

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2005

Commission file number 018958

GROEN BROTHERS AVIATION, INC.

(Exact name of registrant as specified in its charter)

Utah
State or other jurisdiction of
Incorporation or organization

87-0489865
I.R.S. Employer
Identification No.

2640 W. California Ave., Suite A
Salt Lake City, Utah
Address of principal executive offices

84104
Zip Code

Registrant's telephone number, including area code (801) 973-0177

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class
Common Stock, No Par Value

Outstanding at March 31, 2005
126,702,922

Transitional Small Business Disclosure Format Yes No

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

GROEN BROTHERS AVIATION, INC.
Condensed Consolidated Balance Sheet (Unaudited)
March 31, 2005

Assets

Current assets:	
Cash	\$ 331,000
Accounts receivable	24,000
Related party notes receivable	36,000
Prepaid expenses	4,000
Inventories	435,000
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Total current assets	830,000
Property and equipment, net	254,000
	<hr/>
Total assets	\$ 1,084,000
	<hr/>

Liabilities and Stockholders' Deficit

Current liabilities:	
Accounts payable	\$ 796,000
Accrued expenses	7,770,000
Deferred revenue	632,000
Short-term notes payable	680,000
Related party notes payable	6,209,000
Put option liability	1,507,000
	<hr/>
Total current liabilities	17,594,000
Long-term liabilities:	
Deferred revenue	25,000
Long-term debt	461,000
Deposits	2,145,000
Series B 15% cumulative redeemable non-voting preferred stock, no par value, 50,000,000 shares authorized, 33,927 shares issued and outstanding	30,569,000
	<hr/>
Total liabilities	50,794,000
Stockholders' deficit:	
Series A convertible preferred stock, no par value, 50,000,000 shares authorized, 1,400,000 shares issue and outstanding	70,000
Common stock, no par value, 500,000,000 shares authorized, 126,702,922 shares issued and outstanding	22,879,000
Accumulated deficit	(72,659,000)
	<hr/>
Total stockholders' deficit	(49,710,000)
	<hr/>
Total liabilities and stockholders' deficit	\$ 1,084,000
	<hr/>

See accompanying notes to condensed consolidated financial statements.

GROEN BROTHERS AVIATION, INC.
Condensed Consolidated Statements of Operations (Unaudited)
Three Months Ended March 31,

	<u>2005</u>	<u>2004</u> <u>As Restated</u>
Revenues	\$ 237,000	\$ 30,000
Costs and expenses:		
Cost of sales	299,000	13,000
Research and development	614,000	620,000
General and administrative expenses	517,000	449,000
Total costs and expenses	<u>1,430,000</u>	<u>1,082,000</u>
Loss from operations	<u>(1,193,000)</u>	<u>(1,052,000)</u>
Other income (expense):		
Related party interest income	1,000	3,000
Interest and other income	7,000	38,000
Interest expense	(234,000)	(252,000)
Series B preferred stock interest expense	(2,110,000)	(1,276,000)
Total other income (expense)	<u>(2,336,000)</u>	<u>(1,487,000)</u>
Loss before income taxes	(3,529,000)	(2,539,000)
Income tax benefit	<u>-</u>	<u>-</u>
Net loss	<u>\$ (3,529,000)</u>	<u>\$ (2,539,000)</u>
Net loss applicable to common stockholders	\$ (3,529,000)	\$ (2,539,000)
Net loss per share – basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>117,365,000</u>	<u>105,751,000</u>

See accompanying notes to condensed consolidated financial statements.

GROEN BROTHERS AVIATION, INC.
Condensed Consolidated Statements of Operations (Unaudited)
Nine Months Ended March 31,

	<u>2005</u>	<u>2004</u> <u>As Restated</u>
Revenues	\$ 597,000	\$ 117,000
Costs and expenses:		
Cost of sales	712,000	81,000
Research and development	1,673,000	1,442,000
General and administrative expenses	1,322,000	1,160,000
Total costs and expenses	<u>3,707,000</u>	<u>2,683,000</u>
Loss from operations	<u>(3,110,000)</u>	<u>(2,566,000)</u>
Other income (expense):		
Related party interest income	7,000	8,000
Interest and other income	18,000	62,000
Interest expense	(939,000)	(1,156,000)
Series B preferred stock interest expense	(5,563,000)	(6,211,000)
Total other income (expense)	<u>(6,477,000)</u>	<u>(7,297,000)</u>
Loss before income taxes	(9,587,000)	(9,863,000)
Income tax benefit	-	-
Net loss	<u>\$ (9,587,000)</u>	<u>\$ (9,863,000)</u>
Issuance of put option	<u>\$ -</u>	<u>\$ (1,448,000)</u>
Net loss applicable to common stockholders	<u>\$ (9,587,000)</u>	<u>\$ (11,311,000)</u>
Net loss per share – basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.11)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>114,621,000</u>	<u>99,584,000</u>

See accompanying notes to condensed consolidated financial statements.

GROEN BROTHERS AVIATION, INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended March 31,

	<u>2005</u>	<u>2004</u> <u>As Restated</u>
Cash flows from operating activities:		
Net loss	\$ (9,587,000)	\$ (9,863,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	89,000	110,000
Common stock issued for interest expense	13,000	120,000
Stock options issued for interest and consulting expenses	80,000	275,000
Interest expense accrued on Series B preferred stock	5,563,000	6,211,000
Common stock issued for services	7,000	103,000
Common stock issued for 401(k) expense	88,000	-
Interest expense on put option liability	59,000	-
Accrued interest expense added to debt principal	49,000	23,000
Other	2,000	(27,000)
(Increase) decrease in:		
Accounts receivable	(7,000)	4,000
Prepaid expenses	-	4,000
Inventories	53,000	(521,000)
Increase (decrease) in:		
Accounts payable	3,000	(327,000)
Accrued expenses	1,463,000	108,000
Deferred revenue	20,000	586,000
Deposits	-	(19,000)
	(2,105,000)	(3,213,000)
Cash flows from investing activities:		
Purchase of property and equipment	(30,000)	(6,000)
Proceeds from the sale of assets	-	17,000
Issuance of related party notes receivable	-	(23,000)
Payments of related party notes receivable	89,000	-
	59,000	(12,000)
Cash flows from financing activities:		
Proceeds from the issuance of debt	611,000	507,000
Repayment of debt	(53,000)	(185,000)
Proceeds from the issuance of Series B preferred stock	-	2,000,000
Proceeds from the issuance of common stock	1,806,000	1,005,000
Payment of finders' compensation on issuance of common stock	(14,000)	(29,000)
	2,350,000	3,298,000
Net cash provided by financing activities		
Net increase in cash	304,000	73,000
Cash, beginning of period	27,000	4,000
Cash, end of period	\$ 331,000	\$ 77,000

See accompanying notes to condensed consolidated financial statements.

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

Note 1: Organization and Basis of Presentation

Organization and Consolidation

Effective November 1, 2004, Groen Brothers Aviation, Inc. (the “Company”) merged American Autogyro, Inc. (“AAI”), a wholly owned subsidiary, into Groen Brothers Aviation USA, Inc. (“GBA-USA”), a wholly owned subsidiary. GBA-USA will continue the manufacturing, sales and marketing functions of AAI’s SparrowHawk gyroplane. GBA-USA will be doing business as (d.b.a.) American Autogyro for all of its SparrowHawk operations.

The unaudited condensed consolidated financial statements include the accounts of the Company and subsidiaries and include all adjustments (consisting of normal recurring items) which are, in the opinion of management, necessary to present fairly the financial position as of March 31, 2005, and the results of operations and cash flows for the three months and nine months ended March 31, 2005 and 2004. The results of operations for the three months and nine months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full fiscal year ending June 30, 2005.

Basis of Presentation and Going Concern Uncertainty

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Because of recurring operating losses, the excess of current liabilities over current assets, the stockholders’ deficit, and negative cash flows from operations, there is substantial doubt about the Company’s ability to continue as a going concern. The Company’s continuation as a going concern is dependent on attaining profitable operations, restructuring its financial arrangements, and obtaining additional outside financing. The Company has funded losses from operations in the current year primarily from the issuance of debt and the sale of the Company’s restricted common stock in private placement transactions. The Company anticipates that the issuance of debt and the sale of the Company’s restricted common stock will continue to fund operating losses in the short-term, or until revenues grow to the point where they are sufficient to cover operating costs and expenses.

