

FLIGHT SAFETY TECHNOLOGIES INC
 Form PRE 14A
 September 14, 2007

SCHEDULE 14A
 (Rule 14a-101)
 INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
 Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

FLIGHT SAFETY TECHNOLOGIES, INC.
(Name of Registrant as Specified in Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

	1)	Title of each class of securities to which transaction applies:
	2)	Aggregate number of securities to which transaction applies:
	3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
	4)	Proposed maximum aggregate value of transaction:
	5)	Total fee paid:

<input type="checkbox"/>	Fee paid previously with preliminary materials.
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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1)	Amount Previously Paid:
2)	Form, Schedule or Registration Statement No.:
3)	Filing Party:
4)	Date Filed:

Letter to Stockholders	October 1, 2007
Notice of 2007 Annual Meeting	Dear Fellow Shareholders:
Proxy Statement	It is with both sadness and confident anticipation in our future that I address you in my last letter as Chairman.
2007 Annual Report on Form 10-KSB	As we enter our eleventh year, we are building on a firm foundation based on our AWSM™, SOCRATES®, UNICORN™ and TIICM™ technologies that are focused on solving the cogent problems of aviation safety, security and capacity enhancement.
Business	
Management's Discussion and Analysis	I especially wish to thank my colleagues Frank Rees, Jack Kemper, and Senator Larry Pressler who are joining me in retiring from the Board. It is with great confidence that we pass the baton to the incoming team led by Captain Bill Cotton and Dr. Neal Fine, as well as our distinguished independent directors Wes Cummins, James Schwartz, Ken Wood and Joe Luca.
Consolidated Financial Statements	I can assure you that this team is dedicated to achieving the growth and shareholder value that we all look forward to.
	Very truly yours,
	Samuel A. Kovnat Chairman & CEO

Preliminary Note: 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 Letter to Stockholders 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 Letter to Stockholders 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 pending class action litigation alleging violations of federal securities laws, the outcome of Massachusetts federal district court litigation initiated by Analogic Corporation concerning our TIICM™ technology, whether the government will implement WVAS 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" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2007 Annual Report on Form 10-KSB for our fiscal year ending May 31, 2007. 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 our 2007 Annual Report on Form 10-KSB for our fiscal year ending May 31, 2007 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.

28 Cottrell Street
Mystic, Connecticut 06355

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

You are hereby notified that the 2007 annual shareholder meeting of Flight Safety Technologies, Inc. will be held as follows:

TIME 11:00 a.m. on Friday, November 9, 2007

PLACE

Mystic Marriott Hotel and Spa
Groton, Connecticut (U.S.A.)

- ITEMS OF BUSINESS
- (1) To elect six members to the Board of Directors.
 - (2) To amend the Company's 2005 Stock Incentive Plan with respect to certain provisions of the plan regarding termination of options upon retirement or resignation.
 - (3) To ratify the Audit and Finance Committee's appointment of Wolf & Company, P.C. as Flight Safety Technologies, Inc.'s independent auditors.
 - (4) To conduct such other business as may properly come before the annual meeting.
- RECORD DATE
- You are entitled to vote at the annual meeting and at any adjournments thereof if you were a stockholder at the close of business on Wednesday, September 26, 2007.
- ANNUAL MEETING
ADMISSION
- No admission tickets are required.
The annual meeting will begin promptly at 11 a.m. In order to avoid any disruption for those in attendance, late comers will not be seated.
- VOTING BY PROXY
- Please submit a proxy as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on the proxy card.

By Order of the Board

C. Robert Knight
General Counsel, Vice President of Administration, Secretary

This proxy statement and accompanying proxy card are being distributed on or about October 11, 2007.

2007 ANNUAL MEETING OF STOCKHOLDERS
NOTICE OF ANNUAL MEETING AND PROXY STATEMENT
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QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS
AND THE 2007 ANNUAL MEETING OF
FLIGHT SAFETY TECHNOLOGIES, INC.

Q. Why am I receiving these materials?

A. Flight Safety Technologies' Board of Directors (the "Board") is providing these proxy materials for you in connection with Flight Safety Technologies' annual meeting of stockholders, which will take place on November 9, 2007. Stockholders are invited to attend the annual meeting and are requested to vote on the proposals described in this proxy statement.

Q. What information is contained in these materials?

A. The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of directors and our most highly paid officers, and certain other required information. Flight Safety Technologies' 2007 Annual Report for its fiscal year ended May 31, 2007 and audited financial statements, proxy card and return envelope are also enclosed.

Q. What proposals will be voted on at the annual meeting?

A.

There are three proposals scheduled to be voted on at the annual meeting:

the election of directors for a 1-year term;

amendment of the 2005 Stock Incentive Plan to extend the termination date of options upon retirement of employees or resignation of directors;

the ratification of the Audit and Finance Committee's appointment of Wolf & Company, P.C. as Flight Safety Technologies' independent auditors.

Q. What is Flight Safety Technologies' voting recommendation?

A.

The Board recommends that you vote your shares "FOR" each of the nominees to the Board and "FOR" all other proposals.

Q. What shares owned by me can be voted?

A.

All shares owned by you as of the close of business on September 26, 2007 (the "Record Date") may be voted by you. You may cast one vote per share of common stock that you held on the Record Date. These shares include shares that are: (1) held directly in your name as the stockholder of record, and (2) held for you as the beneficial owner through a stockbroker, bank or other nominee.

Q. What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A. Most of our stockholders are classified as beneficial owners because they hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record

. If your shares are registered directly in your name with our transfer agent, Pacific Stock Transfer Company, these proxy materials are being sent directly to you and you have the right to grant your voting proxy directly to Flight Safety Technologies, Inc. or to vote in person at the annual meeting. We have enclosed a proxy card for you to use. You may also vote by Internet or by telephone as described on the proxy card.

Beneficial Owner

. If you are considered the beneficial owner of shares, these proxy materials are being forwarded to you by your broker or nominee and you have the right to direct your broker on how to vote. Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares. You may also vote by Internet or by telephone as described on the proxy card.

