverables under this contract shall be performed at the location specified in an individual task order. The task order shall also designate the individual responsible for inspection and acceptance, as well as the basis for acceptance. Task order deliverable items Rejected shall be corrected in accordance with the applicable clauses.

B. Unless otherwise stated in the individual task order, the Government requires a period not to exceed thirty (30) days after receipt of the final deliverable item(s) for inspection and acceptance or rejection. Final acceptance rests with the Contracting Officer or designee.

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## **SECTION F - DELIVERIES OR PERFORMANCE**

### **F.1 FAR 52.252-2 Clauses Incorporated by Reference. (FEB 1998)**

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this/these address (es):

<http://www.dot.gov/ost/m60/tamtar>  
<http://farsite.hill.af.mil/vjfr.htm>  
<http://www.arnet.gov/far>

52.242-15	Stop-Work Order.	AUG 1989
52.242-15	Stop-Work Order - Alternate 1	APR 1984

### **F.2 CONTRACT PERIOD OF PERFORMANCE (MAY 2003)**

The period of performance of the contract shall be five (5) years from the date the Contracting Officer signs the contract award (effective date of the contract)

### **F.3 RIGHTS IN DATA (DEC 1998)**

All data first produced in the performance of this contract, including software, shall be delivered with unlimited Government rights, unless otherwise agreed to in writing by the Contracting Officer when granting permission to establish claim to copyright as required by FAR 52.227-14(c).

### **F.4 TECHNICAL REPORTS --TASK ORDER CONTRACTS (SEP 1999)**

Task orders that identify technical reports as a deliverable will culminate in one of two types: letter type or technical. The letter type will be used primarily for smaller tasks such as data validation, field support, task planning documents, literature searches, analysis plans, conference-planning documents, and schedules. A formal technical report may be required for major tasks and may include earlier letter type reports as subsections. The task order will specify the type of reports as well as the formatting and the number of copies required. The reports submitted shall be subject to review and approval by the Volpe Center Contracting Officer's Technical Representative (COTR) or Task Order COTR and, if necessary, will be modified and resubmitted. The Contractor shall submit a final report incorporating the COTR's comments on the draft final report. The number and delivery schedule will be specified in each task order. Most final reports shall be submitted on disks and in hard copy in a format specified in the task order.

### **F.5 DELIVERIES -- TASK ORDER CONTRACTS (DEC 1998)**

Delivery of supplies, services, written documents, etc (including required formats and delivery locations) will be in accordance with the task order requirements. All correspondence and reports related to each task order shall be delivered to the cognizant Contracting Officer and/or designated Contracting Officer's Technical Representative (COTR) as specified in the task order.

### **F.6 PLACE OF CONTRACT PERFORMANCE -- OTHER THAN ON-SITE CONTRACTS (MAY 1999)**

Performance in or use of Government facilities by the Contractor is not authorized under this contract without the prior approval of the Contracting Officer. This approval will be in the form of a modification to the contract or task.

### **F.7 MEETINGS AND ORAL PRESENTATIONS (DEC 1998)**

The Contractor shall meet with the Volpe Center Contracting Officer's Technical Representative (COTR) at regular intervals to discuss the status of the work and make oral presentations. In addition, the Contractor shall meet with the COTR and other personnel engaged in the program at a location to be established by the COTR to discuss critical areas revealed by the contractor's work

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### **F.8 DOCUMENTATION OF COMPUTER PROGRAMS (MAR 2005)**

The Contractor shall fully document all computer programs under its purview and, in so doing, comply with documentation standards such as the traditional MIL-STD-498 or the more current standard, IEEE/EIA 12207. Unless otherwise specifically agreed to by the Contracting Officer in writing, the Contractor shall deliver the computer program source and object code accompanied by the appropriate support documentation. See System Documentation in Section C.4.C.3.g. above for the required document types.

### **F.9 MONTHLY TASK ORDER COST REPORTS - (MAY 1999)**

Monthly cost reports will be submitted by the Contractor, except for fixed price tasks, setting forth monthly and cumulative (1) direct labor hours by categories as set forth in the task including subcontract hours, and (2) elements of cost by direct loaded labor dollars, subcontracts, and other direct costs, etc., which have been incurred and/or committed. Proprietary rate information should not be disclosed. The costs that have been committed but are unpaid to date will be noted. Where cumulative amounts on the monthly reports differ from the aggregate amounts contained in the request(s) for contract financing payments covering the same period, the Contractor must provide a reconciliation of the difference as part of the monthly report. In these reports, the Contractor shall also make its current assessment of completing the remaining work within the remaining funds. A graph shall be prepared by the Contractor using the vertical axis for dollars and the horizontal axis for time that shows actual and projected rates of expenditures for the Task Order. THE SUBMISSION OF THESE REPORTS DOES NOT RELIEVE THE CONTRACTOR OF ITS RESPONSIBILITY UNDER THE

LIMITATION OF COSTS OR FUNDS CLAUSES, APPLICABLE TO EACH TASK ORDER AND IDENTIFIED IN SECTION I OF THIS CONTRACT. The Volpe Center may require that the report be submitted in a designated format.

#### **F.10 MONTHLY TASK ORDER PROGRESS REPORTS (MAY 1999)**

A monthly progress report shall be submitted for all ongoing task orders. The Volpe Center may require that the report be submitted in a designated format. At a minimum, the report will cover the following items:

- A. The work performed during the previous month.
- B. Significant findings, problems, delays, events, trends, etc. during the reporting period which result from or affect the performance of the task order.
- C. Detailed technical description of the work planned for the next reporting period.
- D. Specific action requested of the Government to assist in the resolution of a problem or to effect the timely progression of the task order.
- E. An up-to-date schedule of the work performed and work to be performed under the task order. A chart shall be presented reflecting planned project accomplishments versus actual accomplishments in terms of time.

#### **F.11 WARRANTIES (MAY 1999)**

With respect to equipment or supplies acquired under this contract, title of which will pass to the Government, the Contractor shall ensure that any warranties, together with rights to replacement, service, or technical assistance, shall run to or automatically be assigned to the Government.

#### **F.12 REPORTS OF WORK - REPORT DISTRIBUTION (MAY 1999)**

Nothing set forth herein regarding number of copies shall be construed as authority to disregard the provisions of the clause of this contract entitled "Printing".

- A. Contract Progress Report:  
1 copy CO or Administrative Contracting Officer (ACO)  
1 copy COTR

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- B. Monthly Task Order Progress Reports:  
1 copy CO/ACO  
1 copy COTR  
1 copy task order COTR (as applicable)

- C. Monthly Task Order Cost Reports:  
1 copy CO/ACO  
1 copy COTR  
1 copy task order COTR (as applicable)

- D. Technical Reports

The number of copies and recipients will be determined in each task order. The Contractor shall provide a copy of the cover letter transmitting final submission of technical deliverables to the designated ACO.

#### **F.13 CONTRACT PROGRESS REPORT (MAY 1999)**

- A. A contractor, which has been awarded one or more task orders, shall provide monthly overall progress reports. The progress reports shall be provided to the CO or his designee not later than the 15th of each month. The reports shall be submitted in a designated format. The Government may require submission of reports electronically in a format to be specified.
- B. The monthly progress reports shall address all activity under the contract through the last day of the previous month.
- C. The monthly progress report shall contain the following information:
  - (1) A listing of all new task orders accepted for the preceding month, including, for each:
    - a. Task order number and date of issuance;
    - b. Brief description of work covered by task order, including estimated hardware/software amounts (if applicable);
    - c. Amount obligated under task order;
    - d. Total potential task order amount (including options);
    - e. Key milestones (including date of first and last deliverable);
    - f. Subcontractor information, if applicable (including name(s), classification of subcontractor (i.e., small, disadvantaged, large, etc.), type of effort being performed, estimated amount/percentage of work to be done by subcontractor(s));
    - g. Type of task order (i.e., firm-fixed-price, cost-plus-fixed-fee, cost-plus-award-fee); and
    - h. Key personnel assigned to task order, including prime Contractor contact point and phone number for task order.

- (2) A listing of all ongoing task orders (excluding those from paragraph (1) above) including:
- a. Task order number and date of issuance;
  - b. Any modifications to the task order;
  - c. Summary of dollars expended to date per task order;
  - d. Estimated percentage of work yet to be completed on the task order;
  - e. Progress in meeting subcontracting goals and performance measures under the task order (if applicable); and
  - f. Any updates/revisions to the information provided under paragraph (c) (1) of this clause.