Operating revenues from the sale of SparrowHawk kit gyroplanes are not currently sufficient, nor will they be sufficient in the near future, to cover operating expenses for the following reasons:

- To date, the Company has experienced a negative gross profit on sales because of the start-up and “learning curve” costs that are normally experienced in the production of a new product.
- The Company projects the negative gross profit on sales will continue for the remainder of fiscal year 2005.
- Marketing and sales efforts continue, but the number of SparrowHawk kits sold is below expectations, due in part to lack of funding to purchase raw materials and parts and to pay for increased marketing efforts.

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

The Company will continue to explore larger, untapped markets for fully assembled SparrowHawk gyroplane aircraft, including law enforcement agencies both in the United States and overseas using the SparrowHawk as a surveillance aircraft. The Company believes the margins on these completed aircraft will be substantially higher than on kit gyroplanes. However, through the date of this filing, no sales of fully assembled SparrowHawk gyroplane aircraft to law enforcement agencies have occurred.

The Company does not expect revenues from the sale of Hawk 4 gyroplanes will be realized until the Company completes the Federal Aviation Administration ("FAA") or equivalent international certification of the aircraft. Currently, the Company estimates that approximately \$40 million and a two to three year period will be required to complete the certification. The Company is in discussions with parties that have expressed interest in funding the completion of the certification and commencing the production of the Hawk 4 gyroplane. These discussions are ongoing, and the Company is not in a position to conclude how likely a favorable outcome to these opportunities is. If one or more of these funding transactions is completed, the Company believes there will be sufficient working capital to fund operating deficits for the remainder of fiscal year 2005 and for the next 2 to 3 years. In addition, with the announcement of such a funding source, the Company believes prospects will improve to raise equity capital from other sources to fund operations and meet debt obligations. Because of ongoing research and development efforts and the projected costs of certification, the Company does not project that it will have net income or positive cash flows from operations until FAA certification is obtained and sales of Hawk 4 gyroplanes reach planned levels.

The Company does not anticipate that operating costs of personnel, facilities, research and development and sales and marketing will decrease from levels reported for fiscal year 2004 and to date in fiscal year 2005, and may increase.

There can be no guarantee or assurance that the Company will be successful in its ability to generate revenue or to raise capital at favorable rates or at all. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2: Restatement of Prior Year Financial Statements

The Company recorded adjusting entries during the fourth quarter of its fiscal year ended June 30, 2004 to correct errors which had been made in the second and third quarters of fiscal year 2004 relating to the Company's Series B 15% Preferred Stock and to the Company's put option liability.

Series B 15% Preferred Stock

When the Company's Series B 15% Preferred Stock was originally issued, the Company had the option to pay the redemption price, for a premium, in registered, unrestricted, shares of common stock of the Company with a redemption price equal to 125% of the Stated Value of the shares of the Series B 15% Preferred Stock plus 125% of all accrued but unpaid dividends

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

thereon. Accretion of the premium was computed using the straight-line method over the life of the initial Stated Value and over the life of accrued but unpaid dividends thereon, as applicable.

In October 2003, the Company and the holders of the Series B 15% Preferred Stock agreed to certain modifications to the features of the Series B 15% Preferred Stock, including the elimination of the Company's option to pay the redemption price in shares of its common stock and requiring the redemption price to be paid in cash. With the elimination of the option to redeem the Series B 15% Preferred Stock with shares of the Company's common stock, the Company discontinued accretion of the anticipated premium, and recorded a contribution to capital for the amount of the accretion of the premium recorded prior to the modification of the features of the Series B 15% Preferred Stock and eliminated the accretion of the premium that had been recorded subsequent to the modification. The result was an increase to common stock and a decrease to the Series B 15% Preferred Stock in the amount of \$4,844,000 in October 2003, and a correction to reduce the related interest expense by \$283,000 during the three months ended March 31, 2004 and by \$478,000 during the nine months ended March 31, 2004.

Put Option Liability

During the three months ended December 31, 2003, certain amendments were made to the Common Stock Purchase Agreement Dated November 7, 2002 whereby the Company extended the dates to which the stockholder can exercise a put option and the Company can exercise the option to redeem, and increased both the put prices and the optional redemption prices. These amendments resulted in this agreement being subject to the accounting requirements of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which was effective for periods beginning after June 15, 2003. Pursuant to SFAS No. 150, the Company estimated the value of its obligation under the put option at \$1,448,000 at June 30, 2004 using the Black-Scholes option pricing model. This obligation was recorded in the fourth quarter of fiscal year 2004 as a long-term liability in the Company's consolidated balance sheet at June 30, 2004, with a corresponding reduction of common stock of \$1,448,000. The recorded value of the put option liability of \$1,448,000 was included in the net loss applicable to common stockholders for the year ended June 30, 2004. This recorded value of \$1,448,000 should have been recorded in the three months ended December 31, 2003 and the nine months ended March 31, 2004.

Restatement

Consequently, the Company has restated the condensed consolidated statements of operations for the three months and the nine months ended March 31, 2004 and the condensed consolidated statement of cash flows for the nine months ended March 31, 2004 to reflect the correcting entries related to the Series B 15% Preferred Stock and to the put option liability in the appropriate interim periods of the prior fiscal year. The Company has also restated the prior year condensed consolidated statements of operations to exclude the shares of common stock issued as collateral for notes payable from the computation of weighted average common shares outstanding during the period (see Note 3).

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

The net effect of these adjustments for the three months and nine months ended March 31, 2004 is as follows:

	<u>Three Months</u>	<u>Nine Months</u>
Net loss as originally reported	\$ (2,822,000)	\$ (10,341,000)
Reduction in interest expense resulting from adjustments to Series B 15% Preferred Stock	283,000	478,000
Net loss as adjusted	<u>\$ (2,539,000)</u>	<u>\$ (9,863,000)</u>
Adjustment to put option liability	<u>\$ -</u>	<u>\$ (1,448,000)</u>
Net loss applicable to common stockholders as adjusted	<u>\$ (2,539,000)</u>	<u>\$ (11,311,000)</u>
Net loss per share – basic and diluted:		
As originally reported	\$ (0.03)	\$ (0.10)
As adjusted	\$ (0.02)	\$ (0.11)
Weighted average common and common equivalent shares – basic and diluted:		
As originally reported	111,403,000	105,236,000
As adjusted	105,751,000	99,584,000

Note 3: Loss per Share

The computation of basic net loss per common share is computed using the weighted average number of common shares outstanding during each period. The computation of diluted net loss per common share is based on the weighted average number of shares outstanding during the period plus common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period, as well as common shares issuable upon the conversion of debt and preferred stock to common stock. Common stock equivalents were not included in the diluted loss per share calculation because the effect would have been antidilutive.

The calculation of weighted average number of common shares outstanding excludes common shares that have been issued as collateral for certain notes payable. These collateral shares are restricted and bear a legend prohibiting the holder from selling or transferring the shares at any time. The Company has assigned no value to these shares, and the terms of the notes payable require the holder of the collateral shares to return the shares to the Company when

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

the applicable note and accrued interest are paid in full. At March 31, 2005, the Company had issued 5,750,000 shares of common stock as collateral.

Note 4: Reclassifications

Certain amounts in the financial statements for the three months and nine months ended March 31, 2005 have been reclassified to conform with the current period presentation.

