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

- Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2006
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

**Commission File Number 0-15318**

**BALLISTIC RECOVERY SYSTEMS, INC.**

(Exact name of issuer as specified in its charter)

**Minnesota**

(State or other jurisdiction of incorporation or organization)

**41-1372079**

(IRS Employer Identification No.)

**300 Airport Road, South St. Paul, Minnesota**

(Address of Principal Executive Offices)

**55075-3541**

(Zip Code)

**(651) 457-7491**

(Issuer's telephone number)

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

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

As of February 12, 2007, there were 10,161,326 outstanding shares of common stock, par value \$0.01 per share.

Transitional Small Business Disclosure Format (check one) Yes  No

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**Part I Financial Information — Item 1. Consolidated Financial Statements**BALLISTIC RECOVERY SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS

	<u>December 31, 2006</u> (Unaudited)	<u>September 30, 2006</u> (Audited)
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 777,407	\$ 53,722
Accounts receivable — net of allowance for doubtful accounts of \$22,924 and \$22,924 respectively	434,179	541,642
Inventories	2,869,101	2,458,003
Deferred tax asset — current portion	160,700	160,700
Prepaid expenses	220,213	144,509
Total current assets	<u>4,461,600</u>	<u>3,358,576</u>
Furniture, fixtures and leasehold improvements	1,106,627	1,092,085
Less accumulated depreciation and amortization	(542,117)	(506,831)
Furniture, fixtures and leasehold improvements — net	<u>564,510</u>	<u>585,254</u>
Other assets:		
Patents, net of accumulated amortization of \$11,522 and \$11,425, respectively	892	989
Goodwill	103,774	103,774
Deferred tax asset — net of current portion	1,210,816	1,221,516
Long-term prepaid expenses	33,842	109,925
Covenant not to compete, net of accumulated amortization of \$581,401 and \$569,789, respectively	23,610	35,222
Total other assets	<u>1,372,934</u>	<u>1,471,426</u>
Total assets	<u>\$ 6,399,044</u>	<u>\$ 5,415,256</u>

See notes to consolidated financial statements.

BALLISTIC RECOVERY SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS

<u>Liabilities And Shareholders' Equity</u>	<u>December 31, 2006</u> <u>(Unaudited)</u>	<u>September 30, 2006</u> <u>(Audited)</u>
Current liabilities:		
Line of credit — bank	\$ —	\$ 302,265
Current portion of covenant not to compete, shareholders	—	7,069
Accounts payable	609,432	692,550
Customer deposits	65,850	42,916
Accrued payroll	71,471	73,613
Other accrued liabilities	54,971	244,930
Total current liabilities	<u>801,724</u>	<u>1,363,343</u>
Long-term debt, less current portion	315,000	320,000
Long-term debt refinanced through equity offering in October and November 2006	—	729,091
Total Liabilities	<u>1,116,724</u>	<u>2,412,434</u>
Shareholders' equity:		
Common stock (\$.01 par value; 15,000,000 shares authorized; 9,966,926 and 8,089,619 shares, respectively, issued and outstanding)	99,669	80,896
Additional paid-in capital	8,548,140	6,306,007
Accumulated deficit	<u>(3,365,489)</u>	<u>(3,384,081)</u>
Total shareholders' equity	<u>5,282,320</u>	<u>3,002,822</u>
Total liabilities and shareholders' equity	<u>\$ 6,399,044</u>	<u>\$ 5,415,256</u>

See notes to consolidated financial statements.

BALLISTIC RECOVERY SYSTEMS, INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 For the Three Months ended December 31, 2006 and 2005  
 (UNAUDITED)

	<u>2006</u>	<u>2005</u>
Sales	\$ 2,111,263	\$ 1,906,874
Cost of sales	<u>1,389,261</u>	<u>1,151,681</u>
Gross profit	722,002	755,193
Selling, general and administrative	618,220	640,652
Research and development	41,564	108,114
Intangible amortization	<u>11,612</u>	<u>30,410</u>
Income (loss) from operations	50,605	(23,983)
Other income (expense):		
Interest expense	(23,096)	(27,411)
Other income	<u>1,783</u>	<u>59</u>
Income (loss) before income taxes	29,292	(51,335)
Income tax (benefit) expense	<u>10,700</u>	<u>(17,600)</u>
Net income (loss)	<u>\$ 18,592</u>	<u>(\$33,735)</u>
Basic earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted average number of shares outstanding — basic	<u>9,167,570</u>	<u>7,685,434</u>
Diluted earnings (loss) per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Weighted average number of shares outstanding — diluted	<u>9,181,102</u>	<u>7,685,434</u>
Dividends per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>

See notes to consolidated financial statements.

BALLISTIC RECOVERY SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOW  
For the Three Months Ended December 31, 2006 and 2005  
(UNAUDITED)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activity:		
Net income (loss)	\$ 18,592	\$ (33,735)
Adjustments to reconcile net income (loss) to net cash from operating activity:		
Deferred income tax	10,700	(17,600)
Depreciation and amortization	35,383	35,947
Amortization of covenant not to compete	11,612	30,410
(Increase) decrease in:		
Accounts receivable	107,463	(19,637)
Inventories	(411,098)	(549,278)
Prepaid income taxes	—	86,100
Prepaid expenses	(75,704)	(49,344)
Long-term prepaid expenses	3,419	6,212
Increase (decrease) in:		
Accounts payable	(83,118)	315,061
Customer deposits	22,934	3,723
Accrued expenses	(136,801)	(84,981)
Net cash from operating activities	<u>(496,618)</u>	<u>(277,122)</u>
Cash flows from investing activities:		
Capital expenditures	<u>(14,542)</u>	<u>(78,684)</u>
Net cash from investing activities	<u>(14,542)</u>	<u>(78,684)</u>
Cash flows from financing activities:		
Cash in excess of bank balance	—	62,962
Net proceeds from issuance of common stock	2,278,270	—
Net proceeds from borrowings under line of credit — bank	(302,265)	253,081
Principal payments on long-term debt	(734,091)	(37,557)
Principal payments on covenant not to compete	(7,069)	(20,682)
Net cash from financing activities	<u>1,234,845</u>	<u>257,804</u>
Increase (decrease) in cash and cash equivalents	723,685	(98,002)
Cash and cash equivalents - beginning of period	<u>53,722</u>	<u>103,102</u>
Cash and cash equivalents - end of period	<u>\$ 777,407</u>	<u>\$ 5,100</u>
Cash paid for (received from) taxes	\$ —	\$ (86,100)
Cash paid for interest	\$ 27,715	\$ 24,431
Summary of non-cash activity:		
Conversion of bonus accrual into common stock	\$ 55,300	\$ —
Covenant not to compete payable applied to note receivable from shareholder	\$ —	\$ 4,036

See notes to consolidated financial statements.

BALLISTIC RECOVERY SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006 and 2005  
(UNAUDITED)

**A. Summary of Significant Accounting Policies**

***Principles of Consolidation***

In September 2005, the Company formed its wholly-owned subsidiary, BRS de Mexico S.A. de C.V. The consolidated financial statements include the wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Operating results for the three months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2006, previously filed with the Securities and Exchange Commission.

In the opinion of management, such statements reflect all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented.

***Foreign Currency Translations and Transactions***

In accordance with Statement of Financial Accounting Standard No. 52 "Foreign Currency Translation", the Company's Mexican operations use the U.S. Dollar as its functional currency. The Company's Mexican operations translate monetary assets and liabilities using current rates of exchange at the balance sheet date and translate non-monetary assets and liabilities using historical rates of exchange. Gains and loss from remeasurement for the Mexican operations are included in the statement of operations and have historically not been significant.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

***Cash Concentrations***

Bank balances exceeded federally insured levels during the first quarter of fiscal year 2007 and 2006. Generally, these balances may be redeemed upon demand and therefore bear minimal risk.

***Cash and Cash Equivalents***

Short-term investments with an original maturity of three months or less are considered to be cash equivalents and are stated at their fair value.

***Accounts Receivable, Credit Risk and Allowance for Doubtful Accounts***

The Company sells its products to domestic and foreign customers. The Company reviews customers' credit history before extending unsecured credit and established an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers and other information. The Company does not accrue interest on past due accounts receivable. Unless specific arrangements have been made, accounts receivable over 30 days are considered past due. The Company writes off accounts receivable when they are deemed uncollectible. There were no accounts written off during the three months ended December 31, 2006 and 2005. Accounts receivable are shown net of an allowance for doubtful accounts of \$22,924 both at December 31, 2006 and September 30, 2006. The estimated loss that management believes is probable is included in the allowance for doubtful accounts. Due to uncertainties in the collection process, however, it is at least reasonably possible that management's estimate will change during the next year, which cannot be estimated.

***Customer Concentration***

The Company had sales to one major customer, Cirrus Design Corporation (Cirrus), which represented 80.5% of the Company's total sales for the three months ended December 31, 2006, as compared to 74.5% for the same prior year periods. This customer also accounted for 61% (or \$263,600) and 63% (or \$339,000) of accounts receivable at December 31, 2006 and September 30, 2006, respectively. The Company supplies parachute systems to Cirrus from the Company's general aviation product line.

In its recreational aviation product line, the Company primarily distributes its products through dealers and distributors who in turn sell the products to the end consumer. The Company believes that in the event that any individual dealers or distributors cease to represent the Company's products, alternative dealers or distributors can be established.

***Valuation of Inventories***

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method.

Provisions to reduce inventories to the lower of cost or market are made based on a review of excess and obsolete inventories through an examination of historical component consumption, current market demands and shifting production methods. Significant assumptions with respect to market trends and customer product acceptance are utilized to formulate our provision methods. Sudden or continuing downward changes in the Company's product markets may cause us to record additional inventory revaluation charges in future periods. No write-off provision was made to our inventories for the three months ended December 31, 2006 or 2005.

***Customer Deposits***

The Company requires order deposits from most of its domestic and international customers. These deposits represent either partial or complete down payments for orders. These down payments are refundable and are recorded as customer deposits. The deposits are recognized as revenue when the product is shipped. The Company's major customer, Cirrus, does not make order deposits.

***Income Taxes***

Differences between accounting rules and tax laws cause differences between the bases of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities under Statement of Financial Accounting Standards No. (SFAS) 109. Temporary differences relate primarily to: stock based compensation; allowances for doubtful accounts; inventory valuation allowances; depreciation; valuation of warrants issued to a customer; net operating loss; and accrued expenses not currently deductible.