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- (3) A listing of all completed task orders, including:
- a. Task order number and date of issuance;
  - b. Number and value of modifications issued for the task order;
  - c. Completion date of task order and whether or not inspection and acceptance has been performed by Government;
  - d. Total dollar amount of task order, including modifications;
  - e. Success/failure in meeting subcontracting goals and performance measures under the task order (if applicable);
  - f. Any updates/revisions to the information provided under paragraph (C) (1) or (C) (2) of this clause; and
  - g. Status of performance evaluation comments.
- (4) Significant findings, problems, delays, events, trends, etc. during the reporting period which result from or affect the performance of any task order and any perceived problems which affect the base contract.

D. The data required in paragraphs (A) through (C) above, along with other relevant information required, shall be subject to inclusion in a past performance database developed and maintained by the Government.

**F.14 DELIVERIES AND SCHEDULE**

	<b>Title</b>	<b>Deliverable</b>
Task 1	Denver 2005 Data Analysis and Report	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> 90 days, following the receipt of funding.</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Draft Report, 30 days following completion of DIA Socrates Test.</li> <li><input type="checkbox"/> Final Report, 60 days following completion of DIA Socrates Test.</li> </ul>
Task 2	System Expansion to 32 Beams	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> 12 months, beginning upon receipt of funding.</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Preliminary Design Review (PDR), 3 months after receipt of funding.</li> <li><input type="checkbox"/> Critical Design Review (CDR), 6 months after receipt of funding.</li> </ul>

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Task 3	System Software Upgrade	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 12 months, beginning upon receipt of funding.</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ Preliminary Design Review (PDR), 3 months after receipt of funding.</li> <li>□ Critical Design Review (CDR), 6 months after receipt of funding.</li> </ul>
Task 4	Technical Risk Mitigation	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 12 months, beginning upon receipt of funding.</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ Presentation of candidate set of risk reduction steps, 6 months after receipt of funding.</li> <li>□ Presentation of results of implementing risk reduction steps, 12 months after receipt of funding.</li> </ul>
Task 5	Billboard Configuration	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 12 months, beginning with approval of the PDR for both Tasks C1 and C2.</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ System Status Review, 6 months after approval to proceed.</li> <li>□ Factory Acceptance Test (FAT) at the contractor's facility, 12 months after approval to proceed.</li> </ul>
Task 6	MV Noise Reduction	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 10 months, beginning with receipt of funding.</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ Presentation of noise reduction techniques and initial assessment of their effectiveness, 5 months after receipt of funding</li> <li>□ Presentation of measured/calculated effectiveness of noise reduction techniques, 10 months after receipt of funding.</li> </ul>

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Task 7	WVAS Con Ops	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 8 months, beginning upon receipt of funding</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ WVAS ConOps Description document, 8 months after receipt of funding</li> </ul>
Task 8	Field Test Preparation	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 3 months, beginning with notification to proceed</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ System Deployment Planning Meeting, upon notification to proceed with task.</li> <li>□ Deployment Readiness Meeting, 3 months after notification to proceed with task.</li> </ul>
Task 9	Project Management	<p><b>Schedule</b></p> <ul style="list-style-type: none"> <li>□ 14 months, beginning upon receipt of funding</li> </ul> <p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>□ Management Status Reports, monthly beginning upon receipt of funding</li> <li>□ Program Status Briefings, 3, 6, 9, and 12 months after receipt of funding.</li> </ul>

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## **SECTION G - CONTRACT ADMINISTRATION DATA**

### **G.1 TAR 1252.242-73 CONTRACTING OFFICERS TECHNICAL REPRESENTATION (OCT 1994)**

A. The CO may designate Government personnel to act as the CO's Technical Representative (COTR) to perform functions under the contract such as review and/or inspection and acceptance of supplies and services, including construction and other functions of a technical nature. The CO will provide a written notice of such designation to the contractor within five working days after award or for construction, not less than five working days prior to giving the contractor the notice to proceed. The designation letter will set forth the authorities and limitations of the COTR under the contract.

B. The CO cannot authorize the COTR or any other representative to sign documents (i.e., contracts, contract modifications, etc) that require the signature of the CO.

### **G.2 RESPONSIBILITY FOR CONTRACT ADMINISTRATION (DEC 1998)**

**Contracting Officer:** The Contracting Officer (CO) has the overall responsibility for this contract. The CO alone, without delegation, is authorized to take actions on behalf of the Government to amend, modify, or deviate from the contract terms, conditions, requirements, specifications, details and/or delivery schedules. However, the CO may delegate certain other responsibilities to his/her authorized representatives.

**Administrative Contracting Officer:** An Administrative Contracting Officer (ACO) may be designated by the Contracting Officer. The duties of an ACO include but are not limited to: analyzing and making recommendations on the Contractor's proposals, offers, or quotations upon request of the Contracting Officer and approving Contractor's invoices in accordance with the terms of the contract.

**Contracting Officer's Technical Representative:** A Contracting Officer's Technical Representative (COTR) will be designated by the Contracting Officer. The responsibilities of the COTR include but are not limited to: inspecting and monitoring the Contractor's work; determining the adequacy of performance by the Contractor in accordance with the terms and conditions of this contract; acting as the Government's representative in charge of work at the site to ensure compliance with contract requirements in so far as the work is concerned; and advising the Contracting Officer of any factors which may cause delay in performance of the work. The COTR does not have the authority to make new assignments of work or to issue directions that cause an increase or decrease in the price of this contract or otherwise affect any other contract terms.

**Task Order Contracting Officer's Technical Representative:** The Contracting Officer may designate a Task Order Contracting Officer's Technical Representative (TOCOTR). The TOCOTR will perform the duties of the COTR in connection with the technical oversight of an individual task order.

The Contracting Officer, Administrative Contracting Officer, and Technical Representatives are located at:

U.S. DOT/RITA/VOLPE CENTER  
55 BROADWAY  
CAMBRIDGE, MA 02142-1093

### **G.3 PAYMENTS UNDER COST REIMBURSEMENT CONTRACTS (MAR 2005)**

A. One original and five copies of an invoice or contract financing requests shall be submitted, covering the amount claimed to be due, services rendered, and cost incurred hereunder. Under ID/IQ contracts, separate invoices or contract financing requests must be submitted for each task. However, all interim payment requests for tasks under the contract must be submitted concurrently. The contractor shall submit a last interim invoice for each task order. This shall include a complete list of invoices previously tendered under the task order. The last interim invoice shall consist of the completion invoice (clearly identified in accordance with FAR 52.2 16-7) prior to the establishment of final annual indirect rates. The last interim invoice shall be submitted within six (6) months of the task order's physical completion. If changes to this invoice become necessary as a result of Government review, the contractor shall submit a corrected last interim invoice. The contractor shall submit this invoice, along with the contractor's release form, DOT F 4220.4, to the CO, following the final adjustment of its annual indirect rates per FAR 52.2 16-7.

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B. In addition to the information required by FAR 52.216-7 and FAR 52.232-25 incorporated by reference in Section I, an invoice or contract financing payment request must meet the following requirements:

Consecutively number each interim payment request beginning with No. 1 for each task.

The voucher shall include current and cumulative charges by major cost elements such as direct labor, overhead, subcontracts, and other direct costs. Cite direct labor hours incurred by the prime contractor and each subcontractor. Other direct costs must be identified, e.g., travel, per diem, material, and equipment.

Requests for contract financing or invoices must clearly indicate the period of performance for which payment is requested and the Volpe Center accounting information necessary to process payments. When contracts or task orders contain multiple lines of accounting data, charges that cannot be assigned to a single line of accounting information should be allocated based on the percentage of total dollars unless otherwise specified.

When the contractor submits vouchers on a monthly basis, the period covered by invoices or requests for contract financing payments must be the same as the period for monthly progress reports reported under the contract or tasks. If, in accordance with FAR 52.2 16-7, the contractor submits requests for invoices or contract financing payments more frequently than monthly, one payment request per month must have the same ending date as the monthly progress report.