Note 5: Stock Based Compensation

Stock-Based Compensation – For stock options granted to employees, the Company utilizes the footnote disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123 encourages entities to adopt a fair-value based method of accounting for stock options or similar equity instruments. However, it also allows an entity to continue measuring compensation cost for stock-based compensation using the intrinsic-value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company has elected to continue to apply the provisions of APB 25 and provide pro forma footnote disclosures required by SFAS No. 123 as applicable. Accordingly, no compensation cost has been recognized in the condensed consolidated financial statements for stock options granted to employees. Had compensation cost for the Company’s stock option plans been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company’s net loss and loss per share would have been as indicated below:

	Three Months Ended March 31,	
	2005	2004 As Restated
Reported net loss applicable to common stockholders	\$ (3,529,000)	\$ (2,539,000)
Deduct: Total stock-based employee compensation determined under fair value based method, net of related tax effects	(88,000)	(34,000)
Pro forma net loss	\$ (3,617,000)	\$ (2,573,000)
Basic and diluted loss per share:		
As reported	\$ (0.03)	\$ (0.02)
Pro forma	\$ (0.03)	\$ (0.02)

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

	Nine Months Ended March 31,	
	2005	2004 As Restated
Reported net loss applicable to common stockholders	\$ (9,587,000)	\$ (11,311,000)
Deduct: Total stock-based employee compensation determined under fair value based method, net of related tax effects	(1,200,000)	(1,847,000)
Pro forma net loss	\$ (10,787,000)	\$ (13,158,000)
Basic and diluted loss per share:		
As reported	\$ (0.08)	\$ (0.11)
Pro forma	\$ (0.09)	\$ (0.13)

Recent Accounting Pronouncements – In December 2004, the Financial Accounting Standards Board (“FASB”) issued Financial Accounting Standard (“FAS”) No. 123(R), *Share-Based Payment*, an amendment of FASB Statements No. 123 and 95. FAS No. 123(R) replaces FAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. This statement requires companies to recognize the fair value of stock options and other stock-based compensation to employees prospectively beginning with fiscal periods beginning after June 15, 2005 (December 15, 2005 for small business issuers), however, the Securities and Exchange Commission has deferred this date for public companies. The new rule allows companies to implement FAS No. 123(R) at the beginning of their next fiscal year. This means that the Company will be required to implement FAS No. 123(R) no later than the quarter beginning July 1, 2006. The Company currently measures stock-based compensation in accordance with APB Opinion No. 25, as discussed above. The Company anticipates adopting the modified prospective method of FAS No. 123(R) on July 1, 2006. The impact on the Company’s financial condition or results of operations will depend on the number and terms of stock options outstanding on the date of change, as well as future options that may be granted. However, the Company believes the adoption of FAS No. 123(R) may have a material effect on the Company’s financial position and results of operations.

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

Note 6: Inventories:

Inventories consisted of the following at March 31, 2005:

Raw materials and parts	\$ 216,000
Work-in-process	<u>219,000</u>
Total	<u><u>\$ 435,000</u></u>

Note 7: Accrued Expenses:

Accrued expenses consisted of the following at March 31, 2005:

Compensation and related taxes	\$ 4,052,000
Related party interest	3,192,000
Interest	294,000
Consulting fees	84,000
Finders' compensation	66,000
Royalties to related parties	10,000
Other	<u>72,000</u>
Total	<u><u>\$ 7,770,000</u></u>

Included in accrued compensation and related taxes payable at March 31, 2005 is \$2,888,000 in deferred compensation to officers and directors of the Company. In addition to cash compensation, the Company has a deferred compensation arrangement for certain of its senior executive officers that accrues additional salary. The deferred compensation is payable in part or in whole only by resolution of the Company's Board of Directors. Through March 31, 2005, the Board of Directors has not authorized payment of any of the deferred compensation, and will not authorize payments until the Board determines such payments would be prudent in light of the Company's financial condition and availability of cash. In fiscal year 2001, the Company began accruing interest expense on the deferred compensation at the rate of 8% per annum. The accrual of interest was discontinued on July 1, 2004. At March 31, 2005, accrued related party interest included \$402,000 of interest payable on the deferred compensation.

In addition to the interest payable on the deferred compensation, accrued related party interest payable is comprised of interest expense payable on notes payable to related parties, consisting primarily of stockholders of the Company.

The Company is delinquent in payment of calendar year payroll tax obligations of approximately \$227,000, and may be subject to penalties on these late payroll taxes. The Company has not accrued for potential penalties on the payroll tax obligations at March 31, 2005.

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

Note 8: Debt

Short-term notes payable at March 31, 2005 include notes payable to vendors of \$598,000, substantially all of which is technically in default. The Company continues ongoing negotiations with the vendors and has, in most instances, been granted grace periods and extensions without receipt of formal notices of default or threat of legal action.

Substantially all related party notes payable and long-term debt at March 31, 2005 was payable to stockholders of the Company who are considered related parties. The Company is also delinquent in making payments on capital lease obligations of \$660,000 and other notes payable totaling \$1,335,000 included in related party notes payable.

The Company is also delinquent on making payments of accrued interest payable on debt of \$336,000, substantially all of which is payable to related parties.

Note 9: Deposits

Deposits consist of amounts received from the Company's authorized dealers on aircraft in anticipation of full-scale production of the Company's Hawk 4 gyroplane. The deposit guarantees a delivery sequence number and represents a percentage of the total estimated purchase price. The Company has also issued common stock to dealers as partial consideration for the delay in the certification of the Hawk 4 gyroplane. These costs have been charged to interest expense as incurred. The dealers have been given the opportunity to convert a portion of their deposits into shares of the Company's restricted common stock. The Company continues its efforts to obtain the funding to complete the certification of the Hawk 4. Once such funding is obtained, the Company estimates the certification process will require two to three years to complete. Because of the long-term prospects of obtaining the funding and completing the certification, dealer deposits have been recorded as long-term liabilities.

Note 10: Put Option Liability

During the year ended June 30, 2004, the Company and a stockholder entered into an Amendment to the Common Stock Purchase Agreement Dated November 7, 2000 whereby the Company extended the dates to which the stockholder can exercise a put option and the Company can exercise the option to redeem, and increased both the put prices and the optional redemption prices. As a result, the stockholder has the right to put up to 750,000 shares of common stock of the Company, exercisable on November 7, 2005 or at any time during the three years ending on November 7, 2008. The put price may be paid by the Company in cash or in registered, unrestricted, freely tradable common shares of the Company at \$2.08 per share prior to May 7, 2006, \$2.16 per share between May 7 and November 6, 2006, \$2.25 per share between November 7, 2006 and May 6, 2007, \$2.33 per share between May 7 and November 6, 2007, \$2.41 per share between November 7, 2007 and May 6, 2008, and \$2.50 per share between May 7 and November 7, 2008.

GROEN BROTHERS AVIATION, INC.
Notes to Condensed Consolidated Financial Statements
Nine Months Ended March 31, 2005 (Unaudited)

At its option, the Company may redeem up to 750,000 shares of common stock of the Company at any time from December 15, 2003 through November 7, 2005. The redemption price shall be paid in cash at \$1.72 per share prior to May 7, 2004, \$1.84 per share between May 7 and November 6, 2004, \$1.96 per share between November 7, 2004 and May 6, 2005, and \$2.08 per share between May 7 and November 7, 2005.

This obligation is recorded as a current liability of \$1,507,000 in the condensed consolidated balance sheet of the Company as of March 31, 2005. Until the obligation is satisfied, the Company will continue to use the Black Scholes option pricing model to periodically reassess the fair value of the put option liability to determine if the carrying value of the liability in the consolidated financial statements requires adjustment. Changes in the assumptions used in the option-pricing model, including the market price of the Company's common stock and risk-free interest rates, may result in fluctuations in the estimated fair value and carrying value of the put option liability.

Note 11: Preferred Stock

Series B 15% Preferred Stock

In connection with the extension of the redemption date of the original issuance of the Company's Series B 15% Preferred Stock to October 15, 2004 and the sale of 8,000 shares of the Series B 15% Preferred Stock during the second quarter of fiscal year 2004, the Company's Articles of Incorporation were amended to require that all redemptions of the Series B 15% Preferred Stock be paid in cash. The Articles of Incorporation were also amended to define the maturity date as the first to occur of (a) October 31, 2005, (b) the occurrence of a defined "liquidation event", or (c) the date that is six months following the receipt by the Company or its affiliates of proceeds from one or more financing transactions in excess of \$50 million. In addition, the amended Articles of Incorporation require pro rata redemptions of the Series B 15% Preferred Stock with the proceeds of certain financing transactions that exceed \$20 million in the aggregate. As a result, if the Company is successful in raising the levels of funding that it requires to bring its obligations current, fund its planned operations, and complete aircraft certification requirements for its Hawk 4 gyroplane, significant portions of this funding may be required to make redemption payments on the Series B 15% Preferred Stock in advance of the October 31, 2005 maturity date. At March 31, 2005, the recorded value of the Series B 15% Preferred Stock was \$30,569,000.