***Furniture, Fixtures and Leasehold Improvements***

Furniture, fixtures and leasehold improvements are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years for equipment and ten years for the airplane. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term, or the estimated useful life of the assets.

***Goodwill***

The Company applies SFAS No. 142, Goodwill and Other Intangible Assets related to the carrying amount of goodwill and other intangible assets. Goodwill will be tested for impairment annually in the fourth quarter or more frequently if changes in circumstances or the occurrence of events suggest an impairment exists. The Company has concluded that no impairment of goodwill or other intangible assets exists as of December 31, 2006.

***Intangibles***

Patents are recorded at cost and are being amortized on a straight-line method over 17 years. The covenants not to compete are recorded at cost and are being amortized using the straight-line method over the terms of the agreement which range from two to fifteen years. The weighted average life of the covenants not to compete is 2.7 years at December 31, 2006.

Components of intangible assets are as follows:

	December 31, 2006		September 30, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Patents	\$ 12,414	\$ 11,522	\$ 12,414	\$ 11,425
Covenants not to compete	\$ 605,011	\$ 581,401	\$ 605,011	\$ 569,789

Amortization expense of intangible assets was \$11,709 and \$30,582 for the three months ended December 31, 2006 and 2005, respectively. Amortization expense is estimated to approximate \$19,241, \$8,854, \$8,116 and \$0 for the years ending September 30, 2007, 2008, 2009, and 2010, respectively.

### ***Revenue Recognition***

The Company recognizes revenue in accordance with Securities and Exchange Commission, Staff Accounting Bulletin No. 104, "Revenue Recognition". The Company recognizes revenue on product sales upon shipment to customers.

### ***Comprehensive Income***

SFAS No. 130 establishes standards for the reporting and disclosure of comprehensive income and its components, which will be presented in association with a company's consolidated financial statements. Comprehensive income is defined as the change in a business enterprise's equity during a period arising from transactions, events or circumstances relating to non-owner sources, such as foreign currency translation adjustments and unrealized gains or losses on available-for-sale securities. It includes all changes in equity during a period except those resulting from investments by or distributions to owners. For the three months ended December 31, 2006 and 2005, net income (loss) and comprehensive income (loss) were equivalent.

### ***Fair Value of Financial Instruments***

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" requires disclosure of the estimated fair value of financial instruments as follows:

#### Short-term Assets and Liabilities:

The fair values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and short-term debt approximate their carrying values due to the short-term nature of these financial instruments.

#### Long-term Debt and Covenants Not to Compete:

The fair value of long-term debt and covenants not to compete approximate their carrying value because the terms are equivalent to borrowing rates currently available to the Company for debt with similar terms and maturities.

***Segment Reporting***

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Company's segments have similar economic characteristics and are similar in the nature of the products sold, type of customers, methods used to distribute the Company's products and regulatory environment. Management believes that the Company meets the criteria for aggregating its operating segments into a single reporting segment.

***Stock-Based Compensation***

The Company has various types of stock-based compensation plans. These plans are administered by the compensation committee of the Board of Directors, which selects persons to receive awards and determines the number of options subject to each award and the terms, conditions, performance measures and other provisions of the award. The Company's general policy is to grant stock options with an exercise price at fair value at the date of grant.

Effective October 1, 2006, the Company adopted SFAS No. 123R, Share-Based Payment (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective basis.

Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on October 1, 2006 that are subsequently modified, repurchased, cancelled or vest. Under the modified prospective approach, compensation cost recognized includes compensation cost for all share-based payments granted prior to, but not yet vested on October 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R, and compensation cost for all share-based payments granted subsequent to October 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Prior periods were not restated to reflect the impact of adopting the new standard.

There was no impact of adopting SFAS 123R for the three months ended December 31, 2006 as all options outstanding at September 30, 2006 were fully vested and no options were issued during the three months ended December 31, 2006. Options and warrants issued to non-employees are recorded at fair value, as required by Emerging Issues Task Force (EITF) 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," using the Black-Scholes pricing model. For the three months ended December 31, 2006 and 2005, the Company did not issue any stock-based awards to non-employees.

Had compensation costs been determined in accordance with the fair value method prescribed by SFAS No. 123 for all options issued to employees and amortized over the vesting period, the Company's net income (loss) applicable to common shares and net income (loss) per common share (basic and diluted) for plan options would not have changed as indicated below.

	<b>Three Months Ended December 31, 2005</b>
<b>Net income (loss):</b>	
As reported	\$ (33,735)
Pro forma	(33,735)
<b>Basic net income (loss) per common share:</b>	
As reported	\$ (0.00)
Pro forma	\$ (0.00)
<b>Diluted net income (loss) per common share:</b>	
As reported	\$ (0.00)
Pro forma	\$ (0.00)
<b>Stock based compensation:</b>	
As reported	\$ 0
Pro forma	\$ 0

No employee options were granted or vested during the three months ended December 31, 2006 and 2005. Had options been granted, the fair value of each option granted would have been estimated on the date of the grant using the Black-Scholes option pricing model.

#### ***Earnings (Loss) Per Common Share***

Basic earnings (loss) per common share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus all additional common stock that would have been outstanding if potentially dilutive common stock related to stock options and warrants had been issued.

Following is a reconciliation of basic and diluted earnings per common share for the three months ended December 31, 2006 and 2005, respectively:

	<b>Three Months Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Earnings (loss) per common share — basic:</b>		
Net income (loss)	\$ 18,592	\$ (33,735)
Weighted average shares outstanding	9,167,570	7,685,434
Net income (loss) per common share — basic	0.00	(0.00)
<b>Earnings (loss) per common share — diluted:</b>		
Net income (loss)	18,592	(33,735)
Weighted average shares outstanding	9,167,570	7,685,434
Common stock equivalents	13,532	0
Weighted average shares and potential diluted shares outstanding	9,181,102	7,685,434
Net income (loss) per common share — diluted	\$ 0.00	\$ (0.00)

The Company uses the treasury method for calculating the dilutive effect of the stock options and warrants using the average market price during the period.

All outstanding options (90,000 shares) were included in the computation of common share equivalents for the three months ended December 31, 2006.

All outstanding options (150,000 shares) were excluded in the computation of common share equivalents for the three months ended December 31, 2005 since there was a loss for the quarter.

#### ***Recently Issued Accounting Pronouncements***

In June 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' consolidated financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this

statement. The adoption of SFAS No. 154 did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB has published FASB Interpretation (FIN) No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB SFAS No. 109, Accounting for Income Taxes, on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoptions of FIN No. 48 will have on its consolidated financial statements.

In September 2006, the FASB has published FASB SFAS No. 157, Fair Value Measurements, to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Moreover, the SFAS states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. Consequently, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). Finally, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, Disclosures about Fair Value of Financial Instruments, where practicable. The guidance in this Statement applies for derivatives and other financial instruments measured at fair value under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, at initial recognition and in all subsequent periods. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company believes the impact of SFAS No. 157 will not have a material effect of its consolidated financial statements.

In September 2006, the FASB has published FASB SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, to require an employer to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans in their financial statements. Previous standards required an employer to disclose the complete funded status of its plan only in the notes to the financial statements. Moreover, because those standards allowed an employer to delay

recognition of certain changes in plan assets and obligations that affected the costs of providing benefits, employers reported an asset or liability that almost always differed from the plan's funded status. Under SFAS No. 158, a defined benefit postretirement plan sponsor that is a public or private company or a nongovernmental not-for-profit organization must (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for the plan's underfunded status, (b) measure the plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and (c) recognize, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers' Accounting for Pensions, or SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. SFAS No. 158 also requires an employer to disclose in the notes to financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. The Company believes the impact of SFAS No. 158 will not have a material effect on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 requires registrants to quantify errors using both the income statement method (i.e. iron curtain method) and the rollover method and requires adjustment if either method indicates a material error. If a correction in the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to the prior year results that are not material to those years, would not require a "restatement process" where prior financials would be amended. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company does not anticipate that SAB 108 will have a material effect on its consolidated financial statements.

#### *Research and Development Costs*

Research and development costs are charged to expense as incurred.

#### *Advertising Expenses*

Non-direct response advertising expenses are recognized in the period incurred. Non-direct response advertising expenses totaled \$1,608 and \$2,610 for the three months ended December 31, 2006 and 2005, respectively.

#### *Legal Costs*

The Company expenses its legal costs as incurred except settlements which are expensed when a claim is probable and estimatable.

#### *Shipping and Handling Costs*

The Company records amounts being charged to customers for shipping and handling as sales and costs incurred in cost of sales.

**B. Covenants Not to Compete**

On October 26, 1995 the Company entered into an agreement with the president and majority shareholder of Second Chantz Aerial Survival Equipment, Inc. (SCI), whereby SCI ceased all business activities, and SCI's president and majority shareholder entered into a ten-year covenant not to compete with the Company. The payments required under this agreement contained a non-interest-bearing portion and a portion that bears interest at a rate below the Company's incremental borrowing rate. Under generally accepted accounting principles the future payments were discounted at the Company's incremental borrowing rate. The 4% ten year note called for monthly payments of \$4,036 through October 2005. This note has been paid in full.

On August 16, 2004, the Company extended the non-compete period by five additional years in exchange for the exercise of stock options held by SCI's president under a stock subscription agreement backed by a promissory note. The note has a principal sum of \$12,500 together with aggregate interest on the unpaid principal balance of \$2,500. Payments under the note begin July 1, 2005 and continued monthly with a final maturity date of October 1, 2005. The present value of the Company's obligation under this agreement was recorded as an intangible asset and is being amortized over a total of fifteen years as shown in the accompanying financial statements.

On October 14, 2004, the Company and Mr. Mark Thomas entered into a Resignation, Consulting, Non-Competition and General Release Agreement (the "Resignation Agreement") in connection with Mr. Thomas' resignation as Chief Executive Officer, Chief Financial Officer, President, and as a director of the Company. Pursuant to the terms of the Resignation Agreement, Mr. Thomas resigned such offices effective October 14, 2004.

Mr. Thomas agreed, for a two year period, not to 1) call on or solicit Company customers and 2) directly or indirectly, become employed by, consult with, manage, own or operate any business engaged in the design, manufacturing, marketing or distribution of (i) emergency parachute recovery systems for recreational, general and commercial aviation aircraft and unmanned aircraft or (ii) general aviation aircraft. Mr. Thomas also agreed not to divulge any trade secrets or confidential information regarding the Company. In exchange for such Resignation Agreement, the Company agreed to pay Mr. Thomas an aggregate of \$230,000; \$60,000 of which was paid 15 days after execution of the Agreement and \$170,000 of which would be paid over a 24 month period (\$7,083 per month) during the compliance of Mr. Thomas' non-competition /non-disclosure requirements. The present value of the Company's obligation under this agreement was recorded as an intangible asset and is being amortized over two years as shown in the accompanying financial statements. This obligation was paid in full in October 2006.