Pending settlement of the final indirect rates for any period, the contractor shall be reimbursed at billing rates approved by the Cognizant Federal Agency (CFA). The contractor shall ensure that any change in the identity of the CFA responsible for establishment of its indirect rate factors is made known to the Volpe Center CO. These rates are subject to appropriate adjustments when revised by mutual agreement or when the final indirect rates are settled either by mutual agreement or unilateral determination by the CFA (see FAR 42.704). In accordance with FAR 52.2 16-7, the contractor shall submit to the CFA a proposal for final indirect rates based on the contractor's actual costs for the period, together with all supporting data. In addition, contractors are required by the CFA to submit billing rate proposals, usually no later than thirty (30) days after the close of its fiscal year for the ensuing fiscal year to the CFA. Copies of the cover letter submitting the proposal must be provided to the Volpe Center CO. The contractor's failure to provide the rate proposal in a timely manner may impact payment of financing requests and could ultimately result in suspension of the indirect expense portion. The contractor shall provide copies of all rates established by the CFA to the Volpe Center CO. It is imperative that the CO be provided signed copies of all rate agreements since these rate agreements must be in the possession of the Volpe Center before any rates contained therein can be used by the contractor for cost reimbursement. The contractor should note that absence of final rates determination does not relieve the contractor of its responsibility under the Limitation of Funds or Limitation of Costs clauses to report in a timely manner to the CO when it has reason to believe its costs may exceed the total estimated cost or funds allotted to the task order.

### **G.4 PAYMENT OF FEE - COST-PLUS-FIXED-FEE COMPLETION (DEC 1998)**

A. Requests for provisional fee payment must be based on and be consistent with the information stated in the contract or task financing request. However, the request must be submitted separately.

B. For term-type task orders, a portion of any fixed fee specified in the task order will be paid on a provisional basis. The amount of such payments will be based on the ratio of direct professional labor hours expended during the covered period to the direct professional labor hours specified in the task order. Direct professional labor hours include only the labor categories specified for the task order such as engineers, scientists, technicians, statisticians, and programmers and not administrative or support personnel such as company management, typists, and key punch operators, even though such administrative personnel are normally treated as direct labor by the Contractor. At the time of issuance, a term-type task order will state the requirements for earning full fixed fee by including one of the following clauses:

(1) The total fee for each term-type task shall be payable upon acceptance of the work by the Government and upon receipt of a written certification from the Contractor that the level of effort specified in the task order has been expended.

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(2) The total fee for each term-type task shall be payable upon acceptance of the work by the Government and upon receipt of a written certification from the Contractor that at least 90% of the level of effort specified in the task order has been expended. If the Contractor provides less than 90% of the level of effort specified in the task order, the fixed fee will be adjusted downward based on each hour not provided of the full level of effort specified. If the Contractor has provided 100% of the level of effort specified in the task order and the cost incurred is below the estimated cost, the Government may require the Contractor to provide additional effort up to 110% of the level of effort specified in the task order until the estimated cost has been reached. However, this additional effort shall not result in any increase in the fixed fee.

C. If a performance is considered satisfactory; the Government may make provisional fee payments subject to FAR 52.216-8 on the basis of percentage of work completed, as determined by the Contracting Officer for completion-type tasks. The Contractor shall be required to complete the specified end product (e.g., a final report or working system) within the estimated cost as a condition for payment of the entire fixed fee. In the event the work cannot be completed within the estimated cost, the Government may require more effort without any increase in fee, provided the Government increases the estimated cost. If the Government chooses not to increase the estimated cost, the fixed fee payable will be based on the Contracting Officer's determination of the percentage of completion of the specified end product(s).

D. Provisional payment of fee will be subject to other relevant clauses of the contract including retainage.

#### **G.5 PERFORMANCE EVALUATIONS (AUG 05)**

A. Performance evaluations shall be done for each completed task order over \$100,000 and for selected tasks for lower amounts as determined by the Contracting Officer. Performance evaluations shall also be completed at least annually for task orders that have a performance period in excess of one year. (The performance evaluation form shown in Attachment J. 1, or equivalent form, shall be used.)

B. The Contracting Officer or designee shall submit the completed evaluation to the Contractor for comment. The Contractor shall have 30 days in which to respond. The Government will consider any comments provided by the Contractor before finalizing the Performance Report and the Contractor's comments will be attached to the Report.

#### **G.6 VOUCHER REVIEW (MARCH 2003)**

The Government may at its sole discretion utilize a contractor to review vouchers and supporting data submitted for payment under the provisions of this contract. The contractor reviewing vouchers and supporting data will perform this function in accordance with contract provisions which prohibit disclosure of proprietary financial data or use of such data for any purpose other than to perform accounts payable services.

#### **G.7 INCREMENTAL FUNDING OF TASK ORDERS (OCT 2001)**

Pursuant to FAR 52.232-22, Limitation of Funds (APR 1984), incorporated by reference herein, task orders issued under this contract may be incrementally funded.

A. When a term form task order is incrementally funded, the following clause will be set forth in full in the task order:

##### **LIMITATION OF LIABILITY - INCREMENTAL FUNDING (TERM FORM)**

(1) The amount available for payment for this incrementally funded task order is hereby increased from \$\_\_\_\_\_ by \$\_\_\_\_\_ to \$\_\_\_\_\_. The amount allotted to the estimated cost is increased from \$\_\_\_\_\_ by \$\_\_\_\_\_ to \$\_\_\_\_\_. The amount obligated for the fixed fee/award fee is increased from \$\_\_\_\_\_ to \$\_\_\_\_\_. This modification involves no change in the total level-of-effort, estimated costs or fixed fee/award fee of this contract, unless otherwise specified herein. The Limitation of Funds clause, FAR 52.232-22, applies to the amount allotted to cover the estimated costs only.

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(2) The estimated level of effort applicable to the incremental funding provided herein is \_\_\_\_\_ professional labor-hours.

(3) The incremental funding provided herein is estimated to be adequate for services performed through \_\_\_\_\_.

B. When a completion-type task order is incrementally funded, the following clause will be set forth in full in the task order.

##### **LIMITATION OF LIABILITY - INCREMENTAL FUNDING (COMPLETION FORM)**

(1) The amount available for payment for this incrementally funded task order is hereby increased from \$\_\_\_\_\_ by \$\_\_\_\_\_ to \$\_\_\_\_\_. The amount allotted to the estimated cost is increased from \$\_\_\_\_\_ by \$\_\_\_\_\_ to \$\_\_\_\_\_. The amount obligated for the fixed fee/award fee is increased from \$\_\_\_\_\_ to \$\_\_\_\_\_. This modification involves no change in the total level-of-effort, estimated costs or fixed fee/award fee of this contract, unless otherwise specified herein. The Limitation of Funds clause, FAR 52.232-22, applies to the amount allotted to cover the estimated costs only.

(2) The incremental funding provided herein is applicable to the tasks and deliverables specified in \_\_\_\_\_.

#### **G.8 ORDERING (DEC 1998)**

A. The Government will order any supplies and services to be furnished under this contract by issuing by mail, facsimile, or electronically task orders on Optional Form 347 or an agency prescribed form. In addition to the Contracting Officer, the following individuals are authorized ordering officers: Designated Administrative Contracting Officers

B. A Standard Form 30 will be used to modify task orders.

C. An authorized company officer of the Contractor shall acknowledge receipt of each task order within three (3) calendar days.

D. Each task order issued may incorporate the Contractor's technical and/or cost proposals and will include an estimated cost and fixed fee or award fee or a total fixed price in the case of a fixed price task order set forth as a ceiling price. If the task order is incrementally funded, the amount available for payment and allotted to the task will also be specified. The Limitation of Funds and/or the Limitation of Cost clauses will control notification requirements when the Contractor has reason to believe it will experience an overrun of the estimated cost or allocated funds specified in a cost reimbursable type task order.

E. Under no circumstances will the Contractor start work prior to the issue date of the task order unless specifically authorized to do so by the ordering officer. Any work commenced prior to the date of authorization or task issuance will be considered unauthorized and will not be subsequently ratified.

#### **G.9 PAYMENT OF FIXED FEE - IDIQ (DEC 1998)**

(a) The fixed fee specified in Section B of this contract represents the maximum fee that shall be paid under this contract. This fee shall be paid, subject to any adjustment

required by other provisions of this contract, in installments at the time of each provisional payment for reimbursement of allowable cost. This clause addresses payment of fixed fee for both term and completion form delivery orders.

(b) A fixed fee shall be established for each delivery order issued under this contract. The fixed fee established shall be in direct ratio to the total contract fixed fee as the level of effort (direct man-hours) established in the delivery order is to the total contract level of effort (direct man-hours). The amount of each installment payment of fixed fee shall be in direct ratio of the total contract fixed fee as the net direct labor hours expended during the period is to the total contract level of effort (direct man-hours).

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(c) Completion Orders. The Contractor is entitled to the full amount of fixed fee upon the acceptable completion of the delivery order.

(d) Term Orders. No fee shall be paid under term form orders for hours not performed.

(e) Withholding. As provided in the clause entitled, Fixed Fee (FAR 52.2 16-8), the Contracting Officer hereby withholds 15% of all fixed fee payable under the contract up to the stated maximum of \$100,000. Invoices submitted under the contract shall indicate fixed fee withheld.