Q. How can I vote my shares in person at the annual meeting?

A.

Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification.

Even if you plan to attend the annual meeting, We recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting.

If you are a beneficial owner, you only may vote in person if you obtain a signed proxy from the record holder giving you the right to vote the shares and submit it to us at the annual meeting.

Q. Can I change my vote?

A.

You may change your vote at any time prior to the vote at the annual meeting. You may accomplish this by entering a new vote by Internet or telephone or by granting a new proxy card or new voting instruction card bearing a later date (which automatically revokes the earlier proxy instructions) or, if you are a record stockholder, by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

How are votes counted?

Q.

A. In the election of directors, you may vote "FOR" all or any of the nominees, your vote may be "WITHHELD" with respect to one or more of the nominees or you may ABSTAIN. For the remaining proposals, you may vote "FOR", "AGAINST" or "ABSTAIN". Abstaining votes will be counted as present for purposes of determining the presence of a quorum but will have no effect on the vote. If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the Board.

Q. What is the voting requirement to approve each of the proposals?

A. In the election for directors, the six persons receiving the highest number of "FOR" votes will be elected. The other proposals require the affirmative "FOR" vote of a majority of those shares present and entitled to vote. If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes, as described in "What is the quorum requirement for the annual meeting?" herein. In tabulating the voting result for any particular proposal, shares which constitute broker non-votes are not considered entitled to vote.

Q. What does it mean if I receive more than one proxy or voting instruction card?

A. It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Q. How can I obtain an admission ticket for the annual meeting?

A. We are not requiring admission tickets this year.

Q. Where can I find the voting results of the annual meeting?

A. We will announce preliminary voting results at the annual meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2008.

Q. What happens if additional proposals are presented at the annual meeting?

A. Other than the three proposals described in this proxy statement, we do not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders, Samuel A. Kovnat, our Chairman of the Board and Chief Executive Officer, and William B. Cotton, our President, will have the discretion to vote your shares on any additional matters properly presented for a vote at the annual meeting.

Q. What shares are entitled to be voted?

A. Each share of our common stock outstanding as of the close of business on September 26, 2007, the Record Date, is entitled to one vote at the annual meeting. On the Record Date, we had 8,265,210 shares of common stock issued and outstanding.

Q. What is the quorum requirement for the annual meeting?

A.

The quorum requirement for holding the annual meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the annual meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum. Broker non-votes, however, are not counted as shares present and entitled to be voted with respect to the matter on which the broker has not voted. Thus, broker non-votes will not affect the outcome of any of the matters being voted on at the annual meeting. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares.

Q. Who will count the vote?

A.

A representative of Broadridge Financial Solutions ("Broadridge") will tabulate the votes.

Q. Is my vote confidential?

A.

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Flight Safety Technologies or to third parties except (1) as necessary to meet *applicable* legal requirements, (2) to allow for the tabulation of votes and certification of the vote, or (3) to facilitate a successful proxy solicitation by the Board. Occasionally, stockholders provide written comments on their proxy card, which are then forwarded to our management.

Who will bear the cost of soliciting votes for the annual meeting?

- Q. We will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. We have retained the services of Broadridge to aid in the solicitation of proxies. We estimate that we will pay a fee of approximately \$22,000 for its services. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners.
- A.

- Q. How may I propose actions for next year's annual meeting of stockholders?

- A. You may submit proposals for consideration at future annual stockholder meetings. To be timely for next year's annual meeting, the recommendation must be delivered to the Corporate Secretary no sooner than 120 days and no later than 90 days prior to the first anniversary of this Annual Meeting. Such proposals will need to comply with the SEC's regulations regarding the inclusion of stockholder proposals in Flight Safety Technologies-sponsored proxy materials. The Nominating and Governance Committee will consider properly submitted stockholder proposals, including recommendations of candidates to our Board. Any such stockholder recommendation must include the candidate's name and qualifications for Board membership, the candidate's age, business address, residence address, principal occupation or employment, the number of shares beneficially

owned by the candidate and information that would be required to solicit a proxy under federal securities law. In addition, the recommendation must include the stockholder's name, address and the number of shares beneficially owned and the period they have been held. Such stockholder recommendations must be submitted in the same time and manner as any stockholder proposal as described above.

28 Cottrell Street
Mystic, Connecticut 06355

PROXY STATEMENT

The accompanying proxy is solicited by the Board of Directors of Flight Safety Technologies, Inc. (hereinafter referred to as "we", "us", "our" or "Company"), a Nevada corporation, to the holders of our issued and outstanding common stock for use at our annual meeting of stockholders to be held on November 9, 2007. These proxy solicitation materials and our Annual Report to Stockholders for our fiscal year ended May 31, 2007, including financial statements (on Form 10-KSB) are being mailed to our stockholders on or about October 11, 2007. Our principal office is located at 28 Cottrell Street, Mystic, Connecticut, 06355.

SOLICITATION AND VOTING

Stockholders Entitled to Vote

. Holders of our common stock as of the close of business on September 26, 2007 will be entitled to vote at the meeting and any adjournment thereof. As of that time, we had 8,265,210 shares of common stock outstanding, all of which are entitled to vote with respect to all matters to be acted upon at the annual meeting. Each stockholder of record as of that date is entitled to one vote for each share of common stock held by him or her. Our bylaws provide that a majority of all of the shares of the stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the meeting. Votes for and against, abstentions and "broker non-votes" will each be counted as present for purposes of determining the presence of a quorum.

Broker Non-Votes

. A broker non-vote occurs when a broker submits a proxy card with respect to shares held in a fiduciary capacity (typically referred to as being held in "street name") but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on

non-routine matters. Routine matters include the election of directors, increases in authorized common stock for general corporate purposes and ratification of auditors.

Solicitation of Proxies

. We will bear the cost of soliciting proxies. In addition to soliciting stockholders by mail, we will request banks, brokers and other custodians, nominees and fiduciaries to solicit customers for whom they hold our stock and will reimburse them for their reasonable, out-of-pocket costs. We may use the services of our officers, directors and others to solicit proxies, personally or by telephone, without additional compensation.