**C. Other Financial Information**Inventories

The components of inventory consist of the following at December 31, 2006 and September 30, 2006:

	<u>12/31/2006</u>	<u>09/30/2006</u>
Raw materials	\$ 2,550,626	\$ 2,100,501
Work in process	283,594	340,434
Finished goods	34,881	17,068
Total inventories	<u>\$ 2,869,101</u>	<u>\$ 2,458,003</u>

Furniture, Fixtures and Leasehold Improvements

Furniture, fixtures and leasehold improvements consisted of the following categories at December 31, 2006 and September 30, 2006:

	<u>12/31/2006</u>	<u>09/30/2006</u>
Office furniture and equipment	\$ 348,864	\$ 345,535
Manufacturing equipment	474,580	463,367
Airplane	283,183	283,183
Total furniture, fixtures and leasehold improvements	<u>\$ 1,106,627</u>	<u>\$ 1,092,085</u>

Depreciation Expense

Depreciation expense totaled \$35,285 and \$35,775 for the three months ended December 31, 2006 and 2005, respectively.

Other Accrued Liabilities

Other accrued liabilities consisted of the following categories at December 31, 2006 and September 30, 2006:

	<u>12/31/2006</u>	<u>09/30/2006</u>
Bonus and profit sharing plan accrual	\$ 30,682	\$ 215,971
Other miscellaneous accruals	24,289	28,959
Total other accrued liabilities	<u>\$ 54,971</u>	<u>\$ 244,930</u>

Related Parties — Consulting Agreements with Directors

Effective as of November 19, 2004, the Company entered into a Consulting Agreement with Mr. Boris Popov, a director of the Company, pursuant to which Mr. Popov would provide certain consulting services relating to the Company's new product development. Pursuant to this agreement, the initial term of which was six months, Mr. Popov is required to provide a minimum of 64 hours of service per month for \$3,200 per month and shall be paid an additional \$50 per hour for each hour over the 64 hour minimum. On March 16, 2006 the Company extended this agreement for 24 additional months, through May 2008. Consulting expenses for Mr. Popov were \$9,300 for the first quarter of fiscal year 2007 and \$25,573 for the year ended September 30, 2006.

Product Warranties

The Company offers its customers up to a one-year warranty on its products. The warranty covers only manufacturing defects, which will be replaced or repaired by the Company at no charge to the customer. The Company has not recorded an accrual for possible warranty claims and believes that the product warranties as offered will not have a material effect on the Company's financial position, results of operations or cash flows. Prior historical product warranties have been immaterial.

**D. Geographical Information**

The Company has operations in South St. Paul, Minnesota and Mexico. Information about the Company's operations by geographical location are as follows for the quarter ended December 31, 2006 and the year ended September 30, 2006:

	<u>Minnesota</u>	<u>Mexico</u>	<u>Consolidated</u>
As of December 31, 2006:			
Total Assets	\$ 5,619,014	\$ 780,030	\$ 6,399,044
Long-lived assets	\$ 898,974	\$ 207,653	\$ 1,106,627
Inventories	\$ 2,296,724	\$ 572,377	\$ 2,869,101
As of September 30, 2006:			
Total Assets	\$ 4,687,830	\$ 727,426	\$ 5,415,256
Long-lived assets	\$ 890,705	\$ 201,380	\$ 1,092,085
Inventories	\$ 1,931,957	\$ 526,046	\$ 2,458,003

**E. Line-of-Credit Borrowings**

The Company had a \$400,000 line-of-credit with a bank which expired on February 6, 2007. The line called for a variable interest rate of 9.75% at December 31, 2006 and September 30, 2006. At December 31, 2006, there was no outstanding balance under the line of credit. At September 30, 2006, there was an outstanding balance of \$302,265 under the line of credit.

**F. Long-Term Debt**

In 2005, a jury awarded damages to Parsons and Aerospace Marketing in the combined amount of approximately \$3.4 million for breach of contract. BRS settled this matter directly with Parsons and Aerospace on September 19, 2005 by agreeing to pay \$1.9 million. An initial payment of \$700,000 plus interest was made on September 19, 2005. The remainder of \$1.2 million was to be paid by the Company over a term of 8 years, although the Company had the right to pre-pay remaining amounts due at any time. On November 15, 2006, the Company paid the entire unpaid principal and interest outstanding on the first note detailed below and paid \$5,000 towards unpaid principal on the second note detailed below with money raised through equity financing on October 25, 2006. As such, the first note payable detailed below was classified at September 30, 2006 as long-term pursuant to SFAS No. 6 "Classification of Short-Term Obligations Expected to be Refinanced".

The components of long-term debt consist of the following at December 31, 2006 and September 30, 2006:

	<u>12/31/2006</u>	<u>09/30/2006</u>
Note payable — Parsons, paid in full with proceeds received from common stock offerings in October and November 2006. (Paid November 15, 2006).	\$ —	\$ 729,091
Note payable — Parsons, interest only payments at 8.25% through September 2010, then principal and interest payments due in monthly installments of \$9,907 including interest at 8.25%, from October 2010 through September 2013, collateralized by substantially all assets of the Company	315,000	320,000
Total long-term debt	315,000	1,049,091
Less: debt refinanced through equity offering	—	729,091
Less: current portion	—	—
Long-term debt, net of current portion	<u>\$ 315,000</u>	<u>\$ 320,000</u>

Future minimum payments required at December 31, 2006 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ —
2008	—
2009	—
2010	—
2011	96,495
2012 and thereafter	<u>218,505</u>
	<u>\$ 315,000</u>

## G. Shareholders' Equity

### Common Stock and Stock Warrants

On October 25, 2006, the Company, as part of its private placement offering of \$3 million of equity securities, accepted subscription agreements from 23 accredited investors for the sale of 975,736 shares of the Company's Common Stock, par value \$.01 per share ("Common Stock"),

and warrants (the "Warrants") to purchase 243,934 shares of Common Stock. The Warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of Common Stock and Warrants of \$1,327,001, less commissions in the aggregate amount of \$92,890 and less a retainer and expenses of in the aggregate amount of \$20,000 paid to a placement agent assisting in the placement. Additionally, the Company issued a three-year warrant to purchase 85,377 shares of Common Stock at an exercise price of \$2.00 per share to the placement agent ("Agent's Warrants"). The Company has agreed to register the resale of Common Stock and Common Stock issuable upon exercise of the Warrants and Agent's Warrants.

On November 22, 2006, the Company accepted subscription agreements from 26 accredited investors for the sale of 864,704 shares of Common Stock, and Warrants to purchase 216,176 shares of Common Stock. The Warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of Common Stock and Warrants of \$1,175,997, less commissions in the aggregate amount of \$82,320 to a placement agent assisting in the placement. Additionally, the Company issued a three-year Agent's Warrants to purchase 75,661 shares of Common Stock at an exercise price of \$2.00 per share to the placement agent. The Company has agreed to register the resale of Common Stock and Common Stock issuable upon exercise of the Warrants and Agent's Warrants. The price paid was \$1.36 for the common shares and warrants issued and the market price for common stock was \$1.48 and \$1.45 per common share on October 25, 2006 and November 22, 2006, respectively. The discount to market was due to the significant amount of shares issued and the fact the shares were restricted and unregistered.

As noted above, the Company has agreed to register for resale the shares of Common Stock and Common Stock issuable upon exercise of the Warrants and Agent's Warrants. The private placement offering requires the Company to file a registration statement within 45 days after the last closing this offering. The final closing of the private placement offering was January 10, 2007. In addition, if the registration statement is not declared effective by the Securities and Exchange Commission within 120 days after filing the registration statement, the Company is required to pay a penalty of Units equal to an additional 1% of the warrants issued for each month that the registration statement is not declared effective. The Company has adopted EITF 05-4, The Effect of Liquidated Damages Clause on a Freestanding Financial Instrument Subject to Issue No. 00-19, View C to account for its registration rights agreements. View C of EITF 05-4 takes the position that the registration rights should be accounted for separately from the financial instrument as the payoff of the financial instruments is not dependent on the payoff of the registration rights agreement, and according to DIG K-1, registration rights agreements and the financial instruments do not meet the combining criteria as they relate to different risks. The Company believes the probability of the registration statement not being declared effective by the SEC within the prescribed timeframe is remote as defined under SFAS No. 5. Therefore, the Company has a contingent liability for the potential penalty units. The Financial Accounting Standards Board (Board) has postponed further discussion on EITF 05-4. Since the Board has not reached a consensus, the Company's accounting for the registration rights may change when the Board reaches a consensus.

On June 22, 2006 and June 23, 2006, the Company accepted subscriptions from certain directors and executive officers of the Company relating to the issuance of an aggregate of 322,956 shares of common stock and warrants to acquire 16,401 shares of common stock for an aggregate purchase price of \$439,220. The warrants have a three-year term and an exercise price of \$2.00 per share and have piggy-back registration rights. The Company paid no underwriting discounts or commissions in connection with these sales. The price per share was the same as the offering price as in the equity offering that closed on October and November 2006. The common shares

issued were restricted and unregistered shares. The price per common share was \$1.36 per share and the market price was approximately \$1.50 per share. The discount to market was due to the significant amount of shares issued and the fact the shares were restricted and unregistered. The discount was not in exchange for board services or any other services rendered or to be rendered.

On June 15, 2006, the Company issued 6,000 shares of common stock to each of its five Board Members for a total of 30,000 shares, as partial compensation for the next five board meetings through the Company's 2007 Annual Meeting of Stockholders. The shares were valued at \$1.51 per share (fair value at the date of issuance) and are expensed as services are provided.

#### Stock Options

In March 2004, Company shareholders at their annual meeting approved the 2004 Stock Option Plan (the "2004 Plan"), which provides for the granting of up to 600,000 options to officers, directors, employees and consultants for the purchase of stock. Under the 2004 Plan, stock options must be granted at an exercise price not less than the fair market value of the Company's common stock on the grant date. Vesting requirements of all awards under this plan are time based and vary by individual grant. The options expire on the date determined by the Board of Directors but may not extend more than ten years from the grant date. Unexercised options are canceled 90 days after termination, and unvested awards are canceled on the date of termination of employment and become available under the Stock Option Plan for future grants.