(f) The terms of this clause and of FAR 52.216-8 apply to the total fixed fee specified in Section B of the contract rather than to the individual orders placed hereunder.

#### **G.10 TECHNICAL DIRECTION (AUG 1999)**

Performance of the work hereunder shall be under the technical direction of a Technical Monitor (COTR). As used herein, "technical direction" is limited to directions to the contractor which fill in details or otherwise complete the general description of work set forth in the contract. This direction may not include new assignments of work, or may not be of such a nature as to cause an increase or decrease in the estimated cost of the contract, or otherwise affect any other provision of this contract.

#### **G.11 ACCOUNTING AND APPROPRIATION DATA (MAY 1999)**

Each individual task order shall specify the Accounting and Appropriation Data from which payment shall be made.

#### **G.12 TRAVEL AND PER DIEM (JULY 2000)**

Travel by air will be reimbursed at actual, not to exceed coach fare, Travel subsistence reimbursement will be authorized under the rates and conditions of the Federal Travel Regulations and the Department's Travel manual (DOT 1500.6A). Per Diem will be reimbursed at actual, not to exceed the per diem rates set forth in Federal Property Management Regulations (FPMR) 41 CFR Chapter 101, Chapter 7, General Services Administration (GSA) Bulletin FPMR A-40 Supp-(in effect at time of travel), or at said per diem rates regardless of actual cost, whichever is in accordance with the contractor's standard accounting practice or disclosure statement. The per diem allowance shall not be allowed when the period of official travel is 12 hours or less during the same calendar day. Travel by privately-owned vehicle will be reimbursed at the current GSA-approved mileage rate. If the contractor incurs travel cost in excess of the amount shown in each task order, it is at its own expense.

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### **SECTION H - SPECIAL CONTRACT REQUIREMENTS**

#### **H.1 LEVEL OF EFFORT NOTIFICATION (DEC 1998)**

A. The Contractor shall notify the Administrative Contracting Officer immediately in writing whenever it has reason to believe that:

(1) The level of effort that the Contractor expects to incur under any term type task in the next 30 days, when added to the level of effort previously expended in the performance of that task order, will exceed 75% of the level established for that task order;

(2) The level of effort required to perform a particular task order will be greater than the level of effort established for the task order.

B. Either the "Limitation of Cost" or the "Limitation of Funds" clause, depending on whether the task order is fully funded or not, applies independently to each task order under this contract and nothing in this clause amends the rights or responsibilities of the parties hereto under either of these two clauses. The notifications required by this clause are separate and distinct from any specified in the "Limitation of Cost" or "Limitation of Funds" clause.

#### **H.2 TYPE OF CONTRACT (DEC 1998)**

- (a) This is a cost-plus fixed fee contract in the "Completion" form in accordance with Federal Acquisition Regulation 16.306(d)
  - (1). For this contract the period of performance is 5 years from the effective date of award.
- (b) The contractor shall maintain a job order cost accounting system that will accumulate costs incurred for each Task Order separately. In submitting its vouchers/invoices for payment of cost incurred hereunder, the Contractor shall list labor hours and other cost elements for each Task Order, then summarize to a billing amount.

#### **H.3 GPO PRINTING REQUIREMENT (DEC 1998)**

All printing funded by this contract will be accomplished in conformance with Title 44, United States Code, regulations of the Joint Committee on Printing, applicable provisions of appropriation acts, and applicable regulations issued by the Government Printing Office and the Department of Transportation.

#### **H.4 TASK ORDER LIMITATIONS (DEC 1998)**

(a) The issuance of Task Order(s) (TO) hereunder does not relieve the Contractor of its responsibilities under Clause 52.232-22, Limitation of Funds, and/or FAR 52.232-20, Limitation of Costs. The applicable clause, Limitation of Funds (LOF), for incrementally funded TOs and Limitation of Costs (LOC), for fully funded TOs apply to individual TOs as well as to the contract as a whole.

(b) Costs incurred under a TO shall relate only to the performance of the work called for in that TO. The level of effort or the funds allocated to a TO may not be applied to work under any other TO issued under the contract without the written authorization of the Contracting Officer.

(c) The term "TO" shall be substituted for "schedule wherever the word appears in FAR clauses 52.232-20, Limitation of Cost, or 52.232-22, Limitation of Funds, as specified. In the event that fully funded work orders are issued under a TO, the provisions of the appropriate clauses shall apply to each work order as if it were a TO.

#### **H.5 ISSUANCE OF TASK ORDERS (OCT 2001)**

(a) Under this contract, as firm work requirements materialize, within the period of performance set forth herein, and within the funds allotted hereunder, the Contracting Officer will direct the Contractor to perform work as generally described in Section C. The Contracting Officer will issue such directions to the Contractor in the form of Task Orders

(TOs). Prior to issuance of any TO, the Contracting Officer will discuss with the Contractor the work to be performed, the timing thereof, and will negotiate the estimated cost

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thereof. In the event that agreement cannot be reached on the estimated v cost of any TO, the Contracting Officer may unilaterally determine the estimated cost of that TO. In such event, the Contractor may seek relief or remedies as set forth in the Disputes clause. Except as specifically provided herein, the Government makes no representation as to the number of Task Orders or the actual amount of work, which will be assigned. The Contractor shall not perform any work hereunder nor incur any cost hereunder, until it receives a specific Task Order signed by the Contracting Officer. Each Task Order will contain as a minimum, the following:

1. Sequential number.
2. Type of Task Order Term or Completion
3. Statement of the problem.
4. Scope of work effort.
5. Reporting requirements.
6. Time schedule of performance.
7. Estimated level of effort to be expended.
8. Estimated cost.
9. Required signature.
10. Delivery, inspection and final acceptance points.

(b) If a Task Order will culminate in a report the TO will specify the type of report and format required.

#### **H.6 SALES TAX EXEMPTION (DEC 1998)**

(a) The Volpe National Transportation Systems Center, as part of the Department of Transportation, an agency of the United States, is an exempt purchaser. Accordingly, all purchases of personal property by this organization are exempt from state and local taxation.

(b) The Contractor will be provided with Tax Exemption certificates for the purpose of obtaining an exemption from state sales tax for supplies purchased under this procurement (see each individual Task Order). Notwithstanding the terms of the Federal, State, and Local taxes clause, if the Tax Exempt Certificate is not honored by the state, the Contractor shall state separately on its invoices the amount of state sales tax, and the Government agrees to either pay the amount of the tax to the Contractor or, where the amount of the tax exceeds \$250.00, to provide evidence necessary to sustain the exemption.

#### **H.7 NON-PERSONAL SERVICES (DEC 1998)**

A. No personal services as defined in Part 37 of the FAR shall be performed under this contract. No Contractor employee will be directly supervised by the Government. All individual employee assignments and dally work direction shall be given by the Contractor's supervisor. If the Contractor believes any Government action or communication has been given that would create a personal services relationship between the Government and any Contractor employee, the Contractor shall promptly notify the Contracting Officer of this communication or action.

B. The Contractor shall not perform any inherently governmental functions under this contract. No Contractor employee shall hold him or herself out to be a Government employee, agent, or representative. In all communications with third parties in connection with this contract, Contractor employees shall identify themselves as Contractor employees and specify the name of the company for which they work. In all communications with other Government Contractors in connection with this contract, the Contractor employee shall state that they have no authority to in any way change the contract and that if the other Contractor believes this communication to be a direction to change their contract, they should notify the Contracting Officer for that contract and not carry out the direction until a clarification has been issued by the Contracting Officer.

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C. The Contractor shall ensure that all of its employees working on this contract are informed of the substance of this clause. Nothing in this clause shall limit the Government's rights in any way under any other provision of the contract, including those related to the Government's right to inspect and accept the services to be performed under this contract. The substance of this clause shall be included in all subcontracts at any tier.

#### **H.8 MAXIMUM FEE/PROFIT (SEP 1999)**

A. Contractors shall propose an appropriate rate of fee depending on the risk associated with a cost-plus-fixed-fee contractual arrangement and the nature of the work in the task order. However, the proposed task order fixed fee shall not exceed an amount that is the sum of (1) \_\_\_\_\_\* percent of the prime Contractor's labor and any resulting direct cost expected to be incurred as a result of that labor\*\* and any indirect cost applied and (2) \_\_\_\_\_\* percent of all other direct and indirect cost proposed for the task resulting from other than the prime Contractors effort.\*\*\* For term type tasks, an overall hourly fee will be determined by dividing the total fixed fee proposed by the direct professional labor hours required.