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Voting of Proxies

. All valid proxies received before the meeting will be exercised. All shares represented by a proxy will be voted, and where a proxy specifies a stockholder's choice with respect to any matter to be acted upon, the shares will be voted in accordance with that specification. If no choice is indicated on the proxy, the shares will be voted in favor of all of the following Proposals.

Vote by Internet

. All stockholders may use the Internet to transmit their voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern time the day before the meeting date. The website for Internet voting is www.proxyvote.com.

Vote by Phone

. All stockholders may also use any touch-tone telephone to transmit their voting instructions up until 11:59 p.m. Eastern time the day before the meeting date. The toll-free number is located on your proxy card.

Vote by Mail

. All stockholders may vote by mail. Simply mark, sign, and date your proxy card and return it in the postage-prepaid envelope we have provided or return it to Flight Safety Technologies, Inc., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

Revocability of Proxies

. A stockholder giving a proxy has the power to revoke his or her proxy at any time before it is exercised by delivering to the Secretary of Flight Safety Technologies, Inc., a written instrument revoking the proxy or a duly executed proxy with a later date, or by attending the meeting and voting in person. If you are a beneficial owner, you only may vote in person if you obtain a signed proxy from the record holder giving you the right to vote the shares and submit it to us at the annual meeting.

List of Stockholders

. The names of stockholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and for ten days prior for any purpose germane to the meeting between the hours of 8:45 a.m. and 4:30 p.m., at our principal office at 28 Cottrell Street, Mystic, CT 06355.

CORPORATE GOVERNANCE MATTERS

We are committed to having sound corporate governance principles. Having such principles is essential to running our business efficiently and to maintaining our integrity in the marketplace. Our Committee Charters, Code of Business Ethics, Insider Trading Policy and General Statement of Policy on Disclosures are available at <http://www.flysafetech.com>. Please note, however, that information contained on the website is not incorporated by reference in, or considered to be a part of, this document.

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Director Independence

. The Board has determined that over half of its nine members, Messrs. Pressler, Luca, Schwartz, Cummins and Wood, are independent and meet the independence requirements of the American Stock Exchange. As executive officers, Messrs. Cotton, Kovnat and Rees are not independent under those requirements. Mr. Kemper is not treated as an independent because, through his wholly owned company, he has had an \$84,000 plus expenses consulting contract with Flight Safety Technologies.

Each member of the Finance and Audit, the Compensation and the Nominating & Governance Committees meets the applicable independence requirements of the American Stock Exchange.

Audit Committee Financial Experts

. The Board has determined that at least one member of the Audit Committee, Joseph J. Luca, is a financial expert.

Code of Business Ethics

. The Board has approved and adopted a Code of Business Ethics for our officers, directors and employees.

Executive Sessions of Independent Directors

. Independent Board members meet without management and non-independent directors present as often as necessary to fulfill their responsibilities, including at least annually in executive sessions. The Chairman of the Nominating and Governance Committee presides over meetings of the independent directors.

Nomination of Director Candidates

. We believe that it is in the best interests of our stockholders to identify and select highly-qualified candidates to serve as directors. The Nominating and Governance Committee seeks candidates for election and appointment who possess high standards of personal and professional ethics and integrity, practical wisdom and mature judgment and who are committed to staunchly representing the interests of the stockholders. The Nominating and Governance Committee also believes that the Board should be comprised of a diverse group of individuals with significant leadership accomplishments in domestic and international business, government, or the aviation industry; who have been associated with institutions noted for excellence; and who have broad experience and the ability to exercise sound business judgment.

There are no specific minimum qualifications that an individual must meet in order to be nominated; each is considered on a case-by-case basis. Candidates may come to the attention of the Committee from current Board members, stockholders, professional search firms, officers or other persons. The Committee will review all candidates in the same manner regardless of the source of the recommendation.

The Nominating and Governance Committee will consider properly submitted stockholder recommendations of candidates. Any stockholder recommendation must include the candidate's name and qualifications for Board membership, the candidate's age, business address, residence address, principal occupation or employment, the number of shares beneficially owned by the candidate and information that would be required to solicit a proxy under federal securities law. In addition, the recommendation must include the stockholder's name, address and the number of shares beneficially owned and the period they have been held. The recommendation should be sent to Corporate Secretary, Flight Safety Technologies, Inc., 28 Cottrell Street, Mystic, Connecticut 06355.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

As of the date of this proxy statement, Flight Safety Technologies' Board has nine directors and the following five committees: (1) Finance and Audit; (2) Compensation; (3) Compliance, Disclosure and Ethics Oversight; (4) Executive; and (5) Nominating and Corporate Governance. The current membership and the function of each of the committees are described below. Each of the committees operates under a written charter adopted by the Board. All of the committee charters are available on our website at <http://www.flysafetech.com>. During the 2006 fiscal year, the Board held 5 meetings. Each director attended at least 75% of all Board and applicable Committee meetings. Directors are encouraged to attend annual meetings of Flight Safety Technologies stockholders. Eight directors attended the last annual meeting of stockholders. The following chart lists our directors and indicates the committees on which they have served since our last annual meeting.

Due to the planned retirement of Messrs. Kovnat and Rees and our desire to conserve costs and become more streamlined, the Nominating and Governance Committee has recommended and the current Board has voted to reduce the Board to six members. Accordingly, the Nominating and Governance Committee has not nominated Messrs. Kovnat, Rees, Pressler and Kemper to stand for reelection to the Board.