In October 2004, the Company issued 67 shares of its Series B 15% Preferred Stock in payment of a related party note payable of \$40,000 and accrued interest payable of \$27,000.

Series A Convertible Preferred Stock

On October 8, 2004, the Company amended and restated its Articles of Incorporation to change the rights and terms of its Series A Convertible Preferred Stock. On October 8, 2004, the Board of Directors approved the issuance of 1,400,000 shares of Series A Convertible Preferred

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Stock to the Company's founders: 900,000 shares to David Groen, President and Chief Executive Officer, and 500,000 shares to Jay Groen, Chairman of the Board of Directors, at a purchase price of \$0.05 per share, or total consideration of \$70,000. The amended rights, terms and preferences of the Series A Convertible Preferred Stock are summarized as follows:

- Each share may cast one hundred (100) votes on all matters submitted to the stockholders for a vote, voting together with the holders of the common stock of the Company as a single class, effectively giving current voting control to the Company's founders.
- The voting rights expire seven years from the date of issue.
- Upon, and only upon, the Company reaching significant revenue milestones, the shares are convertible into common stock of the Company at a conversion price of \$0.50 per share of common stock, convertible on a one-for-one hundred (1:100) basis. Conversion is allowed at the rate of 25% of the preferred shares for each \$30 million in defined cumulative gross sales, for a total of \$120 million in sales. This convertibility is also only available if these significant revenue milestones are met within seven years from the date of issue of the Series A Convertible Preferred Stock.
- The shares, including all voting and conversion rights, to the extent not converted into common shares, will expire seven years from the date of issue, and will be cancelled by the Company.
- Upon the death or permanent incapacity of a holder of Series A Convertible Preferred Stock, all shares held by such holder will be divided between the then existing members of the Company's Board of Directors on a pro-rata basis, based upon the number of months they have served on the Board, with the holder's survivor(s) (if more than one person, treated collectively as one person) being included in the same pro-rata basis, crediting the survivor's "months served" as those of the deceased or permanently mentally incapacitated holder. Upon a temporary mental incapacity of a holder of Series A Convertible Preferred Stock, all shares will be voted by the remaining holders of the Series A Convertible Preferred Stock until the end of the temporary incapacity.
- The shares are non-transferable, non-assignable, and have no dividend or liquidation rights.

The value of \$.05 per share was assigned to the Series A Preferred Stock by the Company's Board of Directors after evaluating several factors, including those listed above relating to limitations on the transferability of the shares, the limited life of the voting rights, the significant revenue milestones to be met before conversion to common stock can occur, and the absence of dividend or liquidation rights.

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Note 12: Stockholders' Equity

On October 8, 2004, pursuant to the joint written consent of the Board of Directors of the Company and the combined majority of holders of the Company's common stock and holders of the Company's Series A Preferred Stock entitled to vote together on such matters as one class (the "Majority Stockholders") in lieu of a special meeting of the stockholders, the following actions were approved:

- The Company amended its articles of incorporation to increase the number of authorized shares of common stock from two hundred million (200,000,000) shares to five hundred million (500,000,000) shares.
- The Company amended its 2000 Stock Option Plan to increase the number of shares of common stock available for issuance under the Plan from thirty million (30,000,000) shares to sixty million (60,000,000) shares.

The notice of these actions taken pursuant to the joint written consent of the Majority Stockholders was mailed to the stockholders of the Company in December 2004.

During the nine months ended March 31, 2005, the Company issued a total of 10,264,179 shares of its restricted Rule 144 common stock, primarily to accredited investors in transactions exempt from registration. These shares were issued generally at a price of \$.20 per share through private placement offerings in reliance upon the exemption from registration contained in Rule 506 of Regulation D. The shares were issued for the following consideration: 9,032,080 shares for cash of \$1,806,000; 5,750 shares in payment of finders' compensation on the sale of common stock; 240,000 shares in payment of accounts payable of \$48,000; 278,875 shares in payment of accrued expenses of \$53,000; 440,990 shares in payment of the Company's matching contribution to its 401(k) plan of \$88,000; 35,000 shares in payment of consulting services of \$7,000; 100,000 shares in payment of prepaid consulting of \$20,000; 65,109 shares in payment of interest expense of \$13,000; and 66,375 shares for the return of \$13,000 of deposits. In addition, cash finders' compensation on the sale of common stock totaled \$14,000. The Company did not use underwriters in the sale or placement of these unregistered shares of common stock.

The Company has generally placed a value of \$.20 per share on the non-cash transactions where shares of the Company's restricted common stock have been issued in payment of goods and services, reduction of debt and other purposes. The Company believes, based on the many cash sales of the Company's restricted common stock during the nine months ended March 31, 2005, all at \$.20 per share, that \$.20 per share is an appropriate value per share to use for issuances of restricted common shares in non-cash transactions. The \$.20 per share also approximated the average quoted market price of the Company's common stock during the nine-month period.

During the nine months ended March 31, 2005, the Company issued a total of 25,903,330 stock options: 12,000,000 options to employees under the Company's ISO 2000 stock option plan with exercise prices of \$.25 to \$1.00 per share exercisable for periods of 5 to 7 years; 13,025,830 options to investors in connection with the sale of common stock of the Company

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with exercise prices of \$.20 to \$.25 per share exercisable for periods of 1 to 2 years; 600,000 options as a loan origination fee to a lender with an exercise price of \$.20 per share exercisable for a period of 3 years; and 277,500 options to vendors for services with an exercise price of \$.20 per share exercisable for periods of one to three years. The Company estimated the value of the 600,000 options issued to the lender at \$36,000 using the Black-Scholes option pricing model, and charged this amount to interest expense. The Company estimated the value of the 277,500 options issued to vendors for services at \$12,000 using the Black-Scholes option pricing model, and charged this amount to general and administrative expense.

Note 13: Supplemental Statement of Cash Flows Information

During the nine months ended March 31, 2005, the Company:

- Decreased related party notes receivable through reduction of accrued expenses payable to related parties of \$20,000.
- Issued 240,000 shares of common stock in payment of accounts payable of \$48,000.
- Issued 278,875 shares of common stock in payment of accrued expenses of \$53,000.
- Issued 65,109 shares of common stock in payment of interest expense of \$13,000.
- Issued 66,375 shares of common stock in return of deposits of \$13,000.
- Issued 100,000 shares of common stock for prepaid consulting services of \$20,000.
- Issued notes payable to acquire property and equipment of \$7,000.
- Issued a note payable in return of deferred revenue of \$28,000.
- Increased accrued expenses and decreased common stock by \$84,000 for accrued finders compensation.
- Issued 1,400,000 shares of Series A preferred stock for a decrease in accrued expenses of \$70,000.
- Converted \$40,000 of related party notes payable and \$27,000 of accrued interest payable into 67 shares of Series B preferred stock.
- Paid finders compensation with 5,750 shares of common stock.

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During the nine months ended March 31, 2004, the Company:

- Accrued \$43,000 interest on subscription receivable.
- Received 10,000,000 shares of Series A preferred stock in payment of subscription receivable of \$2,760,000 and \$43,000 accrued interest on subscription receivable.
- Converted \$100,000 of related party notes payable and \$79,000 of accrued interest payable into 179 shares of Series B preferred stock.
- Paid \$12,000 of prepaid expenses with 60,000 shares of common stock.
- Issued 900,000 shares of common stock as collateral on notes payable.
- Issued 6,125,000 additional shares of common stock upon exercise of stockholder put option.
- Reclassified \$5,000 of accrued expenses to related party notes receivable.
- Returned \$187,000 of deposits through the issuance of related party notes payable of \$187,000.
- Paid \$165,000 of related party notes payable and increased accrued expenses by \$165,000.
- Paid \$63,000 of related party notes payable through the issuance of 312,659 shares of common stock.
- Returned \$194,000 of deposits through the issuance of 968,925 shares of common stock.
- Paid finders compensation with 46,500 shares of common stock.
- Increased put option liability and decreased common stock by \$1,448,000 pursuant to the amendment of a put option.