B. Contractors shall propose an appropriate rate of available award fee depending on the risk associated with a cost-plus-award-fee contractual arrangement and the nature of the work in the task order. In accordance with Paragraph G.7, Payment and Consideration, the base fee shall be 0%. The proposed award fee available under the task order shall not exceed an amount that is the sum of (1) \_\_\_\_\_\* percent of the prime Contractor's labor and any resulting direct cost expected to be incurred as a result of that labor\*\* and any indirect cost applied and (2) \_\_\_\_\_\* percent of all other direct and indirect cost proposed for the task resulting from other than the prime Contractors effort. \* \* \*

C. For noncompetitive task orders issued on firm-fixed-price basis, Contractors shall propose an appropriate profit based on the risk associated with that contract type and the nature of the work in the task order. The proposed profit included in the firm-fixed-price shall not exceed an amount that is the sum of (1) \_\_\_\_\_\* percent of the prime Contractor's labor and any resulting direct cost expected to be incurred as a result of that labor\*\* and any indirect cost applied and (2) \_\_\_\_\_\* percent of all other direct and indirect cost proposed for the task resulting from other than the prime Contractors effort. \* \* \*

\*To be filled in at the lime of award of the contract, based on Contractor's proposal, see Section L of this RFP.

\* \* Administrative or support categories accounted for as direct in accordance with approved accounting system such as secretarial support, word processing, and contract administration; and other direct cost such as travel incurred by the prime Contractor, computer usage charges, and postage.

\* \* \* Generally equipment, materials, subcontracts, and any indirect cost applied and other direct cost incurred such as subcontract administration.

#### **H.9 DOT INFORMATION SECURITY REQUIREMENTS (APR 2003)**

##### **1. Access to Sensitive Information.**

- a. Work under this contract may involve access to sensitive information, as described in paragraph d below, which shall not be disclosed by the contractor unless authorized by the contracting officer. To protect sensitive information, the contractor shall provide training to any contractor employee authorized access to sensitive information and, upon request of the Government, provide information as to an individual's suitability to have such authorization. Contractor employees found by the Government to be unsuitable or whose employment is deemed contrary to the public interest or inconsistent with the best interest of national security may be prevented from performing work under the particular contract when requested by the contracting officer.
- b. The contractor shall ensure that contractor employees are: (1) citizens of the United States of America or an alien who has been lawfully admitted for permanent residence or employment (indicated by immigration status) as evidenced by Immigration and Naturalization Service documentation; and (2) have background investigations in accordance with DOT Order 1630.2B, Personnel Security Management.

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- c. The contractor shall include the above requirements in any subcontract awarded involving access to Government facilities, sensitive information, and/or resources.
- d. Sensitive Information is proprietary data or other information that, if subject to unauthorized access, modification, loss or misuse could adversely affect national interest, conduct of Federal programs, or privacy of individuals specified in the Privacy Act, but has not been specifically authorized to be kept secret in the interest of national defense or foreign policy under an Executive Order or Act of Congress."

##### **2. Information Technology (IT) Services.**

- a. The contractor shall be responsible for IT security for all systems operated by or connected to a DOT network, regardless of location. This includes any IT resources or services in which the contractor has physical or electronic access to DOT's sensitive information that directly supports the mission of DOT (e.g., hosting DOT e-Government sites or other IT operations). If necessary, the Government shall have access to contractor and any subcontractor facilities, systems/networks operated on behalf of DOT, documentation, databases and personnel to carry out a program of IT inspection (to include vulnerability scanning), investigation and audit to safeguard against threats and hazards to DOT data or IT systems.
- b. Within 30 days of contract award, the contractor shall develop and provide to the Government for approval, an IT Security Plan which describes the processes and procedures the contractor will follow in performance of this contract to ensure the appropriate security of IT resources developed, processed, or used under this contract. This Plan shall be written and implemented in accordance with applicable Federal laws including: The Computer Security Act of 1987 (40 U.S.C. 1441 et seq.), the Clinger-Cohen Act of 1996, and the Government Information Security Reform Act (GISRA) of 2000 and meet Government IT security requirements including: OMB Circular A- 130, Management of Federal Information Resources, Appendix 111, Security of Federal Automated Information Resources; National Institute of Standards and Technology (NIST) Guidelines; Departmental Information Resource Management Manual (DIRMM) and associated guidelines; and DOT Order 1630.2B, Personnel Security Management.
- c. The contractor shall screen their personnel requiring privileged access or limited privileged access to systems operated by the contractor for DOT or interconnected to a DOT network in accordance with DOT Order 1630.2B, Personnel Security Management and ensure contractor employees are trained annually in accordance with OMB Circular A-130, GISRA, and NIST requirements with a specific emphasis on rules of behavior.
- d. The contractor shall immediately notify the contracting officer when an employee terminates employment that has access to DOT information systems or data.
- e. The contractor shall include the above requirements in any subcontract awarded for IT services.
- f. IT means any equipment or interconnected system or subsystem of equipment used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information and as further defined in OMB Circular A-130 and the Federal Acquisition Regulation Part 2.

#### **H.10 CONTRACTOR RESPONSIBILITY (DEC 1998)**

The Contractor shall without additional expense to the Government, be responsible for all damage to persons or property that occur as a result of its fault or negligence in connection with the prosecution of the work, and shall be responsible for the proper care and protection of work performed. Breakage or loss of office equipment or other property including that of a Government employee, which may occur in or about the building as a result of a fault or negligence in the Contractor's operations or fault or negligence in the actions of the Contractor's agent, subcontractors or its employees shall be made good by the Contractor at its expense.

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#### **H.11 HANDLING OF DATA (MAY 1999)**

A. The Contractor and any of its subcontractors in performance of this contract may have need for access to and use of various types of data and information in the possession of the Government which the Government obtained under conditions that restrict the Government's right to use and disclose the data and information, or which may be of such a nature that its dissemination or use other than in the performance of this contract would be adverse to the interests of the Government or other parties. Therefore, the Contractor and its subcontractors agree to abide by any restrictive use conditions on such data and not to:

(1) Knowingly disclose such data and information to others without written authorization from the Contracting Officer, unless the Government has made the data and information available to the public; nor

(2) Use for any purpose other than the performance of this contract that data which bears a restrictive marking or legend.

B. In the event the work required to be performed under this contract requires access to proprietary data of other companies, the Contractor shall obtain agreements from such other companies for such use unless such data is provided or made available to the Contractor by the Government. Two copies of such company-to-company agreements shall be furnished promptly to the Contracting Officer for information only. These agreements shall prescribe the scope of authorized use or disclosure, and other terms and conditions to be agreed upon between the parties. It is agreed by the Contractor that any such data, whether obtained by the Contractor pursuant to the aforesaid agreement or from the Government, shall be protected from unauthorized use or disclosure to any individual, corporation, or organization so long as it remains proprietary.

C. Through formal training in company policy and procedures, the Contractor agrees to make employees aware of the absolute necessity to maintain the confidentiality of data and information, as required above, and further aware of the sanctions which may be imposed for divulging either the proprietary data of other companies or data that is obtained from the Government to anyone except as authorized. The Contractor shall obtain from each employee engaged in any effort connected with this contract an agreement, in writing, which shall in substance provide that such employee will not during his/her employment by the Contractor, or thereafter, disclose to others or use for his/her own benefit or the future benefit of any individual any trade secrets, confidential information, or proprietary/restricted data (to include Government "For Official Use Only") received in connection with the work under this contract. The Contractor shall furnish a sample form of this agreement to the Contracting Officer promptly after award.

D. The Contractor agrees to hold the Government harmless and indemnify the Government as to any cost/loss resulting from the unauthorized use or disclosure of third party data or software by the Contractor, its employees, subcontractors, or agents.

E. The Contractor agrees to include the substance of this provision in all subcontracts awarded under this contract. The Contracting Officer will consider case-by-case exceptions from this requirement for individual subcontracts in the event that

(1) The Contractor considers the application of the prohibitions of this provision to be inappropriate and unnecessary in the case of a particular subcontractor;

(2) The subcontractor provides a written statement affirming absolute unwillingness to perform absent some relief from the substance of this prohibition;

(3) Use of an alternate subcontract source would reasonably detract from the quality of effort; and

(4) The Contractor provides the Contracting Officer timely written advance notice of these and any other extenuating circumstances.