The weighted average remaining contractual term of options exercisable at December 31, 2006, was 0.71 years.

The following table summarizes information about stock options outstanding at December 31, 2006:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Range of Option Exercise Price</u>
Options Outstanding — September 30, 2004	310,000	\$ 1.09	\$ 0.44 - \$1.38
Granted	—	—	—
Canceled or expired	—	—	—
Exercised	160,000	\$ 1.07	\$ 0.44 - \$1.38
Options Outstanding — September 30, 2005	150,000	\$ 1.11	\$ 0.91 - \$1.38
Granted	—	—	—
Canceled or expired	—	—	—
Exercised	60,000	\$ 0.945	\$ 0.91 - \$1.38
Options Outstanding — September 30, and December 31, 2006	90,000	\$ 1.22	\$ 1.05 - \$1.38
Options exercisable — December 31, 2006	90,000	\$ 1.22	\$ 1.05 - \$1.38

The aggregate intrinsic value of options outstanding and exercisable is \$0 and \$0 at December 31, 2006 and 2005, respectively.

As of December 31, 2006, there was \$0 of total unrecognized compensation costs related to the outstanding stock options.

## H. Commitments and Contingencies

### Legal Proceedings

a) In August 2003, the Company was served in two related actions, Kathleen F. Fischer and Susan Sedgwick in U.S. District Court for the Northern District of New York. These actions arise from the crash of a Cirrus Design Corp. SR22 airplane in April 2002 near Parish, New York. The Plaintiffs have brought claims for strict products liability, negligence and breach of warranty against Cirrus Design, the airplane's manufacturer, the Company, which manufactures the CAPS (Cirrus Airframe Parachute System), a parachute system which is a required component of the plane, and Wings Aloft, Inc., which provided training on the SR22 to the decedents. In June and August 2006, the Company settled with such plaintiffs without any liability to the Company.

(b) On April 17, 2004, an action was commenced against the Company by Aerospace Marketing, Inc. and Charles Parsons v. Ballistic Recovery Systems, Inc., U.S. District Court, Middle District of Florida, File No. 04-CV-242. The action resulted from the Company's notification to Charles F. Parson in April 2004 of its intent to terminate the sales and marketing contract between the Company and Mr. Parsons relating to the BRS-172 and BRS-150 products for lack of performance.

In 2005, a jury awarded damages to Parsons and Aerospace Marketing in the combined amount of approximately \$3.4 million for breach of contract. BRS settled this matter directly with Parsons and Aerospace on September 19, 2005 by agreeing to pay \$1.9 million pursuant to terms described in the settlement agreement. An initial payment of \$700,000 plus interest was made on September 19, 2005. The remainder of the settlement amount was to be paid by BRS over a term of 8 years, although BRS had the right to pre-pay remaining amounts due at any time. On November 16, 2006, the Company prepaid \$721,219 of such sum. The current balance is \$315,000, which requires interest only payments through September 2010, and principal and interest payments from October 2010 through September 2013.

(c) In April 2005, an action was commenced against the Company by Sue Jean McGrath, individually and as successor in interest to Charles W. McGrath, deceased, Charles W. McGrath III, Tanya Sue McGrath, Janny Sue McGrath, individually v. Cirrus Design Corporation, Ballistic Recovery Systems, Inc., and Aerospace Systems and Technologies, Inc., U.S. District Court, Northern District of California, File No. C05-1542. The plaintiffs have alleged vicarious liability, strict product liability, negligence and breach of warranty against the defendants arising from the crash of a Cirrus Design Corp. SR22 airplane near Sugar Bowl, California. The case is currently in the early stages of discovery. At this time the Company cannot state with any degree of certainty what the outcome of the matter or the amount or range of potential damages will be.

(d) On September 16, 2005, an action was commenced against the Company by Robert Treat Rayner, in the Circuit Court of the 5th Judicial Circuit in and from Lake County Florida, File No. 04 CA 1749. The Complaint alleges that plaintiff was injured when his ultralight aircraft crashed while being towed by another ultralight. Plaintiff alleges that he deployed his BRS system, but that it failed to deploy properly. BRS is undertaking an investigation of the claim and has responded to the suit. At this time, the Company cannot state with any degree of certainty what the outcome of these matters will be or the amount or range of potential loss, if any. BRS believes that it has strong defenses to the suit and will vigorously defend against the claims.

**I. Dividend Payment**

The Board of Directors examines the liquidity and capital requirements of the Company at each board meeting. If in the judgment of the Board of Directors, they may declare a special dividend. No dividend was declared or paid in the three months ended December 31, 2006.

**J. Warrants**

Stock warrant activity is as follows for the three months ended December 31:

	<u>Outstanding</u>	<u>Exercise Price</u>
Outstanding at September 30, 2006	16,401	\$ 2.00
Granted	621,148	2.00
Exercised or forfeited	—	—
Outstanding at December 31, 2006	<u>637,549</u>	<u>\$ 2.00</u>

Warrants outstanding and exercisable as of December 31, 2006, are as follows:

<u>Exercise Prices</u>	<u>Warrants</u>	<u>Weighted-Average</u>	
		<u>Remaining contractual life</u>	<u>Exercise prices</u>
\$2.00	637,549	2.86	\$ 2.00

Stock warrants issued during the three months ended December 31, 2006 were awarded for:

	<u>2006</u>
Common stock	621,148

**K. Subsequent Event**

On January 10, 2007, the Company accepted subscriptions relating to the issuance of 194,400 shares of Common Stock and Warrants to purchase an additional 48,600 shares of Common Stock. The warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of common stock and warrants of \$264,384, less commissions in the aggregate amount of \$18,507 paid to a placement agent assisting in the placement. Additionally, the Company issued a three-year warrant to purchase 17,010 shares of Common Stock at an exercise price of \$2.00 per share to the placement agent. The Company has agreed to register the resale of the Common Stock and the Common Stock issuable upon exercise of the Warrants.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION****Results of Operations:**Sales

Total sales increased \$204,389, or 10.7%, from \$1,906,874 for the three months ended December 31, 2005 to \$2,111,263 for the three months ended December 31, 2006. Sales from the Company's general aviation products, which consist primarily of sales to Cirrus, increased \$279,482, or 19.7% from \$1,420,804 for the three months ended December 31, 2005 to \$1,700,287 for the three months ended December 31, 2006. Sales from the Company's general aviation products accounted for 80.5% of total revenue for fiscal year 2006 compared to 74.5% of total sales for fiscal year 2005. Sales from the Company's recreational and LSA products decreased \$50,315, or 11.8% from \$424,875 for the three months ended December 31, 2005 to \$374,560 for the three months ended December 31, 2006. Other revenue, which consists of repairs, repacks, and shipping and packing charges, increased by \$5,813, or 19.0% from \$30,604 for the three months ended December 31, 2005 to \$36,416 for the three months ended December 31, 2006.

Sales of the Company's general aviation products consist largely of sales o Cirrus where the Company's products are standard equipment on the Cirrus SRV, SR20 and SR22 model aircraft. The Company delivered 168 and 146 units to Cirrus in first quarters of fiscal years 2007 and 2006, respectively. The Company believes that Cirrus has a backlog of aircraft orders, all of which are required to include the Company's parachute systems. As of December 31, 2006, the Company had a backlog of orders from Cirrus totaling approximately \$8.5 million. The Company understands that Cirrus expects to be able to fill the backlog of firm aircraft orders during the next 12 months. The Company also understands that Cirrus is expected to maintain fiscal year 2006 manufacturing volumes for its aircraft throughout fiscal year 2007. As a result, the Company is forecasting flat growth in 2007 in its general aviation revenues. No assurance can be given that general aviation revenues will remain as anticipated. Until the Company becomes diversified in general aviation, future production volumes for the Company's parachute systems, will be dictated by ultimate market demands for Cirrus' products. Accordingly, the Company is, and will likely be, dependent on Cirrus for a material portion of its revenues for fiscal year 2007. Any negative impact on Cirrus' sales would have a significant negative impact on the Company's revenues.

The Company's recreational and LSA aircraft product line sales decreased by 11.8% during the first quarter of fiscal year 2007 compared to the first quarter of the prior fiscal year. LSA and recreational sales accounted for 17.7% of the Company's revenues for first quarter of fiscal year 2007 versus 22.3% of the Company's revenues for the first quarter of the prior fiscal year. This decrease is the result of a very strong first quarter in fiscal year 2006, which reported 31% growth over the first quarter of fiscal year 2005. The LSA and recreational aircraft products business relies on customer acceptance of the Company's parachute concept and the existence of installation designs for light sport and recreational aircraft.

The Company anticipates being able to expand its general aviation and recreational product lines to include other certified and non-certified aircraft as the Company's recovery systems gain further market acceptance. The Company is in ongoing discussions with domestic and foreign general aviation and recreational aircraft companies that have expressed interest in utilizing certain of the Company's products. These companies produce both certified and non-certified aircraft. No assurance can be made as to the future benefits, if any, that the Company will derive from these discussions.

The Company has commenced the establishment of a repack center which will have the capacity to repack the parachute systems. Cirrus will be notifying its owners on a systematic basis of the need to

have the parachute system repacked. The Company anticipates that it will be the exclusive provider of repacking services on Cirrus aircraft.

#### Gross Operating Margin

Gross operating margin as a percentage of revenues was 34.2% for the first quarter of fiscal year 2007 compared to 39.6% for the comparative quarter of fiscal year 2006. The factors contributing to this 5.4% reduction in gross margin include increased freight costs with the addition of the Mexican facility, increases in labor and various material costs, and an increase in the inventory reserve. In addition, a price reduction was given to Cirrus associated with increased purchase quantities. The Company expects to provide additional pricing reductions to its larger customers in the future and as a result, the gross margins could be impacted. The Company's objective is to maintain or improve overall gross margins in the future.

#### Selling, General and Administrative

Selling, general and administrative costs as a percentage of sales were 29.3% (\$618,220) for the first quarter of fiscal year 2007 as compared to 33.6% (\$640,652) for the first quarter of fiscal year 2006. This net decrease for the first quarter of \$22,432 in selling, general and administrative costs consisted of a decrease in general and administrative start-up costs for our Mexico production facility of \$135,596 and a decrease in legal fees of \$34,755, off-set by an increase in insurance costs associated with the indemnification agreement with Cirrus totaling \$132,665 and an increase of Board of Directors fees of \$21,060. Prior to February 3, 2006, there were no product liability costs as the Company did not maintain product liability insurance on any of its products. The prior year costs associated with the Mexico operation included relocating operations to a new building, setting up and production of test products and the testing of those products.