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

Background

The Company and its wholly-owned subsidiary have developed proprietary technology that promises significant advances for rotary-winged aircraft. The initial objective of the Company was to develop and market an easy-to-fly and cost-efficient gyroplane that could compete effectively in the general aviation market.

The Company, doing business as (d.b.a.) American Autogyro, has designed, and now manufactures and sells SparrowHawk gyroplane kits for the home-built market. In addition, the Company developed and sells modification kits designed to improve in-flight stability and safety for another manufacturer's kit gyroplane.

During the year ended June 30, 2004 and the nine months ended March 31, 2005, the Company's operating focus has been directed to the final development of the two-seat piston engine powered SparrowHawk. The initial market for this aircraft lies with builders of home-built aircraft from kits; however, management also believes that there are larger, untapped markets for fully assembled SparrowHawk gyroplane aircraft. Important among these emerging markets is the potential use of the SparrowHawk as a patrol aircraft by law enforcement agencies both in the United States and overseas. An intensive marketing program for the SparrowHawk is being developed. Through March 31, 2005, 27 American Autogyro dealerships have been established, 20 in the United States and 7 internationally.

The Company began deliveries of SparrowHawk kits during the third quarter of its fiscal year ended June 30, 2004, recording initial revenues from this aircraft in the fourth quarter of fiscal year 2004. Through March 31, 2005, over 50 initial orders for SparrowHawk gyroplane kits have been received, with 34 complete kits and 8 partial kits delivered. In the nine months ended March 31, 2005, the Company reported SparrowHawk sales revenues of \$509,000 on 19 delivered kits, upgrades and parts. The Company has received substantial advance payments from dealers and customers on SparrowHawk gyroplane kit orders, which have been recorded as deferred revenue. Additional revenues have also been received from flight training and from contract manufacturing; however, these revenue sources have not been, and are not projected to be, significant to the Company.

The larger four-seat Hawk 4 gyroplane, powered by a Rolls Royce Model 250 420shp turboprop engine, was developed with the intention that it would become the Company's first major production aircraft, after receiving Federal Aviation Administration certification as a commercial aircraft. The difficult investment climate for technology companies following the stock market collapse in 2000, and more particularly for aerospace companies following the terrorist attack on 9/11, made it impractical for the Company to complete the expensive certification program as planned. Consequently, during the first quarter of fiscal year 2003, the Company suspended the flight testing of its Hawk 4 gyroplane at its Buckeye facility in Arizona due to lack of financial resources. Further development toward commercial certification of the Hawk 4 was deferred pending the receipt of required funding. Prior to the economic downturn, the Company had received significant deposits on aircraft from the Company's authorized dealers in anticipation of full-scale production of the Hawk 4. These dealer deposits are recorded as a long-term liability in the accompanying condensed consolidated balance sheet.

The Company, however, remains confident that the safety, reliability, maneuverability and low operating cost of the Hawk 4 will permit it to perform competitively with helicopters (and airplanes) for

many public use and commercial missions requiring low, slow flight, but without the requirement for a runway for take-off or landing. The Company is thus intending to recommence the Hawk 4 certification program as soon as funding permits, and is actively pursuing such funding with certain interested parties. Consistent with this objective and those prospects, the Company has been presenting the case for the Hawk 4's utility in this role to members of Congress, appropriate Federal Agencies, and to State and local agencies across the nation for Public Use applications, particularly Homeland Defense.

The Company's technology is scalable to much larger aircraft and has potential applications for both heavy lift vertical take-off military aircraft and runway independent short-haul airliners. The Company has been actively engaged in discussions with government agencies and potential aerospace strategic partners with respect to those applications.

Recent Developments

The Company recently announced that in exchange for a minimum equity investment of \$1 million, the Company has granted a Chinese investment group a six-month period in which to bring to the Company a funding/partnering package sufficient to fund the completion of the Hawk 4 Gyroplane program up through FAA certification and production. In addition, during this same period, the Company has granted this investment group the right to bring a funding/partnering package for the development of larger commercial GBA GyroLiner gyrodynes of Groen Brothers Aviation's design.

As a result of this agreement, Jay Groen, Chairman of of the Board of Directors of the Company, and Robin Wilson, Executive Vice President and Head of Business Development, traveled to China in March to meet with government officials and aerospace executives. These high level meetings were arranged by this investment group, executives of which accompanied Company officials during the twelve-day visit. In these meetings, Company representatives made presentations covering the application of the Company's gyroplane and gyrodyne technologies to China's commercial needs. The presentations were well received and resulted in the Company being invited back to China to discuss specific proposals for joint ventures or cooperation. The Company believes that China represents a very large market for its products, from the SparrowHawk size gyroplanes, to the Hawk 4 gyroplane and its variants, to the varying sizes of tip-jet powered gyrodynes in commuter airline and transport category aircraft. In addition, the Company believes that these types of safe, economical, high performance Ultra-Short and Vertical Takeoff and Landing (USTOL and VTOL) aircraft can be very important in helping solve the transportation needs of China's burgeoning economy.

Going Concern Uncertainty

As discussed in Note 1 to the Consolidated Financial Statements and as more fully discussed below, the accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Because of recurring operating losses, the excess of current liabilities over current assets, the stockholders' deficit, and negative cash flows from operations, there is substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on attaining profitable operations, restructuring its financing arrangements, and obtaining additional outside financing. Management anticipates that the Company will be able to obtain additional financing through the issuance of debt and the sale of restricted shares of common stock sufficient to fund operations during the next fiscal year; however, there can be no assurance the Company will be successful in these endeavors. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Results of Operations

Revenues

Total revenues increased from \$30,000 in the three months ended March 31, 2004 to \$237,000 in the three months ended March 31, 2005. The revenues in the three months ended March 31, 2004 were comprised of \$8,000 from the sales of modification kits, \$14,000 from flight training, and \$8,000 from subcontract manufacturing. In the three months ended March 31, 2005, revenues were comprised of \$209,000 from the sale of SparrowHawk kits, \$11,000 from the sales of modification kits and \$17,000 from flight training. As discussed above, the Company began delivering SparrowHawk kits in the third quarter of fiscal year 2004. During the three months ended March 31, 2005, the Company delivered and recognized revenue on 7 SparrowHawk kits.

Total revenues increased from \$117,000 in the nine months ended March 31, 2004 to \$597,000 in the nine months ended March 31, 2005. The revenues in the nine months ended March 31, 2004 were comprised of \$44,000 from the sales of modification kits, \$23,000 from flight training, and \$50,000 from subcontract manufacturing. In the nine months ended March 31, 2005, revenues were comprised of \$509,000 from the sale of SparrowHawk kits, \$42,000 from the sales of modification kits and \$46,000 from flight training.

At March 31, 2005, advance deposits of \$632,000, included in deferred revenue, from American Autogyro customers and American Autogyro dealers principally for SparrowHawk kits, have added to overall cash flow. During fiscal year 2005, the Company has increased its focus on satisfying a growing demand for SparrowHawk kits, and, to a lesser extent, for modification kits. The Company recognizes revenues on the sale of SparrowHawk kits when a complete kit has been delivered and the collection of the remaining purchase price is reasonably assured. While less in dollar amount, flight training revenue will be an ongoing addition to operating cash flow. The Company historically has reported nominal amounts of subcontract manufacturing revenues, but does not consider this to be a significant future source of ongoing revenue to the Company.

Costs and Expenses

Comparing the three months ended March 31, 2005 to the three months ended March 31, 2004, cost of sales increased to \$299,000 from \$13,000. The increase in the current quarter of fiscal 2005 was primarily due to the cost of sales of the SparrowHawk kits of \$288,000.

Comparing the nine months ended March 31, 2005 to the nine months ended March 31, 2004, cost of sales increased to \$712,000 from \$81,000. The increase in the current fiscal year nine month period was primarily due to the cost of sales of the SparrowHawk kits of \$671,000.

The Company has experienced a negative gross profit on the SparrowHawk kits because of the nonrecurring and "learning curve" costs that are normally experienced in the introductory production of a new product. The Company anticipates that little or no margin will be reported on sales of the SparrowHawk kits for fiscal year 2005 as the Company improves its manufacturing capabilities. In addition, only nominal gross margin is realized on the sale of modification kits and on flight training. As a result, the condensed consolidated statements of operations for the three months and nine months ended

March 31, 2005 reported a negative gross margin on total sales. All costs of incomplete SparrowHawk kits delivered or in process of assembly as of March 31, 2005 have been deferred and included in work-in-process inventories.