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F. Except as the Contracting Officer specifically authorizes in writing, upon completion of all work under this contract the Contractor shall return all such data and information obtained from the Government, including all copies, modifications, adaptations, or combinations thereof; to the Contracting Officer. Data obtained from another company shall be disposed of in accordance with the Contractor's agreement with that company, or, if the agreement makes no provision for disposition, shall be returned to that company. The Contractor shall further certify in writing to the Contracting Officer that all copies, modifications, adaptations or combinations of such data or information which cannot reasonably be returned to the Contracting Officer (or to a company) have been deleted from the Contractor's (and any subcontractor's) records and destroyed.

G. These restrictions do not limit the Contractor's (or subcontractor's) right to use and disclose any data and information obtained from another source without restriction.

H. As used herein, the term "data" has the meaning set forth in Federal Acquisition Regulations, clause 52.227-14, "Rights in Data - General," and includes, but is not limited to, computer software, as also defined in Clause 52.227-14.

#### **H.12 INSURANCE (FEB 2005)**

The contractor shall comply with Section I, FAR Clauses 52.228-5 "Insurance-Work on a Government Installation" and FAR 52.228-7, "Insurance-Liability to Third Persons." The contractor shall secure, pay the premiums for, and keep in force until the expiration of this contract, and any renewal thereof, adequate insurance as provided below, such insurance to specifically include liability assumed by the contractor under this contract. The contractor is responsible for providing insurance of the following types and minimum amounts:

- a. Workman's Compensation and Employees Liability Insurance as required by applicable statute, but not less than \$100,000.
- b. Comprehensive bodily injury liability insurance with limits of not less than \$500,000 for each accident.
- c. Property damage liability with a limit of not less than \$100,000 for each accident.
- d. Automotive bodily injury liability insurance with limits of not less than \$200,000 for each person and \$500,000 for each accident, and property damage liability insurance, with a limit of not less than \$40,000 for each accident.

Each policy of insurance shall contain an endorsement that any cancellation or material change in the coverage adversely affecting the Government's interest shall not be effective unless the insurer or the contractor gives written notice of cancellation or change to the CO at least 30 calendar days prior to the aforementioned actions. When the coverage is provided by self-insurance, the contractor shall not change or decrease the coverage without the CO's prior approval.

A certificate of each policy of insurance shall be furnished to the CO within ten (10) days after notice of award certifying, among other things, that the policy contains the aforesaid endorsement. The insurance companies providing the above insurance shall be satisfactory to the Government. Notices of policy changes shall be furnished to the CO.

#### **H.13 TRAVEL (MAR 2005)**

Travel directly related to the performance of work in accordance with Section C shall not be permitted unless authorized under a task order. All requests for travel must be approved by the job order initiator in writing in advance of travel taking place. The actual costs for lodging, meals, and incidentals will be considered reasonable and allowable if they do not exceed the maximum per diem rates in effect at the time of travel as set forth in the Federal Travel Regulations. A written justification must be provided for higher amounts in special or unusual circumstances in accordance with the FAR Subpart 31 .205-46. Compensation for time in excess of eight hours a day is allowable only to the extent such compensation conforms to established compensation practices throughout the contractor's organization on non Governmental work.

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**SECTION I - CONTRACT CLAUSES**

**I.1 FAR 52.252-2 CLAUSES INCORPORATED BY REFERENCE. (FEB 1998)**

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this/these address(es):

<http://www.dot.gov/ost/m60/tamtar>  
<http://farsite.hill.af.mil/vffr.htm>  
<http://www.arnet.gov/far>

52.202-1	Definitions.	JUL 2004
52.203-3	Gratuities.	APR 1984
52.203-5	Covenant Against Contingent Fees.	APRIL 1984
52.203-6	Restrictions on Subcontractor Sales to the Government	JUL 1995
52.203-7	Anti-Kickback Procedures.	JUL 1995
52.203-8	Cancellation, Rescission, and Recovery of Funds for Illegal or Improper Activity.	JAN 1997
52.203-10	Price or Fee Adjustment for Illegal or Improper Activity.	JAN 1997
52.203-12	Limitation on Payments to Influence Certain Federal Transactions.	JUN 2003
52.204-4	Printed or Copied Double-Sided on Recycled Paper.	AUG 2000
52.204-7	Central Contract Registration	OCT 2003
52.209-6	Protecting the Government's Interest When Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment.	JAN 2005
52.215-2	Audit and Records - Negotiation.	JUN 1999
52.215-8	Order of Precedence - Uniform Contract Format.	OCT 1997
52.215-10	Price Reduction for Defective Cost or Pricing Data.	OCT 1997
52.215-11	Price Reduction for Defective Cost or Pricing Data Modifications.	OCT 1997
52.215-12	Subcontractor Cost or Pricing Data.	OCT 1997
52.215-13	Subcontractor Cost or Pricing Data - Modifications.	OCT 1997
52.215-14	Integrity of Unit prices Alternate 1 ((OCT 1997)	OCT 1997
52.215-15	Pension Adjustments and Asset Revisions	OCT 2004
52.215-18	Reversion of Adjustment of Plans for Postretirement Benefits (PRB) other than Pensions	OCT 1997
52.215-17	Waiver of Facilities Capital Cost of Money.	OCT 1997
52.215-21	Requirements for Cost or Pricing Data or Information Other Than Cost or Pricing Data - Modifications.	OCT 1997
52215.21	Requirements for Cost or Pricing Data or Information Other Than Cost or Pricing Data - Modifications. Alternate 1 (OCT 1997)	OCT 1997
52.216-7	Allowable Cost and Payment.	DEC 2002
52.216-8	Fixed Fee.	MAR 1997
52.216-18	Ordering	OCT 1995

For the purpose of this clause the blank (s) are completed as follows:  
(a)...Such orders may be issued from the date of Contract award, through five years

52.216-19	Order Limitations	OCT 1995
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For the purpose of this clause the blank (s) are completed as follows:

- (a) . . . in an amount of less than 2,500
- (b) (1) Any order for a single item in excess of \$5,000,000
- (b) (2) Any order for a combination of items in excess of \$5,000,000;
- (b) (3) A series of orders from the same ordering office within (Not Applicable) days
- (c) .within (Not Applicable) days after issuance

52.2 16-22	Indefinite Quantity For the purpose of this clause the blanks are completed as follows (d) contractor shall not be required to make deliveries under this contract one year from the expiration date of the contract	OCT 1995
52.2 17-8	Option to Extend Services For the purpose of this clause the blanks(s) are completed As follows: "30 calendar days before expiration of contract"	NOV 1999
52.219-1	Small Business Representations	MAY 2004
52.222-1	Notice to the Government of Labor Disputes	FEB 1997
52.222-2	Payment of Overtime Premiums	JUL 1990
For the purpose of this clause the blank (s) are completed as follows: (a) the use of overtime is authorized under this contract if the premium does not exceed zero or the overtime premium is paid for work		
52.222-3	Convict Labor	JUN 2003
52.222-4	Contract Work Hours and Safety Standards Act - Overtime Compensation	JUL 2005
52.222.21	Prohibition Of Segregated Facilities	FEB 1999
52.222-26	Equal Opportunity	APR 2002
52.222-35	Equal Opportunity for Special Disabled Veterans, Veterans of the Vietnam Era, and other Eligible Veterans	DEC 2001
52.222-36	Affirmative Action for Workers with Disabilities	JUN 1998
52.222-37	Employment Reports on Special Disabled Veterans Veterans of the Vietnam Era, and other Eligible Veterans	DEC 2001
52.223-5	Pollution Prevention and Right-to-Know Information	AUG 2003
52.223-6	Drug-Free Workplace	MAY 2001
52.223-14	Toxic Chemical Release Reporting	AUG 2003
52.224-1	Privacy Act Notification.	APR 1984
52.224-2	Privacy Act	APR 1984
52.225.1	Buy American Act-Supplies	JUN 2003
52.225-11	Buy American Act- Construction Materials Under Trade Agreements	JAN 2005
52.227-2	Notice and Assistance Regarding Patent and Copyright Infringement	APR 1996
52.227-3	Patent Indemnity	APR 1984
52.227-12	Patent Rights-Retention by the Contractor (Long Form)	JAN 1997
52.227-14	Rights in Data - General	JUN 1987
52.227-14	Rights in Data - General (JUN 1987) - -- Alternate I	JUN 1987
52.227-14	Rights in Data - General (JUN 1987) - Alternate V	JUN 1987
52-227-16	Additional Data Requirements	JUN 1987
52-227-19	Commercial Computer Software-Restricted Rights	JUN 1987
52-228-5	Insurance- Work on a Government Installation	JAN 1997
52.228-7	Insurance - Liability to Third Persons	MAR 1996
52.229-3	Federal, State, and Local Taxes	APR 2003
52.230-2	Cost Accounting Standards	APR 1998
52.230-3	Disclosure and Consistency of Cost Accounting Practices	APR 1998