#### Research and Development, net

Research and development costs were 2.0% and 5.7% of sales for the first quarter of fiscal years 2007 and 2006, respectively. Increases in research and development expenditures are planned for the future in the areas of new product development and in the expansion of currently developed products for additional applications. The Company expects research and development costs to exceed \$900,000 for fiscal year 2007.

The Company has undertaken research and development on potential new products and services including enhancements to current products. Such efforts may result in future offerings and model upgrades to existing products. The development efforts are funded through current operations and it is unclear what impact, if any, these will have on future sales or financial performance of the Company.

#### Acquisitions

As part of the overall growth strategy of the Company, it is management's intent to seek out, evaluate and execute strategic acquisitions to grow the product base and integrate operations with the primary focus on cost savings and product diversification. Management cannot state at this point with any degree of certainty what the results of any pending acquisitions may be or the financial impact on Company operations.

Intangible Amortization

The Company records amortization expense related to the covenant not to compete agreements entered into with SCI and Mr. Thomas over the remaining life of the agreements. Intangible amortization expense decreased by \$18,798 for the first quarter of fiscal year 2007 over the same period in the prior year due to the completion of the amortization on the covenant not to compete agreement entered into with Mr. Thomas. This covenant not to compete became fully amortized in October 2006.

Net Income (Loss) and Earnings (Loss) per Share

Income (loss) before income taxes as a percentage of revenues was 1.4% and (2.7%) for the first quarter of fiscal year 2007 and 2006, respectively.

Earnings per share were relatively consistent in the fiscal periods. On a diluted earnings per share basis, net income of \$18,592 for the first quarter of fiscal year 2007 was 0.9% of sales or \$0.002 per share, as compared to net loss of (\$33,735), which was (1.8%) of sales or (\$0.004) per share for the prior fiscal year quarter.

Liquidity and Capital Resources:

As of December 31, 2006, the Company had cash and cash equivalents of \$777,407.

On October 25, 2006, the Company accepted subscriptions relating to the issuance of 975,736 shares of common stock and warrants to purchase an additional 243,934 shares of common stock. The warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of common stock and warrants of \$1,327,001, less commissions in the aggregate amount of \$92,890 and less a retainer and expenses in the aggregate amount of \$20,000 paid to a placement agent assisting in the placement. Additionally, the Company will be required to issue a three-year warrant to purchase 85,377 shares of common stock at an exercise price of \$2.00 per share to the placement agent. The Company has agreed to register the resale of the common stock and the common stock issuable upon exercise of the warrants.

On November 22, 2006, the Company accepted subscriptions relating to the issuance of 864,704 shares of common stock and warrants to purchase an additional 216,176 shares of common stock. The warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of common stock and warrants of \$1,175,997, less commissions in the aggregate amount of \$82,320 paid to a placement agent assisting in the placement. Additionally, the Company will be required to issue a three-year warrant to purchase 75,661 shares of common stock at an exercise price of \$2.00 per share to the placement agent. The Company has agreed to register the resale of the common stock and the common stock issuable upon exercise of the warrants.

On January 10, 2007, the Company accepted subscriptions relating to the issuance of 194,400 shares of common stock and warrants to purchase an additional 48,600 shares of common stock. The warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of common stock and warrants of \$264,384, less commissions in the aggregate amount of \$18,507 paid to a placement agent assisting in the placement. Additionally, the Company will be required to issue a three-year warrant to purchase 17,010 shares of common stock at an exercise price of \$2.00 per share to the placement agent. The Company has agreed to register the resale of the common stock and the common stock issuable upon exercise of the warrants.

On November 15, 2006, the Company paid the unpaid principal and interest outstanding of \$721,143 on the first note payable to Parsons and Aerospace Marketing and paid \$5,000 towards unpaid principal on the second note payable to Parsons and Aerospace Marketing, leaving a principal balance payable of \$315,000.

The Company anticipates a need to make continuing capital improvements of approximately \$138,000 during the fiscal year ending September 30, 2007 to its current production facilities in both the US and Mexico and continued equipment and tooling upgrades. The Company believes that existing cash and cash equivalents, cash generated from operations and the proceeds received in January 2007 from the sale of common stock and warrants will provide sufficient cash flow to meet working capital, capital expenditure and operating requirements during the next 12 months. Debt financing may be used for cash requirements over the next twelve months to fund material research and development costs if necessary.

The Company does not presently have product liability insurance on any products other than the Cirrus products and must fund the expenses of its pending lawsuits. Furthermore, a significant judgment against the Company in its existing litigation could have a material impact on the Company. The Company has incurred approximately \$44,475 in legal fees for the first three months of fiscal year 2007 and \$258,000 in legal fees for fiscal year 2006 attributable to all legal support matters and the defense of its pending lawsuits.

In addition, requirements under the Sarbanes-Oxley Act will require increased expenditures as the Company implements expanded compliance infrastructure and oversight.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Form 10-KSB and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company) contain statements that are forward-looking, such as statements relating to anticipated Cirrus Design delivery orders and schedules, the repack business, plans for research projects, development, anticipated delivery orders and schedules for the Cessna 182 system, the Cessna 172 system, success of contracts for NASA SBIR research projects, the timing and impact of regulations on Light Sport Aircraft sales, other business development activities as well as other capital spending, financial sources, and the effects of competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, dependence on Cirrus, potential product liability claims and payment if such claims are successful, federal transportation rules and regulation which may negatively impact the Company's ability to ship its products in a cost efficient manner, the elimination of funding for new research and development projects, the decline in registered and unregistered aircraft sales, dependence on discretionary consumer spending, dependence on existing management, general economic conditions, and changes in federal or state laws or regulations.

#### **Off-Balance Sheet Arrangements**

During the quarter ended December 31, 2006, the Company did not engage in any off-balance sheet arrangements as defined in Item 303(c) of Regulation S-B.

**Critical Accounting Policies and Estimates**

Our discussion and analysis or results of operation is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and related disclosures of contingent assets and liabilities for the periods indicated. The notes to the financial statements contained herein describe our significant accounting policies used in the preparation of the financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to our allowance for doubtful accounts, inventory valuations, the lives and continued usefulness of furniture, fixtures and leasehold improvements, deferred tax assets and contingencies. Due to uncertainties, however, it is at least reasonably possible that management's estimates will change during the next year, which cannot be estimated. Realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Actual future operating results, as well as changes in future performance, could have a material adverse impact on the valuation reserves. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions.

**Recently Issued Accounting Pronouncements**

In June 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' consolidated financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this statement. The adoption of SFAS No. 154 did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB has published FASB Interpretation (FIN) No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB SFAS No. 109, Accounting for Income Taxes, on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoptions of FIN No. 48 will have on its consolidated financial statements.

In September 2006, the FASB has published FASB SFAS No. 157, Fair Value Measurements, to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited

guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Moreover, the SFAS states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. Consequently, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). Finally, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, Disclosures about Fair Value of Financial Instruments, where practicable. The guidance in this Statement applies for derivatives and other financial instruments measured at fair value under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, at initial recognition and in all subsequent periods. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. The Company believes the impact of SFAS No. 157 will not have a material effect of its consolidated financial statements.

In September 2006, the FASB has published FASB SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, to require an employer to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans in their financial statements. Previous standards required an employer to disclose the complete funded status of its plan only in the notes to the financial statements. Moreover, because those standards allowed an employer to delay recognition of certain changes in plan assets and obligations that affected the costs of providing benefits, employers reported an asset or liability that almost always differed from the plan's funded status. Under SFAS No. 158, a defined benefit postretirement plan sponsor that is a public or private company or a nongovernmental not-for-profit organization must (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for the plan's underfunded status, (b) measure the plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and (c) recognize, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers' Accounting for Pensions, or SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. SFAS No. 158 also requires an employer to disclose in the notes to financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. The Company believes the impact of SFAS No. 158 will not have a material effect on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 requires registrants to quantify errors using both the income statement method (i.e. iron curtain method) and the rollover method and requires adjustment if either method indicates a material error. If a correction in the current year relating to prior

year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to the prior year results that are not material to those years, would not require a "restatement process" where prior financials would be amended. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company does not anticipate that SAB 108 will have a material effect on its consolidated financial statements.

### ITEM 3. CONTROLS AND PROCEDURES

As of December 31, 2006, the Company carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer at the time concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be disclosed in our periodic reports to the Securities and Exchange Commission. During the quarter ended December 31, 2006, there were no changes in our internal control over financial reporting that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

## Part II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### Fischer/Sedgwick

In August 2003, the Company was served in two related actions, Kathleen F. Fischer and Susan Sedgwick in U.S. District Court for the Northern District of New York. These actions arise from the crash of a Cirrus Design Corp. SR22 airplane in April 2002 near Parish, New York. The Plaintiffs have brought claims for strict products liability, negligence and breach of warranty against Cirrus Design, the airplane's manufacturer, the Company, which manufactures the CAPS (Cirrus Airframe Parachute System), a parachute system which is a required component of the plane, and Wings Aloft, Inc., which provided training on the SR22 to the decedents. In June and August 2006, the Company settled with such plaintiffs without any liability to the Company.

#### Aerospace Marketing, Inc./Parsons

On April 17, 2004, an action was commenced against the Company by Aerospace Marketing, Inc. and Charles Parsons v. Ballistic Recovery Systems, Inc., U.S. District Court, Middle District of Florida, File No. 04-CV-242. The action resulted from the Company's notification to Charles F. Parson in April 2004 of its intent to terminate the sales and marketing contract between the Company and Mr. Parsons relating to the BRS-172 and BRS-150 products for lack of performance.

In 2005, a jury awarded damages to Parsons and Aerospace Marketing in the combined amount of approximately \$3.4 million for breach of contract. BRS settled this matter directly with Parsons and Aerospace on September 19, 2005 by agreeing to pay \$1.9 million pursuant to terms described in the settlement agreement. An initial payment of \$700,000 plus interest was made on September 19, 2005. The remainder of the settlement amount was to be paid by BRS over a term of 8 years, although BRS had the right to pre-pay remaining amounts due at any time. On November 16, 2006, the Company prepaid \$721,219 of such sum. The current balance is \$315,000, which requires interest only payments through September 2010, and principal and interest payments from October 2010 through September 2013.