<u>Name of Director</u>	<u>Executive</u>	<u>Compliance, Disclosure and Ethics Oversight</u>	<u>Compensation</u>	<u>Finance and Audit</u>	<u>Nominating and Corporate Governance</u>
Non-Employee Directors:					
Jackson Kemper, Jr. (1)					
Joseph J. Luca (2)		X		X*	

Stephen P. Tocco (3)		X			X*
Larry L. Pressler (4)		X*			X
Kenneth S. Wood (5)		X	X*	X	X
James A. Schwartz (6)					
Wes Cummins (7)					
Employee Directors:					
William B. Cotton (8)	X	X			
Samuel A. Kovnat (9)	X*	X			
Frank L. Rees (10)	X				
Number of Meetings in Fiscal 2007	5 (11)	2	3	4	2

X = Committee Member; * = Chair

- (1) Mr. Kemper has served as a director since September 2002.
- (2) Mr. Luca has served as a director since October 2002.
- (3) Mr. Tocco had served as a director since September 2002. We previously announced that Mr. Tocco resigned from the Board on February 19, 2007 due to other business.
- (4) Mr. Pressler has served as a director since December 2002.
- (5) Mr. Wood has served as a director since July 2003.
- (6) Mr. Schwartz has served as a director since February 23, 2007.
- (7) Mr. Cummins has served as a director since February 23, 2007.
- (8) Mr. Cotton has served as a director since September 2002.
- (9) Mr. Kovnat has served as a director since September 2002.
- (10) Mr. Rees has served as a director since September 2002.
- (11) Executive Committee meetings were held in conjunction with Board meetings.

The Finance and Audit Committee

. The functions of the Finance and Audit Committee include retaining our independent auditors, reviewing their independence, reviewing and approving the planned scope of our annual audit, reviewing and approving any fee arrangements with our auditors, overseeing their audit work, reviewing and pre-approving any non-audit services that may be performed by them, reviewing the adequacy of accounting and financial controls, reviewing our critical accounting policies and reviewing and approving any related

party transactions. The Board of Directors has determined that all members of the Finance and Audit Committee are independent, as independence for audit committee members is defined by the American Stock Exchange. The Board of Directors has determined that Mr. Luca is the audit committee's "financial expert," as such term is defined under Item 401(e) of Regulation S-B promulgated under the Securities Act of 1933, as amended. Mr. Luca is an expert by virtue of his extensive career in the financial and accounting business. For additional information concerning the Finance and Audit Committee, see "Report of the Audit Committee" included in this proxy statement.

The Compensation Committee

. The Compensation Committee makes recommendations to the Board of Directors on compensation for our executive officers and other key employees, and reviews management's recommendations for stock option grants and other compensation plans or practices. The Board of Directors has determined that members of the Compensation Committee are independent, as independence for Compensation Committee members is defined by the American Stock Exchange.

Nominating and Governance Committee

. The Nominating and Governance Committee proposes a slate of director nominees for election to the Company's Board of Directors (Board) and identifies and recommends candidates to fill vacancies occurring between annual stockholder meetings. It is also responsible for:

- annually reviewing the composition of each committee of the Board and presenting recommendations for committee memberships, including committee chairs, to the Board as needed;

- reviewing and making recommendations about changes to the charter of the Committee;

- considering and reviewing director qualification guidelines.

The Board of Directors has determined that all members of the Nominating and Governance Committee are independent, as independence for Nominating and Governance Committee members is defined by the American Stock Exchange.

Executive Committee

. The Executive Committee exercises the powers of the Board in the management of the operations of the Corporation when the Board is unable to act. However, the Executive Committee does not have the power to fill vacancies in the Board, the power to amend the Bylaws of the Corporation, or the power to take any other action without the prior approval of the Board, if the Board has required such approval with respect to a particular action or such action would directly contravene a prior resolution of the Board.

Compliance, Disclosure and Ethics Oversight Committee

. The Compliance, Disclosure and Ethics Oversight Committee is responsible for setting, implementing and monitoring policies to ensure that we comply with all applicable local, state and federal laws, rules and regulations and ethical standards; adopting a code of business ethics; reviewing, controlling, and ensuring that we release news, information and materials that are truthful, accurate and complete in all material respects; and establish, oversee and implement disclosure control and review procedures that are used to prepare SEC filings.

Stockholder Communications to the Board

. Stockholders can send communications to the Board by mail or electronic mail to the Board of Directors, Attn: Corporate Secretary, Flight Safety Technologies, Inc., 28 Cottrell Street, Mystic, Connecticut 06355. The Secretary will review all such communications and has the authority to disregard any communications that are inappropriate or irrelevant to us and our operations, or to take other appropriate actions with respect to such communications. The Secretary will keep a log of all such communications and at least annually will report to the Board on the nature and status of significant communications. If a stockholder communication deals with the functions of the Board or Board committees, or he otherwise determines requires the attention of the Board, the Secretary will submit it to the Board. The Secretary promptly will refer any stockholder communications relating to financial statements, internal controls or auditing matters to the Finance and Audit Committee.

STOCK OWNERSHIP

Directors, Executive Officers and Beneficial Owners.

The following table sets forth, as of August 27, 2007, certain information with respect to the beneficial ownership of our common stock by (i) each stockholder known by us to be the beneficial owner of more than five percent (5%) of our common stock, (ii) each director, (iii) each executive officer, and (iv) all of our directors and executive officers as a group. Except as set forth below, we are not aware of any beneficial owner of more than five percent (5%) of our common stock. Except as otherwise indicated, we believe that the beneficial owners of our common stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

<u>Name (1)</u>	<u>Amount and Nature of Beneficial Ownership(2)</u>	<u>Percent of Common Stock(3)</u>
Directors and Executive Officers		
William B. Cotton, Director, President (4)	415,001	4.92%
Samuel A. Kovnat, Chairman, CEO (5)	605,580	7.17%
Frank L. Rees, Technical Director, Executive Vice President (6)	587,980	6.97%
David D. Cryer, Chief Financial Officer, Secretary, Treasurer (7)	151,667	1.81%
Jackson Kemper, Jr., Director (8)	166,667	1.99%
Joseph J. Luca, Director (9)	110,416	1.32%
Larry L. Pressler (10)	100,000	1.20%
Kenneth S. Wood (11)	110,416	1.32%
Wes Cummins (12)	359,400	4.34%
James A. Schwartz (13)	211,450	2.55%
C. Robert Knight (14)	150,000	1.78%
Shares of all directors and officers as a group (ten persons)	2,968,577	35.37%
<u>Certain Beneficial Owners</u>		
Bryant R. Riley (15)	968,655	11.72%

(1) The address of all our directors and named executive officers is the address of our company: 28 Cottrell Street, Mystic, Connecticut, 06355.