52.230-6	Administration of Cost Accounting Standards	NOV 1999
52.232-9	Limitation on Withholding of Payments	APR 1984
52.232-17	Interest	JUN 1996

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52.232-18	Availability of Funds	APR 1984
52.232-20	Limitation of Cost "Task Order is to substituted for" Schedule where Appearing	APR 1984
52.232-22	Limitation of Funds "Task Order " is to substituted for "Schedule where appearing.	APR 1984
52.232-23	Assignment of Claims	JAN 1986
52.232-25	Prompt Payment	OCT 2003
52.232.33	Payment by Electronic Funds Transfer Central Contractor Registration	OCT 2003
52.233-1	Disputes	JUL 2002
	Alternate 1	DEC 1991
52.233-3	Protest after Award	AUG 1996
	Alternate 1	JUN 1985
52.23 7-2	Protection of Government Buildings, Equipment, Vegetation	APR 1984
52.239-1	Privacy of Security Safeguards	AUG 1996
52.242-1	Notice of Intent to Disallow Costs	APR 1984
52.242-3	Penalties for Unallowable Costs	MAY 2001
52.242-4	Certification of Final Indirect Costs	JAN 1997
52.242-13	Bankruptcy	JUL 1995
52.243-2	Changes - Cost-Reimbursement	AUG 1987
52.243-2	Changes - Cost-Reimbursement -- Alternate I	APR 1984
52.244-2	Subcontracts	AUG 1998
52.244-2	Subcontracts Alternate II (AUG 1998)	AUG 1998
52.245-5	Government Property (Cost Reimbursement Time-And- Material, or Labor-Hour Contract)	MAY 2004
52.245-19	Government Property Furnished "As Is"	APR 1984
52.246-25	Limitation of Liability--Services	FEB 1997
52.249-6	Termination (Cost-Reimbursement)	MAY 2004
52.249-14	Excusable Delays	APR 1984
52.25 1-1	Government Supply Sources	APR 1984
52.253-1	Computer Generated Forms	JAN 1991

**II. TRANSPORTATION ACQUISITION REGULATION (48CFR CHAPTER 12) CLAUSES**

NUMBER	TITLE	DATE
1252.223-71	Accident and Fire Reporting	OCT 1994
1252.237-70	Qualifications of Employees	OCT 1994
1252.245-70	Government Property Records	OCT 1994

**I.2 FAR 52.204-1 APPROVAL OF CONTRACT. (DEC 1989)**

This contract is subject to the written approval of Chief, Acquisition Management Division, and shall not be binding until so approved.

**I.3 FAR 52.215-19 NOTIFICATION OF OWNERSHIP CHANGES (OCT 1997)**

(a) The Contractor shall make the following notifications in writing:

(1) When the Contractor becomes aware that a change in its ownership has occurred, or is certain to occur, that could result in changes in the valuation of its capitalized assets in the accounting records, the Contractor shall notify the Administrative Contracting Officer (ACO) within 30 days.

(2) The Contractor shall also notify the ACO within 30 days whenever changes to asset valuations or any other cost changes have occurred or are certain to occur as a result of a change in ownership.

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(b) The Contractor shall -

(1) Maintain current, accurate, and complete inventory records of assets and their costs;

(2) Provide the ACO or designated representative ready access to the records upon request;

(3) Ensure that all individual and grouped assets, their capitalized values, accumulated depreciation or amortization, and remaining useful lives are identified accurately before and after each of the Contractor's ownership changes; and

(4) Retain and continue to maintain depreciation and amortization schedules based on the asset records maintained before each Contractor ownership change.

(c) The Contractor shall include the substance of this clause in all subcontracts under this contract that meet the applicability requirement of FAR 15.408(k).

#### **I.4 FAR 52.244-6 SUBCONTRACTS FOR COMMERCIAL ITEMS AND COMMERCIAL COMPONENTS (DEC 2004)**

(a) Definitions. As used in this clause -

"Commercial item" has the meaning contained in the Federal Acquisition Regulation 2.101, Definitions.

"Subcontract" includes a transfer of commercial items between divisions, subsidiaries, or affiliates of the Contractor or subcontractor at any tier.

(b) To the maximum extent practicable, the Contractor shall incorporate, and require its subcontractors at all tiers to incorporate, commercial items or non-developmental items as components of items to be supplied under this contract.

(c)(1) The Contractor shall insert the following clauses in subcontracts for commercial items:

(i) 52.219-8, Utilization of Small Business Concerns (May 2004)(15 U.S.C. 637(d) (2) and (3)), in all subcontracts that offer further subcontracting opportunities. If the subcontract (except subcontracts to small business concerns) exceeds \$500,000 (\$1,000,000 for construction of any public facility), the subcontractor must include 52.2 19-8 in lower tier subcontracts that offer subcontracting opportunities.

(ii) 52.222-26, Equal Opportunity (Apr 2002) (E.O. 11246);

(iii) 52.222-35, Equal Opportunity for Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans (Dec 2001) (38 U.S.C. 4212(a));

(iv) 52.222-36, Affirmative Action for Workers with Disabilities (Jun 1998) (29 U.S.C. 793);

(v) 52.222-39, Notification of Employee Rights Concerning Payment of Union Dues or Fees (Dec 2004) (E.O. 13201). Flow down as required in accordance with paragraph (g) of FAR clause 52.222-39).

(vi) 52.247-64, Preference for Privately Owned U.S-Flag Commercial Vessels (Apr 2003) (46 U.S.C. 1241 and 10 U.S.C. 2631) (flow down required in accordance with paragraph (d) of FAR clause 52.247-64).

(2) While not required, the Contractor may flow down to subcontracts for commercial items a minimal number of additional clauses necessary to satisfy its contractual obligations.

(d) The Contractor shall include the terms of this clause, including this paragraph (d), in subcontracts awarded under this contract.

#### **I.5 TAR 1252.242-72 DISSEMINATION OF CONTRACT INFORMATION (OCT 1994)**

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The Contractor shall not publish, permit to be published, or distribute for public consumption, any information, oral or written, concerning the results or conclusions made pursuant to the performance of this contract, without the prior written consent of the Contracting Officer. Two copies of any material proposed to be published or distributed shall be submitted to the Contracting Officer.

#### **I.6 TAR 1252.223-73 SEAT BELT USE POLICIES AND PROGRAMS (MAY 2005)**

In accordance with Executive Order 13043, Increasing Seat Belt Use in the United States, dated April 16, 1997, the contractor is encouraged to adopt and enforce on-the-job seat belt use policies and programs for its employees when operating company-owned, rented, or personally-owned vehicles. The National Highway Traffic Safety Administration (NHTSA) is responsible for providing leadership and guidance in support of this Presidential initiative. For information on how to implement such a program or for statistics on the potential benefits and cost-savings to your company or organization, please visit the *Buckle Up America* section of NHTSA's website at [www.nhtsa.dot.gov](http://www.nhtsa.dot.gov). Additional resources are available from the Network of Employers for Traffic Safety (NETS), a public-private partnership headquartered in the Washington, D.C. metropolitan

area, and dedicated to improving the traffic safety practices of employers and employees. NETS is prepared to help with technical assistance, a simple, user friendly program kit, and an award for achieving the President's goal of 90 percent seat belt use. NETS can be contacted at 1-888-221-0045 or visit its website at [www.trafficsafety.org](http://www.trafficsafety.org).

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## **SECTION J - LIST OF ATTACHMENTS**

### **Attachment 1. CONTRACTOR PERFORMANCE REPORT**

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## **SECTION K - REPRESENTATIONS, CERTIFICATIONS, AND OTHER STATEMENTS OF OFFERORS OR QUOTERS**

### **K.1 FAR 52.204-8 ANNUAL REPRESENTATIONS AND CERTIFICATIONS (JAN 2005)**

(a) (1) If the clause at 52.204-7, Central Contractor Registration is included in this solicitation, paragraph (b) of this provision applies.

(2) If the clause at 52.204-7 is not included in this solicitation, and the Offeror is currently registered in CCR, and has completed the ORCA electronically, the Offeror may choose to use paragraph (b) instead of completing the corresponding individual representations and certifications in the solicitation. The Offeror shall indicate which option applies by checking one of the following boxes:

(i) Paragraph (b) applies.

(ii) Paragraph (b) does not apply and the Offeror has completed the individual representations and certifications in the solicitation.