Comparing the three months ended March 31, 2005 to the three months ended March 31, 2004, research and development expenses remained somewhat consistent, decreasing to \$614,000 from \$620,000. Comparing the nine months ended March 31, 2005 to the nine months ended March 31, 2004, research and development expenses increased to \$1,673,000 from \$1,442,000. The increase in research and development expenses in the current fiscal year is due primarily to the addition of new employees and to increases in compensation for current employees. Research and development activities have consisted of ongoing modifications to the SparrowHawk, and, to a lesser extent, on the Hawk 4 and applications of gyrodyne technology. During the recently completed three month period ended March 31, 2005, however, more personnel and other costs were directed toward SparrowHawk manufacturing, resulting in research and development expenses remaining consistent with the same period of last fiscal year.

Comparing the three months ended March 31, 2005 to the three months ended March 31, 2004, general and administrative expenses increased to \$517,000 from \$449,000. Comparing the nine months ended March 31, 2005 to the nine months ended March 31, 2004, general and administrative expenses increased to \$1,322,000 from \$1,160,000. The increase in the current fiscal year is due primarily to the addition of personnel and expenses supporting the sales and manufacturing of the SparrowHawk..

Other Income and Expenses

Comparing the three months ended March 31, 2005 to the three months ended March 31, 2004, related party interest income decreased by \$2,000. Comparing the nine months ended March 31, 2005 to the nine months ended March 31, 2004, related party interest income decreased by \$1,000. The decrease in the related party interest in the current fiscal year is due to repayments of related party notes receivable.

Comparing the three months ended March 31, 2005 to the three months ended March 31, 2004, interest and other income decreased to \$7,000 from \$38,000. Comparing the nine months ended March 31, 2005 to the nine months ended March 31, 2004, interest and other income decreased to \$18,000 from \$62,000. These decreases were due to the gain on sale of assets recorded in the prior fiscal year.

Interest expense for the three months ended March 31, 2005 compared to the three months ended March 31, 2004 decreased to \$233,000 from \$252,000. Interest expense for the nine months ended March 31, 2005 compared to the nine months ended March 31, 2004 decreased to \$938,000 from \$1,156,000. These decreases in the current fiscal year were due primarily to the expense incurred in the prior fiscal year on the issuance of stock options and warrants to lenders in connection with new debt or debt extensions, net of the effect of current fiscal year additions to debt.

Comparing the three months ended March 31, 2005 to the three months ended March 31, 2004, Series B Preferred Stock interest expense increased to \$2,111,000 from \$1,276,000. Dividends on the Series B Preferred Stock, which are recorded as interest expense, have been "paid in kind" with additional shares of Series B Preferred Stock. As a result, the number of shares on which the interest expense is computed has increased during the current fiscal year. In addition, 66,603 new shares of Series B Preferred Stock were issued in November 2004 upon the conversion of a promissory note and related accrued interest payable. Comparing the nine months ended March 31, 2005 to the nine months ended March 31, 2004, Series B Preferred Stock interest expense decreased to \$5,564,000 from \$6,211,000.

From February 2002 through October 2003, the original redemption date, substantially more accretion was included in Series B Preferred Stock interest expense, including an anticipated 25% premium over the stated redemption value. The premium was anticipated because the Company assumed payment of the redemption price and all accrued and unpaid dividends would be made in unrestricted, registered shares of common stock of the Company, an payment option available to the Company that triggered the 25% premium. In October 2003, the Company and the holders of the shares of Series B Preferred Stock agreed to extend the redemption date to October 31, 2005 and to certain other modifications of the terms of the Series B Preferred Stock, including the elimination of the option to redeem the shares of Series B Preferred Stock with shares of common stock of the Company. With the elimination of this redemption option, the Company discontinued accretion of the anticipated premium, and recorded a contribution to capital for the amount of the accretion of the premium recorded prior to the extension and modifications. As a result, the Series B Preferred Stock interest expense during the nine months ended March 31, 2005 was substantially less than the expense recorded in the comparable periods in the prior fiscal year. This decrease in Series B Preferred Stock interest expense due to less accretion of premium during the current fiscal year was offset by the increase in the interest expense due to more shares of Series B Preferred Stock on which the interest expense is computed, as described above.

Net Loss

During the three months and nine months ended March 31, 2005, the Company continued to record losses as it continued the transition toward full marketing and manufacturing of the SparrowHawk gyroplane series and, to a lesser extent, continued research and development activities on the Hawk 4 and gyrodyne technologies and opportunities. For the three months ended March 31, 2005, the loss from operations was \$1,193,000 compared to the loss from operations of \$1,052,000 for the three months ended March 31, 2004. For the nine months ended March 31, 2005, the loss from operations was \$3,110,000 compared to the loss from operations of \$2,566,000 for the nine months ended March 31, 2004. The increase in the loss from operations in the current fiscal year resulted from negative gross margins on revenues and increases in operating costs and expenses as described above. The net loss for the three months ended March 31, 2005 was \$3,529,000 compared to \$2,539,000 for the three months ended March 31, 2004. The increase in the net loss for the three months ended March 31, 2005 compared to the comparable period in the prior fiscal year resulted from increases in operating costs and expenses and Series B Preferred Stock interest expense, as described above. The net loss for the nine months ended March 31, 2005 was \$9,587,000 compared to \$9,863,000 in the nine months ended March 31, 2004. The decrease in the net loss for the first six months of the current fiscal year compared to the comparable period in the prior fiscal year resulted primarily from the decrease in interest expense and the Series B Preferred Stock interest expense, offset by increases in operating costs and expenses, as described above.

Liquidity and Capital Resources

The Company has entered the home built market with its SparrowHawk two-seat gyroplane. Customers in this market typically make substantial advance down payments on product orders, which has contributed and will continue to contribute to operating cash flows of the Company. Furthermore, the Company is continuing the process of setting up an extensive American Autogyro dealer network for the sale and product support of SparrowHawk kits. Fees from dealership sales and advance customer deposits for future deliveries of SparrowHawk kits are contributing significantly to the Company's cash flow. At March 31, 2005, advance deposits from American Autogyro customers amounted to \$632,000, which are included in the condensed consolidated balance sheet as deferred revenue.

Following the economic downturn of 9/11 and its impact on the aerospace industry, the Company's fund-raising activities in the venture capital market were seriously impaired, resulting in active development of its Hawk 4 gyroplane for commercial certification being deferred. The Company, however, continues to actively seek sales and funding for government and public use applications of the Hawk 4 as well as for the SparrowHawk.

In the face of continuing fund-raising difficulties, in fiscal years 2002 and 2003, the Company successfully approached many of its principal vendors requesting that they accept a stretching out of payments beyond their normal terms. As a result, the Company is servicing much of its pre-November 2001 obligations to vendors utilizing a combination of repayment plans, which include monthly payments for smaller vendor liabilities and promissory notes for larger vendor liabilities. As of March 31, 2005, the Company was delinquent in making payments on substantially all promissory notes to vendors, which totaled \$598,000. The Company continues ongoing negotiations with these vendors and has, in most instances, been granted grace periods and extensions without receipt of formal notices of default or threat of legal action. The Company intends to repay in full all vendors, including interest where applicable. The Company is also delinquent in making payments on capital lease obligations of \$660,000, other notes payable totaling \$1,335,000, and accrued interest payable on debt of \$336,000. The Company is also delinquent in payments of payroll tax and other payroll related obligations of approximately \$227,000 to Federal and state government agencies. The Company may be subject to penalties on these late payroll taxes.

Net cash used in operating activities was \$2,105,000 for the nine months ended March 31, 2005 compared to \$3,213,000 for the nine months ended March 31, 2004. In the nine months ended March 31, 2004, the Company reduced accounts payable and also paid significant amounts of accrued expenses from the proceeds of the issuance of Series B preferred stock, which resulted in more cash used in operating activities in the prior fiscal year. The Company also had an increase in inventories of \$521,000 during the nine months ended March 31, 2004, compared to a decrease in inventories of \$53,000 during the same period in the current fiscal year, which also decreased the net cash used in operating activities in the prior fiscal year.