(2) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934. The number of shares beneficially owned by each person or group as of August 27, 2007 includes shares of common stock that such person or group had the right to acquire on or within 60 days after August 27, 2007, including, but not limited to, upon the exercise of options.

(3) For each person and group included in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group as described above by the sum of the 8,265,210 shares of common stock outstanding on August 27, 2007 and the number of shares of common stock that such person or group had the right to acquire on or within 60 days of August 27, 2007, including, but not limited to, upon the exercise of options.

(4) Includes 165,000 shares of our common stock issuable to Mr. Cotton upon the exercise of options at a rate of \$3.50 per option.

(5) Includes 182,600 shares of our common stock issuable to Mr. Kovnat upon the exercise of options at a rate of \$3.50 per option.

(6) Includes 165,000 shares of our common stock issuable to Mr. Rees upon the exercise of options at a rate of \$3.50 per option.

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(7) Includes 110,000 shares of our common stock issuable to Mr. Cryer upon the exercise of options at a rate of \$3.50 per option.

(8) Includes 100,000 shares of our common stock issuable to Mr. Kemper upon the exercise of options at a rate of \$3.50 per option.

(9) Solely represents 10,416 shares of our common stock issuable to Mr. Luca upon the exercise of options at a rate of \$6.00 per option and 100,000 shares issuable upon the exercise of options at a rate of \$3.50 per option.

(10) Solely represents shares of our common stock issuable to Senator Pressler upon the exercise of options at a rate of \$3.50 per option.

(11) Solely represents 10,416 shares of our common stock issuable to Mr. Wood upon the exercise of options at a rate of \$6.00 per option and 100,000 shares issuable upon the exercise of options at a rate of \$3.50 per option.

(12) Includes 25,000 shares of our common stock issuable to Mr. Cummins upon the exercise of options at a rate of \$3.50 per option.

(13) Includes 25,000 shares of our common stock issuable to Mr. Schwartz upon the exercise of options at a rate of \$3.50 per option.

(14) Solely represents shares of our common stock issuable to Mr. Knight upon the exercise of options at a rate of \$3.50 per option.

(15) Having an address at 11100 Santa Monica Blvd., Suite 800, Los Angeles, CA 90025. Represents 922,755 shares held by Mr. Riley as sole equity holder of Riley Investment Management, LLC, General Partner of Riley Investment Partners Master Fund, L.P.; 2,600 shares held by Mr. Riley as trustee of the B. Riley & Co. Retirement Trust; 43,300 shares by Mr. Riley as custodian for his children of which he disclaims beneficial ownership.

Section 16(a) Beneficial Ownership Reporting Compliance

. Section 16(a) of the Securities Exchange act of 1934, as amended, requires our directors and executive officers, and persons who beneficially own more than 10% of a registered class of our equity securities, to file reports of beneficial ownership and changes in beneficial ownership of our securities with the SEC on Forms 3 (Initial Statement of Beneficial Ownership), 4 (Statement of Changes of Beneficial Ownership of Securities) and 5 (Annual Statement of Beneficial Ownership of Securities).

Directors, executive officers and beneficial owners of more than 10% of our common stock are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file. Based solely on review of the copies of such forms furnished to us, or written representations that no reports were required, we believe that for the fiscal year ended May 31, 2007, there were three late filings under Section 16(a); one by Mr. Kemper in conjunction with his stock award and two by the directors, Messrs. Cummins and Schwartz, for stock options they received in conjunction therewith.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Executive Officers

. Our executive officers are generally elected annually at the meeting of our Board of Directors held in conjunction with the annual meeting of stockholders. The following are our executive officers as of August 28, 2007:

<u>Name</u>	<u>Office</u>	<u>Position Since</u>
Samuel A. Kovnat	Chief Executive Officer	September 1, 2002
William B. Cotton	President	September 1, 2002
Frank L. Rees	Executive Vice President - Technology	September 1, 2002
David D. Cryer	Chief Financial Officer, Treasurer	October 4, 2002

C. Robert Knight

General Counsel, Vice President
Administration, Secretary

July 12, 2005

As previously announced, Messrs. Kovnat and Rees will be retiring from the above positions effective November 3, 2007. The Board currently is evaluating the appointment of a new chief executive officer.

Executive Officers Who Are Not Directors

. The following sets forth the age, business experience, principal occupations and employment of each of our current executive officers who do not serve on the Board of Directors:

David D. Cryer, age 59, was appointed to his position as Chief Financial Officer on October 3, 2002 and as Treasurer on June 10, 2003. Mr. Cryer worked for FSTO, our former subsidiary, since its founding in 1997. Mr. Cryer also serves as Chief Financial Officer of Integrated Medical Services, Inc., a Wyoming corporation, and serves as the Controller to Kildare Corporation, a Delaware corporation. Mr. Cryer graduated from the University of Massachusetts with a B.S. Degree in Accounting. In addition, Mr. Cryer participated in graduate studies in accounting at the University of Kentucky and received a Masters Degree in Management Science at Ball State University. Mr. Cryer serves as an ex-officio member of the Company's

Compliance, Disclosure and Ethics Oversight Committee and Executive Committee. Mr. Cryer currently devotes a majority of his professional time and attention to his duties as our Chief Financial Officer. Effective November 4, 2005, we entered into a two year employment agreement with David D. Cryer, our Chief Financial Officer. The agreement provided for the payment to Mr. Cryer of an annual salary to a maximum of \$109,800. During our fiscal year ended May 31, 2007, his salary was \$76,400 based on hours worked.