(b) The Offeror has completed the annual representations and certifications electronically via the Online Representations and Certifications Application (ORCA) website at <http://orca.bpn.gov>. After reviewing the ORCA database information, the Offeror verifies by submission of the offer that the representations and certifications currently posted electronically have been entered or updated within the 12 months, are current, accurate, complete, and applicable to this solicitation (including the business size standard applicable to the NAICS code referenced for this solicitation), as of the date of this offer and are incorporated in this offer by reference (see FAR 4.120 1); except for the changes identified below [*Offeror to insert changes, identifying change by clause number, title, date*]. These amended representation(s) and/or certification(s) are also incorporated in this offer and are current, accurate, and complete as of the date of this offer.

Any changes provided by the Offeror are applicable to this solicitation only, and do not result in an update to the representations and certifications posted in ORCA.

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## **SECTION L - INSTRUCTIONS, CONDITIONS, AND NOTICES TO OFFERORS OR QUOTERS**

### **L.1 FAR 52.252-1 SOLICITATION PROVISIONS INCORPORATED BY REFERENCE (FEB 1998)**

This solicitation incorporates one or more solicitation provisions by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. The Offeror is cautioned that the listed provisions may include blocks that must be completed by the Offeror and submitted with its quotation or offer. In lieu of submitting the full text of those provisions, the Offeror may identify the provision by paragraph identifier and provide the appropriate information with its quotation or offer. Also, the full text of a solicitation provision may be accessed electronically at this/these address(es):

<http://www.dot.gov/ost/m60/tamtar>

<http://farsite.hill.af.mil/vffr.htm>

<http://www.arnet.gov/far>

52.204-6	Data Universal Numbering System (DUNS) Number.	OCT 2003
52.214-34	Submission of Offers in the English Language.	APR 1991
52.214-35	Submission of Offers in U.S. Currency.	APR 1991
52.215-16	Facilities Capital Cost of Money.	JUN 2003
52.232-3 8	Submission of Electronic Funds Transfer Information with Offer	MAY 1999
52.237-10	Identification of Uncompensated Overtime	OCT 1997

### **L.2 FAR 52.215-20 REQUIREMENTS FOR COST OR PRICING DATA OR INFORMATION OTHER THAN COST OR PRICING DATA (OCT 1997) - ALTERNATIVE (OCT 1997)**

- (a) Submission of cost or pricing data is not required
- (b) Provide information described below

### **L.3 FAR 52.216-1 TYPE OF CONTRACT (APR 1984)**

The Government contemplates award of a cost-plus-fixed-fee contract resulting from this solicitation.

### **L.4 FAR 52.233-2 SERVICE OF PROTEST (AUG 1996)**

(a) Protests, as defined in section 33.101 of the Federal Acquisition Regulation, that are filed directly with an agency, and copies of any protests that are filed with the General Accounting Office (GAO), shall be served on the Contracting Officer (addressed as follows) by obtaining written and dated acknowledgment of receipt from:

U.S DOT/RITA/Volpe Center

Attn: Orin D. Cook DTS-852

Ref: DTRS57-03-R-20048

55 Broadway

Cambridge MA 02142-1093

Fax: (617) 494-3024

E-mail Orin.Cook@volpe.dot.gov

(b) The copy of any protest shall be received in the office designated above within one day of filing a protest with the GAO.

**L.5 TECHNICAL PROPOSAL**

Submission of a technical proposal is not required. By submission of a cost proposal and acceptance of the Statement of Work the Contractor will demonstrate that they have a complete understanding of the task to be performed.

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**L.6 COST PROPOSAL INSTRUCTIONS**

**L.6.A Solicitation Documents**

Offerors shall submit a completed (Section B.4 Services and Prices) and a Signed Standard Form 33 (Section A, Page 1 of the solicitation); and Section K - Representations, Certifications, and Other Statements of Offerors, but only if the Offeror has any changes to identify in its annual representations and certifications (See solicitation provision K 1 page 35)

**L.6.B Billing Rate Proposal**

Offeror shall submit a billing rate proposal for the ensuing fiscal year which will include actual cost and other supporting data as specified in FAR 52.2 16-7. The billing rate proposal will be submitted to DCAA for the required annual audit.

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**SECTION M - EVALUATION FACTORS FOR AWARD**

Offerors proposal shall represent the Offeror's response to the requirements of the RFP. Award will be based on an acceptable, fair and reasonable cost proposal.

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**ATTACHMENT J.1 - CONTRACTOR PERFORMANCE REPORT**

Host Agency:	Report Type:	Report Date: From:	To:
Evaluating Organization:	Contracting Office:	Contract Number:	Order Number:
Contractor Name and Address:		TIN: DUNS: SIC/NAICS: Commodity Code: Contract Type:	
Contract Award Date:	Contract Expiration Date:	Contract Value:	
Description of Requirement:			

## RATINGS

### Quality of Product or Service

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

Rating:

Government Comments for Quality of Product or Service

### Cost Control

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

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**Rating:**

Government Comments for Cost Control

### Timeliness

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

Rating:

Government Comments for Timeliness of Performance

### Business Relations

0=Unsatisfactory 1=Poor 2=Fair 3=Good 4=Excellent 5=Outstanding

Rating:

Government Comments for Business Relations

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## Subcontracts

Are subcontracts involved?

Government Comments for Comment on subcontracts

## Contractor Key Personnel

**Contractor Manager/Principal Investigator**

Government Comments for Contractor Manager/Principal Investigator

**Contractor Key Person**

Government Comments for Contractor Key Person

**Contractor Key Person**

Government Comments for Contractor Key Person

**Small Business Subcontracting Plan**

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, reporting and other aspects of the plan?

If this is a bundled contract, did the contractor meet the goals and objectives for small business participation?

Government Comments for Comments on Small Business Subcontracting Plan

**Small Disadvantaged Business Goals**

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, for small disadvantaged business (SDB) participation, monetary targets for SDB participation, and required notifications?

Government Comments for Meeting SDB Subcontracting Requirements

**Customer Satisfaction**

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**Small Business Subcontracting Plan**

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, reporting and other aspects of the plan?

If this is a bundled contract, did the contractor meet the goals and objectives for small business participation?

Government Comments for Comments on Small Business Subcontracting Plan

**Small Disadvantaged Business Goals**

Did the contractor make a good faith effort to comply with its subcontracting plan consistent with the goals and objectives, for small disadvantaged business (SDB) participation, monetary targets for SDB participation, and required notifications?

Government Comments for Meeting SDB Subcontracting Requirements

**Customer Satisfaction**

Is/was the contractor committed to customer satisfaction?

Government Comments for Customer Satisfaction

**Project Officer/COTR**

Phone: Ext: Fax:  
Internet Address:

Government Comments for Overall Comment

**Contracting Officer**

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Phone: Ext: Fax:  
Internet Address:

**Contractor Representative**

Phone: Ext.: Fax:  
Internet Address:

**Summary Ratings:**

Quality of Product or Service Rating:  
Cost Control Rating:  
Timeliness of Performance Rating:  
Business Relations Rating:

**CONTRACTOR COMMENTS**

**Contractor's Comments for Quality of Product or Service**

**Contractor's Comments for Cost Control**

**Contractor's Comments for Timeliness of Performance**

**Contractor's Comments for Business Relations**

**Contractor's Comments for Comment on subcontracts**

**Contractor's Comments for Contractor Manager/Principal Investigator**

**Contractor's Comments for Contractor Key Person**

**Contractor's Comments for Contractor Key Person**

**Contractor's Comments for Comments on Small Business Subcontracting Plan**

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**Contractor's Comments for Meeting SDB Subcontracting Requirements**

**Contractor's Comments for Customer Satisfaction**

**Contractor's Comments for Overall Comment**

**OMB CLEARANCE NO. 9000-0142**  
**SOURCE SELECTION INFORMATION/CONFIDENTIAL**



**Certification of Chief Executive Officer  
Required by Rule 13a-14(a)/15d-14(a)**

I, Samuel A. Kovnat, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Flight Safety Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information;; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

October 14, 2005

By:



Samuel A. Kovnat  
Its Chief Executive Officer

**Certification of Chief Financial Officer  
Required by Rule 13a-14(a)/15d-14(a)**

I, David D. Cryer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Flight Safety Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information;; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

October 14, 2005

By:



David D. Cryer  
Its Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

We, Samuel A. Kovnat, Chief Executive Officer, and David D. Cryer, Chief Financial Officer, of Flight Safety Technologies, Inc. (the "Company"), certify, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report on Form 10-QSB of the Company for the quarterly period ended August 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

October 14, 2005

By:



Samuel A. Kovnat  
Its Chief Executive Officer

October 14, 2005

By:



David D. Cryer  
Its Chief Financial Officer