McGrath

In April 2005, an action was commenced against the Company by Sue Jean McGrath, individually and as successor in interest to Charles W. McGrath, deceased, Charles W. McGrath III, Tanya Sue McGrath, Janny Sue McGrath, individually v. Cirrus Design Corporation, Ballistic Recovery Systems, Inc., and Aerospace Systems and Technologies, Inc., U.S. District Court, Northern District of California, File No. C05-1542. The plaintiffs have alleged vicarious liability, strict product liability, negligence and breach of warranty against the defendants arising from the crash of a Cirrus Design Corp. SR22 airplane near Sugar Bowl, California. The case is currently in the early stages of discovery. At this time the Company cannot state with any degree of certainty what the outcome of the matter or the amount or range of potential damages will be.

Rayner

On September 16, 2005, an action was commenced against the Company by Robert Treat Rayner, in the Circuit Court of the 5th Judicial Circuit in and from Lake County Florida, File No. 04 CA 1749. The Complaint alleges that plaintiff was injured when his ultralight aircraft crashed while being towed by another ultralight. Plaintiff alleges that he deployed his BRS system, but that it failed to deploy properly. BRS is undertaking an investigation of the claim and has responded to the suit. At this time, the Company cannot state with any degree of certainty what the outcome of these matters will be or the amount or range of potential loss, if any. BRS believes that it has strong defenses to the suit and will vigorously defend against the claims.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On January 10, 2007, the Company accepted subscriptions relating to the issuance of 194,400 shares of common stock and warrants to purchase an additional 48,600 shares of common stock. The warrants have a three-year term and an exercise price of \$2.00 per share. The Company received gross proceeds from the sale of common stock and warrants of \$264,384, less commissions in the aggregate amount of \$18,507 paid to a placement agent assisting in the placement. Additionally, the Company will be required to issue a three-year warrant to purchase 17,010 shares of common stock at an exercise price of \$2.00 per share to the placement agent. The Company has agreed to register the resale of the common stock and the common stock issuable upon exercise of the warrants.

**ITEM 6. EXHIBITS****Exhibits**

The following documents are included or referenced in this report.

<u>Exhibit Number</u>	<u>Description</u>
4.1	Form of Subscription Agreement entered into with investors in private placement completed from October 2006 to January 2007 (incorporated by reference to Exhibit 4.3 to the Company's Form 10-KSB filed December 26, 2006.)
4.2	Form of Warrant issued to investors in private placement completed from October 2006 to January 2007.
4.3	Form of Agents Warrant issued in connection with private placement completed from October 2006 to January 2007
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Accounting Officer.
32.1	Section 1350 Certification of Principal Executive Officer.
32.2	Section 1350 Certification of Principal Accounting Officer.

Signatures

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

Date: February 14, 2007

/s/ Larry E. Williams

By Larry E. Williams  
Principal Executive Officer

/s/ Don R. Hedquist

By Don R. Hedquist  
Principal Accounting Officer

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like tenor and date representing in the aggregate the right to purchase the number of Warrant Shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of Warrant Shares (not to exceed the aggregate total number purchasable hereunder) as shall be designated by the Holder at the time of such surrender. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction, or mutilation of this Warrant, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu of this Warrant. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any exchange or replacement. The Company shall pay all expenses, taxes (other than stock transfer taxes), and other charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 2.

3. Issuance of the Warrant Shares.

(a) The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be and are deemed to be issued to the Holder as of the close of business on the date on which this Warrant shall have been surrendered and the payment made for such Warrant Shares as aforesaid. Subject to the provisions of paragraph (b) of this Section 3, certificates for the Warrant Shares so purchased shall be delivered to the Holder within a reasonable time, not exceeding fifteen (15) days after the rights represented by this Warrant shall have been so exercised, and, unless this Warrant has expired, a new Warrant representing the right to purchase the number of Warrant Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be delivered to the Holder within such time.

(b) Notwithstanding the foregoing, however, the Company shall not be required to deliver any certificate for Warrant Shares upon exercise of this Warrant except in accordance with exemptions from the applicable securities registration requirements or registrations under applicable securities laws. Nothing herein, however, shall obligate the Company to effect registrations under federal or state securities laws, except as provided in Section 9. If registrations are not in effect and if exemptions are not available when the Holder seeks to exercise the Warrant, the Warrant exercise period will be extended, if need be, to prevent the Warrant from expiring, until such time as either registrations become effective or exemptions are available, and the Warrant shall then remain exercisable for a period of at least 30 calendar days from the date the Company delivers to the Holder written notice of the availability of such registrations or exemptions. The Holder agrees to execute such documents and make such representations, warranties, and agreements as may be required solely to comply with the exemptions relied upon by the Company, or the registrations made, for the issuance of the Warrant Shares.

4. Covenants of the Company. The Company covenants and agrees that all Warrant Shares will, upon issuance, be duly authorized and issued, fully paid, non-assessable and free from all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved for the purpose of issue or transfer upon exercise of the subscription rights evidenced by this Warrant a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant.

5. Anti-Dilution Adjustments. The provisions of this Warrant are subject to adjustment as provided in this Section 5.

(a) The Warrant Exercise Price shall be adjusted from time to time such that in case the Company shall hereafter:

- (i) pay any dividends on any class of stock of the Company payable in Common Stock or securities convertible into Common Stock;
- (ii) subdivide its then outstanding shares of Common Stock into a greater number of shares; or
- (iii) combine outstanding shares of Common Stock, by reclassification or otherwise;

then, in any such event, the Warrant Exercise Price in effect immediately prior to such event shall (until adjusted again pursuant hereto) be adjusted immediately after such event to a price (calculated to the nearest full cent) determined by dividing (A) the number of shares of Common Stock outstanding immediately prior to such event, multiplied by the then existing Warrant Exercise Price, by (B) the total number of shares of Common Stock outstanding immediately after such event (including in each case the maximum number of shares of Common Stock issuable in respect of any securities convertible into Common Stock), and the resulting quotient shall be the adjusted Warrant Exercise Price per share. An adjustment made pursuant to this Subsection shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this Subsection, the Holder of any Warrant thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Company, the Board of Directors (whose determination shall be conclusive) shall determine the allocation of the adjusted Warrant Exercise Price between or among shares of such classes of capital stock or shares of Common Stock and other capital stock. All calculations under this Subsection shall be made to the nearest cent or to the nearest 1/100 of a share, as the case may be. In the event that at any time as a result of an adjustment made pursuant to this Subsection, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of the Company other than shares of Common Stock, thereafter the Warrant Exercise Price of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Section.

(b) Upon each adjustment of the Warrant Exercise Price pursuant to Section 5(a) above, the Holder of each Warrant shall thereafter (until another such adjustment) be entitled to purchase at the adjusted Warrant Exercise Price the number of shares, calculated to the nearest full share, obtained by multiplying the number of shares specified in such Warrant (as adjusted as a result of all adjustments in the Warrant Exercise Price in effect prior to such adjustment) by the Warrant Exercise Price in effect prior to such adjustment and dividing the product so obtained by the adjusted Warrant Exercise Price.

(c) In case of any consolidation or merger to which the Company is a party other than a merger or consolidation in which the Company is the continuing corporation, or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, or in the case of any statutory exchange of securities with another corporation (including any exchange effected in connection with a merger of a third corporation into the Company), there shall be no adjustment under Section 5(a) above but the Holder of each Warrant then outstanding shall have the right thereafter to convert such Warrant into the kind and amount of shares of stock and other securities and property which he would have owned or have been entitled to receive immediately after such consolidation, merger, statutory exchange, sale, or conveyance had such Warrant been converted immediately prior to the effective date of such consolidation, merger, statutory exchange, sale, or conveyance and in any such case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth in this Section with respect to the rights and interests thereafter of any Holders of the Warrant, to the end that the provisions set forth in this Section shall thereafter correspondingly be

made applicable, as nearly as may reasonably be, in relation to any shares of stock and other securities and property thereafter deliverable on the exercise of the Warrant. The provisions of this Subsection shall similarly apply to successive consolidations, mergers, statutory exchanges, sales or conveyances.

(d) Upon any adjustment of the Warrant Exercise Price, then and in each such case, the Company shall give written notice thereof, by First-class mail, postage prepaid, addressed to the Holder as shown on the books of the Company, which notice shall state the Warrant Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

6. No Voting Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company.

7. Notice of Transfer of Warrant or Resale of the Warrant Shares.

(a) Subject to the sale, assignment, hypothecation, or other transfer restrictions set forth in Section 1 hereof, the Holder, by acceptance hereof, agrees to give written notice to the Company before transferring this Warrant or transferring any Warrant Shares of such Holder's intention to do so, describing briefly the manner of any proposed transfer. Promptly upon receiving such written notice, the Company shall present copies thereof to the Company's counsel and to counsel to the original purchaser of this Warrant. If in the opinion of each such counsel the proposed transfer may be effected without registration or qualification (under any federal or state securities laws), the Company, as promptly as practicable, shall notify the Holder of such opinion, whereupon the Holder shall be entitled to transfer this Warrant or to dispose of Warrant Shares received upon the previous exercise of this Warrant, all in accordance with the terms of the notice delivered by the Holder to the Company; provided that an appropriate legend may be endorsed on this Warrant or the certificates for such Warrant Shares respecting restrictions upon transfer thereof necessary or advisable in the opinion of counsel and satisfactory to the Company to prevent further transfers which would be in violation of Section 5 of the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws; and provided further that the prospective transferee or purchaser shall execute such documents and make such representations, warranties, and agreements as may be required solely to comply with the exemptions relied upon by the Company for the transfer or disposition of the Warrant or Warrant Shares.

(b) If in the opinion of either of the counsel referred to in this Section 7, the proposed transfer or disposition of this Warrant or such Warrant Shares described in the written notice given pursuant to this Section 7 may not be effected without registration or qualification of this Warrant or such Warrant Shares the Company shall promptly give written notice thereof to the Holder, and the Holder will limit its activities in respect to such transfer or disposition as, in the opinion of both such counsel, are permitted by law.

8. Fractional Shares.

(a) Fractional shares shall not be issued upon the exercise of this Warrant, but in any case where the holder would, except for the provisions of this Section, be entitled under the terms hereof to receive a fractional share, the Company shall, upon the exercise of this Warrant for the largest number of whole shares then called for, pay a sum in cash equal to the sum of (a) the excess, if any, of the Fair Market Value of such fractional share over the proportional part of the Warrant Exercise Price represented by such fractional share, plus (b) the proportional part of the Warrant Exercise Price represented by such fractional share.