C. Robert Knight, age 63, was appointed to his position as Vice President of Administration and General Counsel on June 23, 2005 and was appointed Secretary of the Corporation on July 12, 2005. Mr. Knight is a graduate of Indiana University School of Law. His background includes serving as general counsel of a trade association of mayors and other municipal elected officials and as claim counsel for Aetna Property and Casualty Company. He was a Municipal Judge in his home state of Indiana. Mr. Knight is an ex-officio member of the Executive Committee. Effective June 23, 2005, we entered into a two year employment agreement with C. Robert Knight, our Vice President of Administration and General Counsel. The agreement provided for the payment to Mr. Knight of an annual salary of \$150,000. Mr. Knight has worked on a half time basis since July 1, 2007.

These agreements also provide that the parties may agree by written amendment to continue the agreement on a year-to-year basis. Pursuant to these agreements, in the event of termination without cause, we will continue to pay the officer an amount equal to his pay for twelve monthly installments or the amount equal to his pay for the number of

monthly installments remaining under his employment agreement, whichever is greater. During fiscal year 2007, none of the named executive officers were granted any additional stock options or other long term incentive compensation.

Executive Compensation

. The following table sets forth information concerning the compensation of our chief executive officer and our two other most highly compensated executive officers whose salary plus bonus in our last fiscal year exceeded \$100,000, for all services rendered in all capacities to us, during the fiscal years ended May 31, 2005, 2006, and 2007.

SUMMARY COMPENSATION TABLE

Name and <u>Principal Position</u>	<u>Year</u>	Annual Compensation				<u>Total</u>
		<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards (\$)(1)</u>	<u>All Other Compensation(2)</u>	
Samuel A. Kovnat CEO	2005	177,470	--		15,135	192,605
	2006	182,600	5,000	281,240	16,700	485,540
	2007	183,350	--		16,400	199,750

William B. Cotton, President	2005	166,270	--	254,100	14,401	180,671
	2006	165,000	5,000		15,800	439,900
	2007	165,700	--		15,500	181,200
Frank L. Rees, Executive VP	2005	160,889	--	254,100	4,869	175,290
	2006	165,000	5,000		14,401	439,900
	2007	165,700	--		15,800	181,200
					15,500	
(1)	Represents the compensation costs for financial reporting purposes for the year under the SFAS 123R. See Note 1 to the Notes of Financial Statements in Item 7 in our 2007 Annual Report.					
(2)	Represents payments for medical insurance and the executive's share of Company's matching contribution to Company's 401(k) Retirement Plan.					

COMPENSATION DISCUSSION AND ANALYSIS

Employment Contracts

Effective November 4, 2005, we entered into a two year employment agreement with William B. Cotton, our President. The agreement provided for the payment to Mr. Cotton of an annual salary of \$165,000.

Effective November 4, 2005, we entered into a two year employment agreement with Samuel A. Kovnat, our Chief Executive Officer. The agreement provided for the payment to Mr. Kovnat of an annual salary of \$182,600. In view of Mr. Kovnat's retirement on November 3, 2007, this agreement will not be continued, although Mr. Kovnat thereafter may provide us with consulting services on mutually agreeable terms and conditions.

Effective November 4, 2005, we entered into a two year employment agreement with Frank L. Rees, our Executive Vice President-Technology. The agreement provided for the payment to Mr. Rees of an annual salary of \$165,000. In view of Mr. Rees' retirement on November 3, 2007, this agreement will not be continued, although Mr. Rees may provide us with consulting services on mutually agreed terms and conditions.

These agreements also provide that the parties may agree by written amendment to continue the agreement on a year-to-year basis. Pursuant to these agreements, in the event of termination without cause, we will continue to pay the officer an amount equal to his pay for twelve monthly installments or the amount equal to his pay for the number of monthly installments remaining under his employment agreement, whichever is greater.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Option Awards

Name

Option Expiration Date

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	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)(1)	
Samuel A. Kovnat	182,600	3.50	December 14, 2014
William B. Cotton	165,000	3.50	December 14, 2014
Frank L. Rees	165,000	3.50	December 14, 2014

(1) Stock option awards, granted in December 2005 under the 2005 Stock Incentive Plan originally vesting in one-quarter installments on the grant date and each anniversary of the grant date and which were 100% accelerated in May 2006.

Compensation of Directors

DIRECTOR COMPENSATION				
Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) (1)	All Other Compensation (\$)	Total (\$)
Jackson Kemper	7,700		111,700	119,400
Joseph Luca	36,400		---	36,400
Stephen Tocco	8,500		---	8,500
Ken Wood	11,300		---	11,300
S. Larry Pressler	36,400		21,300	57,700
Wes Cummins	0	67,000	---	
James A. Schwartz	0	67,000	---	

(1) Represents the compensation costs for financial reporting purposes for the year under the SFAS 123R. See Note 1 to the Notes of Financial Statements in Item 7 in our 2007 Annual Report.

NARRATIVE OF DIRECTOR COMPENSATION

Only directors who are not employees (currently Messrs. Kemper, Luca, Pressler, Wood, Cummins and Schwartz) of the Company are compensated for their services as directors. Each non-employee director is paid \$1,000 for each meeting of the Board of Directors that he attends in person. Non-employee directors who sit on the Finance and Audit Committee, Compensation Committee, Nominating and Governance Committee or Compliance, Disclosure and Ethics Oversight Committee are compensated at the rate of \$300 to \$400 per hour for the work on such committee. Directors are also reimbursed for their expenses incurred in attending Board of Directors and committee meetings.

Members of the Board of Directors also are eligible for grants of stock options pursuant to the 2005 Stock Incentive Plan.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

We currently have a Board of Directors consisting of nine directors, who are serving until the annual meeting of stockholders is held in 2007, and until their respective successors are duly elected and qualified. At the annual meeting of stockholders, directors will be elected for a term of one year. There are no family relationships between any of the executive officers or directors of the Company.

Nominees for Directors

. The Nominating and Governance Committee has nominated, and proposes that stockholders elect, to six positions the following members of the Board of Directors: William B. Cotton, Joseph J. Luca, Kenneth S. Wood, Wes Cummins and James A. Schwartz. In addition, the Nominating and Governance Committee has nominated Neal Fine, who is currently our Vice President of Technology, to serve as a director. If elected, the nominees will serve as directors until our annual meeting of stockholders in 2008 and until their successors are elected and qualified. If any nominee declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election (although we know of no reason to anticipate that this will occur), the proxies may be voted for such substitute nominees as we may designate.