The Company has funded losses from operations in the current fiscal year primarily from the issuance of debt and the sale of the Company's restricted common stock in private placement transactions. Net cash provided by financing activities for the nine months ended March 31, 2005 was \$2,350,000, comprised primarily of a net increase in debt of \$558,000 and net proceeds from the issuance of common stock of \$1,792,000. Net cash provided by financing activities for the nine months ended March 31, 2004 was \$3,298,000, comprised of a net increase in debt of \$322,000, net proceeds from the issuance of common stock of \$976,000, and \$2,000,000 proceeds from the issuance of Series B preferred stock. The Company anticipates that the issuance of debt and the sale of the Company's restricted common stock will continue to fund operating losses in the short-term, or until revenues grow to the point where they are sufficient to cover operating costs and expenses.

Operating revenues from the sale of SparrowHawk kit gyroplanes are not currently sufficient, nor will they be sufficient in the near future to cover operating expenses for the following reasons:

- To date, the Company has experienced a negative gross profit on sales because of the nonrecurring and "learning curve" costs that are normally experienced in the production of a new product.

- The Company projects the negative gross profit on sales will continue for the remainder of fiscal year 2005.
- Marketing and sales efforts continue, but the number of SparrowHawk kits sold is below expectations, due in part to lack of funding to purchase raw materials and parts and to pay for increased marketing efforts.

The Company will continue to explore larger, untapped markets for fully assembled SparrowHawk gyroplane aircraft, including law enforcement agencies both in the United States and overseas using the SparrowHawk as a surveillance aircraft. The Company believes the margins on these completed aircraft will be substantially higher than on kit gyroplanes. However, through the date of this filing, no sales of fully assembled SparrowHawk gyroplane aircraft to law enforcement agencies have occurred.

The Company does not expect revenues from the sale of Hawk 4 gyroplanes will be realized until the Company completes the FAA or equivalent international certification of the aircraft. Currently, the Company estimates that approximately \$40 million and a two to three year period will be required to complete the certification. The Company is in discussions with parties that have expressed interest in funding the completion of the certification and commencing the production of the Hawk 4 gyroplane. These discussions are ongoing, and the Company is not in a position to conclude how likely a favorable outcome to these opportunities is. If one or more of these funding transactions is completed, the Company believes there will be sufficient working capital to fund operating deficits for the remainder of fiscal year 2005 and for the next 2 to 3 years. In addition, with the announcement of such a funding source, the Company believes prospects will improve to raise equity capital from other sources to fund operations and meet debt obligations. Because of ongoing research and development efforts and the projected costs of certification, the Company does not project that it will have net income or positive cash flows from operations until FAA certification is obtained and sales of Hawk 4 gyroplanes reach planned levels.

The Company does not anticipate that operating costs of personnel, facilities, research and development and sales and marketing will decrease from levels reported for fiscal year 2005, and may increase.

At March 31, 2005, the Company had a working capital deficiency of \$16,764,000 and a stockholders' deficit of \$49,710,000.

There can be no guarantee or assurance that the Company will be successful in its ability to generate revenue or to raise capital at favorable rates or at all.

In connection with the extension of the redemption date of the original issuance of the Company's Series B 15% Preferred Stock and the sale of 8,000 shares of the Series B 15% Preferred Stock during the second quarter of fiscal year 2004, the Company's Articles of Incorporation were amended to require that all redemptions of the Series B 15% Preferred Stock be paid in cash. The Articles of Incorporation were also amended to define the maturity date as the first to occur of (a) October 31, 2005, (b) the occurrence of a defined "liquidation event", or (c) the date that is six months following the receipt by the Company or its affiliates of proceeds from one or more financing transactions in excess of \$50 million. In addition, the amended Articles of Incorporation require pro rata redemptions of the Series B 15% Preferred Stock with the proceeds of certain financing transactions that exceed \$20 million in the aggregate. As a result, if the Company is successful in raising the levels of funding that it requires

to bring its obligations current and fund its planned operations, significant portions of this funding will be required to make redemption payments on the Series B 15% Preferred Stock in advance of the original October 31, 2005 maturity date. At March 31, 2005 the recorded value of the Series B 15% Preferred Stock was \$30,569,000.

Management does not anticipate that revenues or expenses will be materially affected by inflation during the next twelve months of operations.

Critical Accounting Policies

The Company's critical accounting policies include the following:

Research and Development - Research and development costs are expensed as incurred. The Company estimates much of its reported research and development expenses through allocations of employee compensation and other costs.

Revenue Recognition - The Company recognizes revenues from goods and services when there is a binding agreement, the product has been completely shipped or service has been provided, collection is reasonably assured, and the Company has no significant obligations remaining. Therefore, revenues from the sale of SparrowHawk gyroplane kits are not recorded until complete kits have been delivered and collection of remaining amounts due from customers is reasonably assured.

Financial Instruments with Characteristics of Both Liabilities and Equity - In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The statement was effective on July 1, 2003 for financial instruments entered into or modified after May 31, 2003, and otherwise effective for existing financial instruments entered into before May 31, 2003. The adoption of SFAS No. 150 resulted in the reporting of the Company's Series B 15% Preferred Stock and a put option obligation as long-term liabilities. The carrying value of the Series B 15% Preferred Stock was the same before and after adoption of SFAS No. 150, and therefore no cumulative effect adjustment was required.

Put Option Liability - To comply with SFAS No. 150, the Company estimated the fair value of the put option liability at \$1,507,000 at March 31, 2005 using the Black-Scholes option-pricing model. Until the obligation is satisfied, the Company will continue to use this methodology to periodically reassess the fair value of the put option liability to determine if the carrying value of the liability in the consolidated financial statements requires adjustment. Changes in the assumptions used in the option-pricing model, including the market price of the Company's common stock and risk-free interest rates, may result in fluctuations in the estimated fair value and carrying value of the put option liability.

Non-Employee Stock Options and Warrants - In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company estimates the fair value of the consideration recorded for stock options and warrants issued to non-employees using the Black-Scholes option-pricing model. For those stock options and warrants that have variable characteristics, the Company will continue to use this methodology to periodically reassess the fair value of the consideration to determine if the value of the consideration recorded in the consolidated financial statements requires adjustment. Changes in the

assumptions used in the option-pricing model, including the market price of the Company's common stock and risk-free interest rates, may result in fluctuations in the estimated fair value and carrying value of the consideration recorded for variable non-employee stock options and warrants.

Recently Issued Accounting Principles

In December 2004, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard ("FAS") No. 123(R), *Share-Based Payment*, an amendment of FASB Statements No. 123 and 95. FAS No. 123(R) replaces FAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. This statement requires companies to recognize the fair value of stock options and other stock-based compensation to employees prospectively beginning with fiscal periods beginning after June 15, 2005 (December 15, 2005 for small business issuers), however, the Securities and Exchange Commission has deferred this date for public companies. The new rule allows companies to implement FAS No. 123(R) at the beginning of their next fiscal year. This means that the Company will be required to implement FAS No. 123(R) no later than the quarter beginning July 1, 2006. The Company currently measures stock-based compensation in accordance with APB Opinion No. 25, as discussed above. The Company anticipates adopting the modified prospective method of FAS No. 123(R) on July 1, 2006. The impact on the Company's financial condition or results of operations will depend on the number and terms of stock options outstanding on the date of change, as well as future options that may be granted. However, the Company believes the adoption of FAS No. 123(R) may have a material effect on the Company's financial position and results of operations.

Forward Outlook and Risks

The Company, from time to time, may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological development, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in any of the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following: (a) the failure to obtain additional borrowed and/or equity capital on favorable terms for acquisitions and expansion; (b) adverse changes in federal and state laws, or other matters affecting the Company's business; (c) the demand for the Company's products and services; and (d) other risks detailed in the Company's Securities and Exchange Commission filings.

This Form 10-QSB contains and incorporates by reference certain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act with respect to results of operations and businesses of the Company. All statements, other than statements of historical facts, included in this Form 10-QSB, including those regarding market trends, the Company's financial position, business strategy, projected costs, and plans and objectives of management for future operations, are forward-looking statements. In general, such statements are identified by the use of forward-looking words or phrases including, but not limited to, "intended, will, should, may, expect, anticipate, estimates, projects" or the negative thereof or variations thereon or similar terminology.