(b) For purposes of this Section, the term "Fair Market Value" with respect to shares of Common Stock as of a particular date (the "Determination Date") shall mean:

(i) If the Company's Common Stock is traded on an exchange or is quoted on The Nasdaq National Market, then the average closing or last sale prices, respectively, reported for the ten (10) business days immediately preceding the Determination Date;

(ii) If the Company's Common Stock is not traded on an exchange or on The Nasdaq National Market but is traded on The Nasdaq Small-Cap Market or the local over-the-counter market, then the average closing bid and asked prices reported for the ten (10) business days immediately preceding the Determination Date; and

(iii) If the Company's Common Stock is not traded on an exchange, on The Nasdaq National Market, The Nasdaq Small-Cap Market or on the local over-the-counter market, then the fair market value of Common Stock as determined in good faith by the Board of Directors of the Company.

9. Registration Rights.

(a) Required Registration. Pursuant to a Registration Rights Agreement of even date herewith, the Company shall include the Warrant Shares in the Registration Statement that it is required to file within forty-five (45) days of the final closing of the private offering, pursuant to which this Warrant was issued.

(b) Piggyback Registration. If the Company at any time within two (2) years after complete exercise of this Warrant, but no more than seven (7) years from the date of this Warrant, proposes to register under the 1933 Act (except by a Form S-4 or Form S-8 Registration Statement or any successor forms thereto) or qualify for a public distribution under Section 3(b) of the 1933 Act, any of its securities, it will give written notice to all Holders of this Warrant, any Warrants issued pursuant to Section 2 and/or Section 3(a) hereof, and any Warrant Shares of its intention to do so and, on the written request of any such Holder given within twenty (20) days after receipt of any such notice (which request shall specify the Warrant Shares intended to be sold or disposed of by such Holder and describe the nature of any proposed sale or other disposition thereof), the Company will use its best efforts to cause all such Warrant Shares, the Holders of which shall have requested the registration or qualification thereof, to be included in such registration statement proposed to be filed by the Company; provided, however, that if a greater number of Warrant Shares is offered for participation in the proposed offering than in the reasonable opinion of the managing underwriter of the proposed offering (which opinion shall be in writing and delivered to the Holders) can be accommodated without adversely affecting the proposed offering, then the amount of Warrant Shares proposed to be offered by such Holders for registration, as well as the number of securities of any other selling shareholders participating in the registration, shall not be included or shall be proportionately reduced to a number deemed satisfactory by the managing underwriter. With respect to each inclusion of securities in a registration statement pursuant to this Section 9(a), the selling Holders shall pay the fees and disbursements of special counsel and accountants for the selling Holders, and underwriting discounts or commissions and transfer taxes applicable to the selling Holders' shares, and the Company shall pay all other costs and expenses of the registration, including but not limited to all registration, filing and NASD fees, printing expenses, fees and disbursements of counsel and accountants for the Company, all internal expenses, and legal fees and disbursements and other expenses of complying with state securities laws of any jurisdictions in which the securities to be offered are to be registered or qualified. The Company need not maintain the effectiveness of any such registration, qualification, notification or approval, whether or not at the request of the Holders, more than six (6) months following the effective date thereof.

(c) Indemnification. The Company hereby indemnifies each of the Holders of this Warrant and of any Warrant Shares, and the officers and directors, if any, who control such Holders, within the meaning of Section 15 of the 1933 Act, against all losses, claims, damages, and liabilities caused by (1) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement or Prospectus (and as amended or supplemented if the Company shall have furnished any amendments thereof or supplements thereto), any Preliminary Prospectus (not corrected in the final, amended or supplemented prospectus furnished to such Holders for distribution) or any state securities law filings; (2) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading except insofar as such losses, claims, damages, or liabilities are caused by any untrue statement or omission contained in information furnished in writing to the Company by such Holder expressly for use therein; and each such Holder by its acceptance hereof severally agrees that it will indemnify and hold harmless the Company, each of its officers who signs such Registration Statement, and each person, if any, who controls the Company, within the meaning of Section 15 of the 1933 Act, with respect to losses, claims, damages, or liabilities which are caused by any untrue statement or omission contained in information furnished in writing to the Company by such Holder expressly for use therein.

(d) Cooperation. Upon the exercise of registration rights pursuant hereto, each holder agrees to supply the Company with such information as may be required by the Company to register or qualify the shares to be registered.

IN WITNESS WHEREOF, Ballistic Recovery Systems, Inc. has caused this Warrant to be signed by its duly authorized officer and this Warrant to be dated January 10, 2007.

BALLISTIC RECOVERY SYSTEMS, INC.

By \_\_\_\_\_  
 Don Hedquist  
 Its Chief Financial Officer

*Signature Page  
 Ballistic Recovery Systems, Inc.  
 Warrant No.*

Warrant No.

**SUBSCRIPTION FORM**  
**(To be signed upon exercise of Warrant)**

The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, \_\_\_\_\_ of the shares of Common Stock of BALLISTIC RECOVERY SYSTEMS, INC to which such Warrant relates and herewith makes payment of \$ \_\_\_\_\_ therefor in cash or by certified check and requests that the certificate for such shares be issued in the name of, and be delivered to, \_\_\_\_\_, the address for which is set forth below the signature of the undersigned.

Dated:

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
Social Security or Tax Ident. No.



Warrant No.

**ASSIGNMENT FORM**  
**(To be signed upon authorized transfer of Warrant)**

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto \_\_\_\_\_ the right to purchase shares of Common Stock of Ballistic Recovery Systems, Inc. to which the within Warrant relates and appoints attorney, to transfer said right on the books of \_\_\_\_\_ with full power of substitution in the premises.

Dated:

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
Social Security or Tax Ident. No.

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(b) Until one year from the date hereof, this Warrant may not be sold, assigned, hypothecated, or otherwise transferred, other than by will or pursuant to the operation of law, except to a person who is an officer and shareholder of the Placement Agent or an officer and employee of the Placement Agent or in compliance with the provisions of Section 7 hereof.

2. Exchange and Replacement. Subject to Sections 1 and 7 hereof, this Warrant is exchangeable upon the surrender hereof by the Holder to the Company at its office for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of Warrant Shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of Warrant Shares (not to exceed the aggregate total number purchasable hereunder) as shall be designated by the Holder at the time of such surrender. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction, or mutilation of this Warrant, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu of this Warrant; provided, however, that if the Placement Agent shall be such Holder, an agreement of indemnity by such Holder shall be sufficient for all purposes of this Section 2. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any exchange or replacement. The Company shall pay all expenses, taxes (other than stock transfer taxes), and other charges payable in connection with the preparation, execution, and delivery of Warrants pursuant to this Section 2.

3. Issuance of the Warrant Shares.

(a) The Company agrees that the shares of Common Stock purchased upon exercise of this Warrant shall be and are deemed to be issued to the Holder as of the close of business on the date on which this Warrant shall have been surrendered and the payment made for such Warrant Shares as aforesaid. Subject to the provisions of paragraph (b) of this Section 3, certificates for the Warrant Shares so purchased shall be delivered to the Holder within a reasonable time, not exceeding fifteen (15) days after the rights represented by this Warrant shall have been so exercised, and, unless this Warrant has expired, a new Warrant representing the right to purchase the number of Warrant Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be delivered to the Holder within such time.

(b) Notwithstanding the foregoing, however, the Company shall not be required to deliver any certificate for Warrant Shares upon exercise of this Warrant except in accordance with exemptions from the applicable securities registration requirements or registrations under applicable securities laws. Nothing herein, however, shall obligate the Company to effect registrations under federal or state securities laws, except as provided in Section 9. If registrations are not in effect and if exemptions are not available when the Holder seeks to exercise the Warrant, the Warrant exercise period will be extended, if need be, to prevent the Warrant from expiring, until such time as either registrations become effective or exemptions are available, and the Warrant shall then remain exercisable for a period of at least 30 calendar days from the date the Company delivers to the Holder written notice of the availability of such registrations or exemptions. The Holder agrees to execute such documents and make such representations, warranties, and agreements as may be required solely to comply with the exemptions relied upon by the Company, or the registrations made, for the issuance of the Warrant Shares.

4. Covenants of the Company. The Company covenants and agrees that all Warrant Shares will, upon issuance, be duly authorized and issued, fully paid, non-assessable and free from all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved for the purpose of issue or transfer upon exercise of the subscription

rights evidenced by this Warrant a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant.

5. Anti-Dilution Adjustments. The provisions of this Warrant are subject to adjustment as provided in this Section 5.

(a) The Warrant Exercise Price shall be adjusted from time to time such that in case the Company shall hereafter:

(i) pay any dividends on any class of stock of the Company payable in Common Stock or securities convertible into Common Stock;

(ii) subdivide its then outstanding shares of Common Stock into a greater number of shares; or

(iii) combine outstanding shares of Common Stock, by reclassification or otherwise;

then, in any such event, the Warrant Exercise Price in effect immediately prior to such event shall (until adjusted again pursuant hereto) be adjusted immediately after such event to a price (calculated to the nearest full cent) determined by dividing (A) the number of shares of Common Stock outstanding immediately prior to such event, multiplied by the then existing Warrant Exercise Price, by (B) the total number of shares of Common Stock outstanding immediately after such event (including in each case the maximum number of shares of Common Stock issuable in respect of any securities convertible into Common Stock), and the resulting quotient shall be the adjusted Warrant Exercise Price per share. An adjustment made pursuant to this Subsection shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this Subsection, the Holder of any Warrant thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Company, the Board of Directors (whose determination shall be conclusive) shall determine the allocation of the adjusted Warrant Exercise Price between or among shares of such classes of capital stock or shares of Common Stock and other capital stock. All calculations under this Subsection shall be made to the nearest cent or to the nearest 1/100 of a share, as the case may be. In the event that at any time as a result of an adjustment made pursuant to this Subsection, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of the Company other than shares of Common Stock, thereafter the Warrant Exercise Price of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Section.

(b) Upon each adjustment of the Warrant Exercise Price pursuant to Section 5(a) above, the Holder of each Warrant shall thereafter (until another such adjustment) be entitled to purchase at the adjusted Warrant Exercise Price the number of shares, calculated to the nearest full share, obtained by multiplying the number of shares specified in such Warrant (as adjusted as a result of all adjustments in the Warrant Exercise Price in effect prior to such adjustment) by the Warrant Exercise Price in effect prior to such adjustment and dividing the product so obtained by the adjusted Warrant Exercise Price.