William B. Cotton

Age 67

Captain William B. Cotton serves as our Vice Chairman and President. He began work with FSTO, our former subsidiary, in November, 2000 and worked there until he joined us in September, 2002. Prior to that, Captain Cotton was a United Airlines pilot from 1967-2000, and from 1986-2000 he was Manager of Air Traffic and Flight Systems at United Airlines. During his tenure as Manager of Air Traffic and Flight Systems, he led United Airlines' efforts to improve air traffic control industry-wide, as well as initiatives to upgrade the company's aircraft for safety and efficiency. From 1997-2000, Captain Cotton also served as Chairman of the Board of ATN Systems, Inc., a consortium of airlines developing aeronautical telecommunications network (ATN) products in cooperation with the Federal Aviation Administration. ATN is a worldwide data network intended to support data communication connectivity between mobile platforms, airlines, providers of aeronautical communications services and government providers of air traffic control and flight information services. Captain Cotton is an independent director of Sensis Corporation, a privately held company located in Syracuse, New York, and also consults for NASA and a national science foundation panel on the future of aviation. Captain Cotton received a B.A. degree and an M.A. degree in Aeronautical and Astronautical Engineering from the University of Illinois and the Massachusetts Institute of Technology, respectively.

Joseph J. Luca

Age 60

Joseph J. Luca is a stockholder of Luca, DeBlasio & Company, Inc., a regional public accounting firm which he founded in 1974 where he worked until 2005, when he retired. From 1993 to 1999, Mr. Luca also served as the CFO and Director of Administration and Finance of The Massachusetts Port Authority. Mr. Luca is a Certified Public Accountant. Mr. Luca earned a B.S.B.A. degree from Northeastern University and a Masters of Science in Taxation from Bentley College.

Kenneth S. Wood

Age 55

Kenneth S. Wood was the President of Barringer Technologies, Inc., a trace detection company, from 1996 through 2002. Since 2002, Mr. Wood has been providing business consulting services and pursuing other business interests. Mr. Wood graduated from Colgate University with a B.A. degree in Economics and received his J.D. degree from Seton Hall University.

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Wes Cummins

Age 29

Mr. Cummins is President of B. Riley and Co. Inc., an investment banking firm, where he oversees the firm's financial advisory and capital raising services to middle-market, publicly traded companies. Mr. Cummins joined B. Riley's Research Department in February 2002 and was promoted to Director of Research in January 2003. During his tenure, he grew B. Riley's research coverage to more than 100 companies in the following sectors: retail, semiconductors, technology hardware, software, IT services, communications, media and healthcare. While Director of Research, Mr. Cummins was ranked #1 in the 2004 Forbes.com/StarMine-North American Analyst Survey in the Best Stock Picker category for the Communications Equipment sector. Prior to joining B. Riley, Mr. Cummins worked at Needham & Company and at Kennedy Capital Management. He holds a B.S.B.A. degree from Washington University in St. Louis.

James A. Schwartz

Age 40

James A. Schwartz is a founder of the Investment Manager. Mr. Schwartz is responsible for the day-to-day investment decisions as well as the long-term strategy of the Partnership. Prior to founding the Investment Manager, Mr. Schwartz worked at Gilder, Gagnon & Howe, as a Portfolio Manager from 2003-2005, and as an analyst from 2000-2002. From 1990-1998, Mr. Schwartz was a Senior Producer for NBA Entertainment, where he won an Emmy Award. Mr. Schwartz received an MBA from Columbia University in 2000, and a BA in History from Bates College in 1989.

Neal Fine

Age 43

Dr. Neal E. Fine serves as our Senior Vice President for Technology. He joined Flight Safety Technologies in May of 2004. Prior to joining Flight Safety Technologies, Dr. Fine served for eleven years as a Principal Scientist and Manager at the Engineering Technology Center and at Anteon Corporation. At Anteon, he led a group of ten scientists and engineers in the design, test and evaluation of a variety of naval and aeronautical systems and subsystems, including Flight Safety Technologies' SOCRATES sensor. In his current position, Dr. Fine leads the technical development of each of our programs. He received MS and PhD degrees from Massachusetts Institute of

Technology in the field of Marine Hydrodynamics in 1989 and 1993, respectively, and a BS in Mechanical Engineering from the University of Rochester in 1986.

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Vote Required and Board of Directors' Recommendation

. If a quorum is present and voting, the six nominees for director receiving the highest number of votes will be elected as directors. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will have no effect on the vote.

The Board of Directors unanimously recommends a vote "FOR" the nominees named above.

PROPOSAL NO. 2

AMENDMENT AND RESTATEMENT OF 2005 STOCK INCENTIVE PLAN

At the meeting, stockholders will be asked to consider and vote upon a proposal to amend and restate the 2005 Stock Incentive Plan (as amended the "Plan"), to make certain changes regarding termination of options upon retirement or resignation. We will ask stockholders to give the Compensation Committee authority to extend the termination of options held by employees who work for at least three years and retire after age 65 and directors who have served at least three (3) years on our Board, from one (1) year to three (3) years after the date of such retirement or resignation. Each member of our Board has an interest in Proposal No. 2 since they are eligible to participate in the Plan.

Currently, there are a total of 1,500,000 shares of common stock reserved for issuance under the Plan. As of August 27, 2007, a total of 1,453,600 shares had been issued under the Plan to 12 persons, leaving 46,400 shares reserved for future issuance.

Changes to Retirement and Resignation

We believe the extension of the termination date of options held by employees who retire from employment with us after reaching age 65 and members of our Board, who have served on the Board at least three (3) years, will help us attract and retain capable employees and independent Board members who serve us a reasonable period of time and retire or resign in the normal course. The extension also will incentivize our employees and members of the Board to focus on long term results, rather than short term gains. Finally, from a corporate governance perspective, we believe the extension facilitates turnover of Board membership in a more effective and equitable manner. If approved by our stockholders, these changes will be effective immediately with respect to all option grants to employees and directors

that we have made under the Plan.