Forward-looking statements are based on the Company's current expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risk and uncertainty, the Company's actual results could differ materially. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed hereunder and elsewhere in this Form 10-QSB. These forward-looking statements represent the Company's judgment as of the date of this Form 10-QSB. All subsequent written and oral forward-looking statements attributable to the Company are expressly qualified in their entirety by the Cautionary Statements. The Company disclaims, however, any intent or obligation to update its forward-looking statements.

Item 3. Controls and Procedures

(A) Evaluation of disclosure controls and procedures

An evaluation was carried out under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of the end of the period covered by this report. The Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were not effective.

In connection with the audit of the Company's consolidated financial statements for the year ended June 30, 2004, management and the Company's independent auditors identified certain material weaknesses in the Company's internal control over the financial reporting process pertaining to the timely evaluation and recording of transactions related to the Company's Series B 15% Preferred Stock and the Company's put option liability. The Company recorded adjusting entries in the fourth quarter of its fiscal year ended June 30, 2004 to correct errors in the second and third quarters of fiscal year 2004 related to these financial statement items. Subsequently, the Company has restated the condensed consolidated statements of operations for the three months and the nine months ended March 31, 2004 and the condensed consolidated statement of cash flows for the nine months ended March 31, 2004 included for comparison purposes in this filing to reflect the correcting entries in the appropriate interim periods of the prior fiscal year. See Note 2 to the Condensed Consolidated Financial Statements.

During the first nine months of fiscal year 2005, the Company has continued to implement changes to improve its internal controls over financial reporting. These changes include, among other procedures, more comprehensive documentation of accounting policies and procedures, implementation of analytical review procedures, schedules and checklists for the preparation of interim and annual financial statements, and executive level review of journal entries.

(B) Changes in internal controls

Other than the matter discussed above, during the quarterly period covered by this report, there were no significant changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is plaintiff in connection with four million shares issued for the purposes of obtaining a foreign loan in Luxembourg in 1993. In that suit the Company obtained injunctions in Germany and Luxembourg preventing those shares from being sold or liquidated. The Company prevailed in the case at appellate levels. The Company continues in the process of obtaining a court order from Luxembourg to have the certificates returned to the Company.

The Company is subject to various claims and legal actions arising in the ordinary course of business, including certain matters relating to past due amounts payable to creditors. The past due amounts are recorded as liabilities in the Company's condensed consolidated balance sheet, and management of the Company believes that the amount, if any, that may result from other claims will not have a material adverse effect on the condensed consolidated financial statements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine months ended March 31, 2005, the Company issued a total of 10,264,179 shares of its restricted Rule 144 common stock, primarily to accredited investors in transactions exempt from registration. These shares were issued generally at a price of \$.20 per share through private placement offerings in reliance upon the exemption from registration contained in Rule 506 of Regulation D. The shares were issued for the following consideration: 9,032,080 shares for cash of \$1,806,000; 5,750 shares in payment of finders' compensation on the sale of common stock; 240,000 shares in payment of accounts payable of \$48,000; 278,875 shares in payment of accrued expenses of \$56,000; 440,990 shares in payment of the Company's matching contribution to its 401(k) plan of \$88,000; 35,000 shares in payment of consulting services of \$7,000; 100,000 shares in payment of prepaid consulting of \$20,000; 65,109 shares in payment of interest expense of \$13,000; and 66,375 shares for the return of \$13,000 of deposits. In addition, cash finders' compensation on the sale of common stock totaled \$14,000. The Company did not use underwriters in the sale or placement of these unregistered shares of common stock.

The Company has generally placed a value of \$.20 per share on the non-cash transactions where shares of the Company's restricted common stock have been issued in payment of goods and services, reduction of debt and other purposes. The Company believes, based on the many cash sales of the Company's restricted common stock during the nine months ended March 31, 2005, all at \$.20 per share, that \$.20 per share is an appropriate value per share to use for issuances of restricted common shares in non-cash transactions. The \$.20 per share also approximated the average quoted market price of the Company's common stock during the nine-month period.

During the nine months ended March 31, 2005, the Company issued a total of 25,903,330 stock options: 12,000,000 options to employees under the Company's ISO 2000 stock option plan with exercise prices of \$.25 to \$1.00 per share exercisable for periods of 5 to 7 years; 13,025,830 options to investors in connection with the sale of common stock of the Company with exercise prices of \$.20 to \$.25 per share exercisable for periods of 1 to 2 years; 600,000 options as a loan origination fee to a lender with an exercise price of \$.20 per share exercisable for a period of 3 years; and 277,500 options to vendors for services with an exercise price of \$.20 per share exercisable for periods of one to three years.

Item 3. Defaults Upon Senior Securities

The Company is current on its obligations pertaining to the Series B 15% Cumulative Redeemable Non-Voting Preferred Stock. However, as more fully discussed under “Liquidity and Capital Resources” above, the Company is delinquent in making payments on notes payable to vendors totaling \$598,000, capital lease obligations of \$660,000, other notes payable totaling \$1,335,000, and \$336,000 of accrued interest payable on debt.

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

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

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits (filed with this report unless indicated below):

- | | |
|--------------|--|
| Exhibit 3.1 | Amendment to Second Restated Articles of Incorporation of Groen Brothers Aviation, Inc. {1} |
| Exhibit 3.2 | Second Amendment to Second Restated Articles of Incorporation of Groen Brothers Aviation, Inc. {1} |
| Exhibit 3.3 | Third Restated Articles of Incorporation of Groen Brothers Aviation, Inc. {2} |
| Exhibit 3.4 | Amendment to Third Restated Articles of Incorporation of Groen Brothers Aviation, Inc. {3} |
| Exhibit 10.1 | Amendment to the Common Stock Purchase Agreement Dated November 7, 2000 {2} |
| Exhibit 11 | Statement re computation of per share earnings {4} |
| Exhibit 19.1 | Notice of Action to be Taken Pursuant to the Joint Written Consent of the Board of Directors and Majority Stockholders in Lieu of a Special Meeting of the Stockholders {5} |
| Exhibit 31.1 | Certification of principal executive officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

- Exhibit 31.2 Certification of principal financial officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

{1} Filed as exhibits to the Company's report on Form 10-QSB for the quarter ended December 31, 2003 and incorporated herein by reference.

{2} Filed as exhibits to the Company's report on Form 10-KSB for the year ended June 30, 2004 and incorporated herein by reference.

{3} Filed as an exhibit to the Company's report on Form 10-QSB for the quarter ended December 31, 2004 and incorporated herein by reference.

{4} Information included in Notes to Condensed Consolidated Financial Statements filed with this report.

{5} Included in Definitive Information Statement on Schedule 14C filed with the Securities and Exchange Commission on December 10, 2004 and incorporated herein by reference.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended March 31, 2005.

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.

GROEN BROTHERS AVIATION, INC.

By: /s/ David Groen
David Groen, President and Chief Executive Officer
(Principal Executive Officer)

Date: May 16, 2005

By: /s/ Dennis P. Gauger
Dennis P. Gauger, Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

Date: May 16, 2005

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a - 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Groen certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Groen Brothers Aviation, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer 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 registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

/s/ David Groen

David Groen, President and Chief Executive Officer
(Principal Executive Officer)
May 16, 2005

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a - 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dennis P. Gauger certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Groen Brothers Aviation, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer 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 registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

/s/ Dennis P. Gauger

Dennis P. Gauger, Chief Financial Officer and Secretary
(Principal Accounting Officer)
May 16, 2005

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Groen Brothers Aviation, Inc. (the "Company") on Form 10-QSB for the quarter ended March 31, 2005 David Groen hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- a. the quarterly report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- b. the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Groen
David Groen, President and Chief Executive Officer
(Principal Executive Officer)
May 16, 2005

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Groen Brothers Aviation, Inc. (the "Company") on Form 10-QSB for the quarter ended March 31, 2005, Dennis P. Gauger hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- C. the quarterly report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- D. the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dennis P. Gauger

Dennis P. Gauger, Chief Financial Officer and Secretary
(Principal Accounting Officer)
May 16, 2005