(c) In case of any consolidation or merger to which the Company is a party other than a merger or consolidation in which the Company is the continuing corporation, or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially

as an entirety, or in the case of any statutory exchange of securities with another corporation (including any exchange effected in connection with a merger of a third corporation into the Company), there shall be no adjustment under Section 5(a) above but the Holder of each Warrant then outstanding shall have the right thereafter to convert such Warrant into the kind and amount of shares of stock and other securities and property which he would have owned or have been entitled to receive immediately after such consolidation, merger, statutory exchange, sale, or conveyance had such Warrant been converted immediately prior to the effective date of such consolidation, merger, statutory exchange, sale, or conveyance and in any such case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth in this Section with respect to the rights and interests thereafter of any Holders of the Warrant, to the end that the provisions set forth in this Section shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock and other securities and property thereafter deliverable on the exercise of the Warrant. The provisions of this Subsection shall similarly apply to successive consolidations, mergers, statutory exchanges, sales or conveyances.

(d) Upon any adjustment of the Warrant Exercise Price, then and in each such case, the Company shall give written notice thereof, by First-class mail, postage prepaid, addressed to the Holder as shown on the books of the Company, which notice shall state the Warrant Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

6. No Voting Rights. This Warrant shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company.

7. Notice of Transfer of Warrant or Resale of the Warrant Shares.

(a) Subject to the sale, assignment, hypothecation, or other transfer restrictions set forth in Section 1 hereof, the Holder, by acceptance hereof, agrees to give written notice to the Company before transferring this Warrant or transferring any Warrant Shares of such Holder's intention to do so, describing briefly the manner of any proposed transfer. Promptly upon receiving such written notice, the Company shall present copies thereof to the Company's counsel and to counsel to the original purchaser of this Warrant. If in the opinion of each such counsel the proposed transfer may be effected without registration or qualification (under any federal or state securities laws), the Company, as promptly as practicable, shall notify the Holder of such opinion, whereupon the Holder shall be entitled to transfer this Warrant or to dispose of Warrant Shares received upon the previous exercise of this Warrant, all in accordance with the terms of the notice delivered by the Holder to the Company; provided that an appropriate legend may be endorsed on this Warrant or the certificates for such Warrant Shares respecting restrictions upon transfer thereof necessary or advisable in the opinion of counsel and satisfactory to the Company to prevent further transfers which would be in violation of Section 5 of the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws; and provided further that the prospective transferee or purchaser shall execute such documents and make such representations, warranties, and agreements as may be required solely to comply with the exemptions relied upon by the Company for the transfer or disposition of the Warrant or Warrant Shares.

(b) If in the opinion of either of the counsel referred to in this Section 7, the proposed transfer or disposition of this Warrant or such Warrant Shares described in the written notice given pursuant to this Section 7 may not be effected without registration or qualification of this Warrant or such Warrant Shares the Company shall promptly give written notice thereof to the Holder, and the

Holder will limit its activities in respect to such transfer or disposition as, in the opinion of both such counsel, are permitted by law.

8. Fractional Shares.

(a) Fractional shares shall not be issued upon the exercise of this Warrant, but in any case where the holder would, except for the provisions of this Section, be entitled under the terms hereof to receive a fractional share, the Company shall, upon the exercise of this Warrant for the largest number of whole shares then called for, pay a sum in cash equal to the sum of (a) the excess, if any, of the Fair Market Value of such fractional share over the proportional part of the Warrant Exercise Price represented by such fractional share, plus (b) the proportional part of the Warrant Exercise Price represented by such fractional share.

(b) For purposes of this Section, the term "Fair Market Value" with respect to shares of Common Stock as of a particular date (the "Determination Date") shall mean:

(i) If the Company's Common Stock is traded on an exchange or is quoted on The Nasdaq National Market, then the average closing or last sale prices, respectively, reported for the ten (10) business days immediately preceding the Determination Date;

(ii) If the Company's Common Stock is not traded on an exchange or on The Nasdaq National Market but is traded on The Nasdaq Small-Cap Market or the local over-the-counter market, then the average closing bid and asked prices reported for the ten (10) business days immediately preceding the Determination Date; and

(iii) If the Company's Common Stock is not traded on an exchange, on The Nasdaq National Market, The Nasdaq Small-Cap Market or on the local over-the-counter market, then the fair market value of Common Stock as determined in good faith by the Board of Directors of the Company.

9. Registration Rights.

(a) Required Registration. The Company shall include the Warrant Shares in the Registration Statement that the Company is required to file within forty-five (45) days of the final closing of the private offering, in connection with which this Warrant was issued, and shall keep such Registration Statement effective until the Warrant Shares have been sold

(b) Piggyback Registration. If the Company at any time within two (2) years after complete exercise of this Warrant, but no more than seven (7) years from the date of this Warrant, proposes to register under the 1933 Act (except by a Form S-4 or Form S-8 Registration Statement or any successor forms thereto) or qualify for a public distribution under Section 3(b) of the 1933 Act, any of its securities, it will give written notice to all Holders of this Warrant, any Warrants issued pursuant to Section 2 and/or Section 3(a) hereof, and any Warrant Shares of its intention to do so and, on the written request of any such Holder given within twenty (20) days after receipt of any such notice (which request shall specify the Warrant Shares intended to be sold or disposed of by such Holder and describe the nature of any proposed sale or other disposition thereof), the Company will use its best efforts to cause all such Warrant Shares, the Holders of which shall have requested the registration or qualification thereof, to be included in such registration statement proposed to be filed by the Company; provided, however, that if a greater number of Warrant Shares is offered for participation in the proposed offering than in the reasonable opinion of the managing underwriter of the proposed offering (which opinion shall be in writing and delivered to the Holders) can be accommodated without adversely affecting the proposed

offering, then the amount of Warrant Shares proposed to be offered by such Holders for registration, as well as the number of securities of any other selling shareholders participating in the registration, shall not be included or shall be proportionately reduced to a number deemed satisfactory by the managing underwriter. With respect to each inclusion of securities in a registration statement pursuant to this Section 9(a), the selling Holders shall pay the fees and disbursements of special counsel and accountants for the selling Holders, and underwriting discounts or commissions and transfer taxes applicable to the selling Holders' shares, and the Company shall pay all other costs and expenses of the registration, including but not limited to all registration, filing and NASD fees, printing expenses, fees and disbursements of counsel and accountants for the Company, all internal expenses, and legal fees and disbursements and other expenses of complying with state securities laws of any jurisdictions in which the securities to be offered are to be registered or qualified. The Company need not maintain the effectiveness of any such registration, qualification, notification or approval, whether or not at the request of the Holders, more than six (6) months following the effective date thereof.

(c) Indemnification. The Company hereby indemnifies each of the Holders of this Warrant and of any Warrant Shares, and the officers and directors, if any, who control such Holders, within the meaning of Section 15 of the 1933 Act, against all losses, claims, damages, and liabilities caused by (1) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement or Prospectus (and as amended or supplemented if the Company shall have furnished any amendments thereof or supplements thereto), any Preliminary Prospectus (not corrected in the final, amended or supplemented prospectus furnished to such Holders for distribution) or any state securities law filings; (2) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading except insofar as such losses, claims, damages, or liabilities are caused by any untrue statement or omission contained in information furnished in writing to the Company by such Holder expressly for use therein; and each such Holder by its acceptance hereof severally agrees that it will indemnify and hold harmless the Company, each of its officers who signs such Registration Statement, and each person, if any, who controls the Company, within the meaning of Section 15 of the 1933 Act, with respect to losses, claims, damages, or liabilities which are caused by any untrue statement or omission contained in information furnished in writing to the Company by such Holder expressly for use therein.

(d) Cooperation. Upon the exercise of registration rights pursuant hereto, each holder agrees to supply the Company with such information as may be required by the Company to register or qualify the shares to be registered.

IN WITNESS WHEREOF, Ballistic Recovery Systems, Inc. has caused this Warrant to be signed by its duly authorized officer and this Warrant to be dated January 10, 2007.

BALLISTIC RECOVERY SYSTEMS, INC.

By \_\_\_\_\_

Don Hedquist  
Its Chief Financial Officer

*Signature Page*  
*Ballistic Recovery Systems, Inc.*  
*Warrant No.*

Warrant No.

**SUBSCRIPTION FORM**  
**(To be signed upon exercise of Warrant)**

The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, \_\_\_\_\_ of the shares of Common Stock of BALLISTIC RECOVERY SYSTEMS, INC. to which such Warrant relates and herewith makes payment of \$ \_\_\_\_\_ therefor in cash or by certified check and requests that the certificate for such shares be issued in the name of, and be delivered to, \_\_\_\_\_, the address for which is set forth below the signature of the undersigned.

Dated:

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
Social Security or Tax Ident. No.



Warrant No.

**ASSIGNMENT FORM**  
**(To be signed upon authorized transfer of Warrant)**

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto \_\_\_\_\_ the  
right to purchase \_\_\_\_\_ shares of Common Stock of Ballistic Recovery Systems, Inc. to which the within Warrant relates and  
appoints \_\_\_\_\_ attorney, to transfer said right on the books of \_\_\_\_\_ with full power of substitution in the premises.

Dated:

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
Social Security or Tax Ident. No.

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CERTIFICATIONS

I, Larry E. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Ballistic Recovery Systems, 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 quarterly 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 quarterly 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 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.

Date: February 14, 2007

/s/ Larry E. Williams

By Larry E. Williams

Principal Executive Officer

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DOC 5 Header

CERTIFICATIONS

I, Don R. Hedquist, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Ballistic Recovery Systems, 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 quarterly 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 quarterly 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 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.

Date: February 14, 2007

/s/ Don R. Hedquist

By Don R. Hedquist  
Principal Accounting Officer

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DOC 6 Header

**Exhibit 32.1**

CERTIFICATION  
OF  
CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Ballistic Recovery Systems, Inc. does hereby certify that:

- a. the Quarterly Report on Form 10-QSB of Ballistic Recovery Systems, Inc. for the quarter ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Ballistic Recovery Systems, Inc.

Date: February 14, 2007

/s/ Larry E. Williams

By Larry E. Williams

Principal Executive Officer

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DOC 7 Header

CERTIFICATION  
OF  
CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Ballistic Recovery Systems, Inc. does hereby certify that:

- a. the Quarterly Report on Form 10-QSB of Ballistic Recovery Systems, Inc. for the quarter ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Ballistic Recovery Systems, Inc.

Date: February 14, 2007

/s/ Don R. Hedquist

By Don R. Hedquist

Principal Accounting Officer

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