The Board of Directors adopted the amendment to the Plan effective September 14, 2007, subject to stockholder approval. The affirmative vote of the holders of a majority of the shares represented in person or by proxy at the annual meeting is required to approve the amendment to the Plan. Below is a summary of the principal provisions of the Plan and its operation. A copy of the Plan was filed as Appendix A to the proxy statement on Schedule 14A filed with the Securities and Exchange Commission on September 13, 2005 and is available on the Security and Exchange Commission's website at www.sec.gov.

Summary of Plan

The Plan, as amended, is attached as Appendix A to this Proxy Statement. The following summary of the Plan, as amended, does not contain all of the terms and conditions of the Plan, as amended, and is qualified in its entirety by reference to the Plan, as amended. You should refer to Appendix A for a complete set of terms and conditions of the Plan, as amended. The following description of the Plan is qualified in its entirety by reference to that exhibit.

General

. The Plan was adopted by the Board in September, 2005 and approved by the Company stockholders in October 2005. The purpose of the Plan is to attract, retain and reward employees, directors, officers and outside consultants of the Company as designated by the Company's Compensation Committee and strengthen the mutuality of interests between those employees, directors, officers and consultants and the Company's shareholders by offering the employees rights and directors equity or equity-based incentives thereby increasing their proprietary interest in the Company's business and enhancing their personal interest in the Company's success.

Administration

. The Plan requires the Compensation Committee appointed by the Board to administer the Plan (the "Administrator"). The Compensation Committee has the authority to construe and interpret the Plan and the Compensation Committee will ratify and approve the grant of all stock rights under the Plan.

Grant of Awards

. The Compensation Committee of our board of directors, in its discretion, selects the person(s) to whom stock based awards may be granted, the time or times at which such awards shall be granted, the number of shares subject to each such grant, and the term of the award. The exercise price of options granted under the Plan is determined by the

Committee at the time the options are granted but may not be less than 100% of the fair market value of the common stock on the date such option is granted; provided, however, the exercise price of an incentive stock option granted to a 10% or greater shareholder may not be less than 110% of the fair market value of the common stock on the date such option is granted.

Options granted under the Plan expire no later than ten (10) years from the date of grant; provided that in the case of an incentive stock option granted to a 10% shareholder, the term of the option may be no more than five (5) years from the date of grant. No option may be exercised after the expiration of its term.

Stock Reserved for Issuance

. The Stock reserved for issuance under the Plan consists of authorized but unissued shares of common stock. Assuming our stockholders approve the proposed amendments to the Plan, the aggregate number of shares of stock that may be issued under the Plan is 1,500,000, which number will be proportionately adjusted upon any stock dividend, stock split or similar change in our capital structure.

Amendment and Termination of the Plan

. The Board may amend, alter, suspend or discontinue the Plan at any time; provided, that no amendment which increases the number of shares of stock issuable under the Plan shall be effective unless and until such increase is approved by the stockholders of the company.

Federal Income Tax Consequences

. The following discussion summarizes certain federal income tax considerations for U.S. taxpayers receiving options under the Plan and certain tax effects on us, based upon the provisions of the Code, as in effect on the date of this Proxy Statement, current regulations and existing administrative rulings of the Internal Revenue Service. However, it does not purport to be complete and does not discuss the provisions of the income tax laws of any municipality, state or foreign country in which the participant may reside. Tax consequences for any particular individual may be different.

Incentive Stock Options. An employee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise, although the exercise may subject the employee to the alternative minimum tax. Upon an employee's sale of the shares (assuming that the sale occurs at least two years after grant of the option and at least one year after exercise of the option), any gain will be taxed to the employee as long-term capital gain. If the employee disposes of the shares prior to the expiration of the above holding periods, then the employee will recognize ordinary income in an amount generally measured as the difference between the exercise price and the lower of the fair market value of the shares at the exercise date or the sale price of the shares. Any gain or loss recognized on such premature sale of the shares in excess of the amount treated as ordinary income will be characterized as capital gain or loss.

Nonstatutory Stock Options. The holder of a nonstatutory stock option does not recognize any taxable income at the time he or she is granted a nonstatutory stock option. Upon exercise, the holder recognizes taxable income

generally measured by the excess of the then fair market value of the shares over the exercise price. Upon a disposition of such shares by the holder, any difference between the sale price and the exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

Stock Appreciation Rights. No income will be recognized by a recipient in connection with the grant of a SAR. When the SAR is exercised, the recipient will generally be required to include as taxable ordinary income in the year of exercise an amount equal to the sum of the amount of any cash received and the fair market value of any Common Stock or other property received upon the exercise.

Restricted Stock Awards and Performance Awards. A participant will not have taxable income upon grant of a restricted stock award, performance award or other stock unit award (unless, with respect to restricted stock, he or she elects to be taxed at that time). Instead, he or she will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the vested shares or cash received minus any amount paid for the shares.

Company Tax Deduction. We generally will be entitled to a tax deduction in connection with an award under the Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to the chief executive officer and to each of the four most highly compensated executive officers. Under Section 162(m) of the Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met with respect to awards. These conditions include shareholder approval of the performance goals under the Plan, setting individual annual limits on each type of award, and certain other requirements. The Plan has been designed to permit the Committee to grant certain awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting us to receive a federal income tax deduction in connection with such awards.

Amended Plan Benefits

. Because benefits under the Plan will depend on the Compensation Committee's actions and the fair market value of common stock at various future dates, it is not possible to determine the benefits that will be received by employees or directors, if the amendment to the Plan is approved by the stockholders. However, all outstanding grants are, and it is anticipated that a significant portion of the future grants, will be allocated to our employees and directors to incentivize them to continue to provide services to the Company.

Summary of Awards Made Under the 2005 Stock Incentive Plan

The table below provides information relating to our equity compensation plans as of May 31, 2007.

<u>Plan category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average price of outstanding options, warrants and rights	Number of securities remaini
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