AIR T INC
Form 10-Q
August 10, 2011

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

FORM 10-Q

(Mark one)
X Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2011
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____to _____

Commission File Number 0-11720

Air T, Inc.

(Exact name of registrant as specified in its charter)

| Delaware | 52-1206400 |
| --- | --- |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

3524 Airport Road, Maiden, North Carolina 28650
(Address of principal executive offices, including zip code)
(828) 464 –8741
(Registrant's telephone number, including area code)

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 __X__ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting

company" in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company____X____

(Do not check if smaller reporting company)

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

Yes No_____X____

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

| Common Stock | Outstanding Shares at August 5, 2011 |
|---|---|
| Common Shares, par value of $.25 per share | 2,446,286 |

AIR T, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

AIR T, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | Three Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Operating Revenues: | | |
| Overnight air cargo | $ 10,826,899 | $ 8,920,174 |
| Ground equipment sales | 4,170,478 | 3,925,740 |
| Ground support services | 1,564,120 | 2,177,361 |
| | 16,561,497 | 15,023,275 |
| | | |
| Operating Expenses: | | |
| Flight-air cargo | 4,584,346 | 3,969,345 |
| Maintenance-air cargo | 4,515,018 | 3,439,234 |
| Ground equipment sales | 3,505,850 | 3,198,787 |
| Ground support services | 1,116,068 | 1,505,906 |
| General and administrative | 2,535,307 | 2,402,926 |
| Depreciation and amortization | 53,916 | 96,715 |
| | 16,310,505 | 14,612,913 |
| | | |
| Operating Income | 250,992 | 410,362 |
| | | |
| Non-operating Income (Expense): | | |
| Investment income | 12,384 | 57,477 |
| Interest expense | (227) | (288) |
| | 12,157 | 57,189 |
| | | |
| Income Before Income Taxes | 263,149 | 467,551 |
| | | |
| Income Taxes | 95,000 | 169,000 |
| | | |
| | | |
| Net Income | $ 168,149 | $ 298,551 |
| | | |
| Earnings Per Share: | | |
| Basic | $ 0.07 | $ 0.12 |
| Diluted | $ 0.07 | $ 0.12 |
| | | |
| Dividends Declared Per Share | $ 0.25 | $ 0.33 |
| | | |

| | | |
|---|---|---|
| Weighted Average Shares Outstanding: | | |
| Basic | 2,436,231 | 2,431,326 |
| Diluted | 2,454,033 | 2,495,546 |

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2011 | March 31, 2011 |
|---|---|---|
| ASSETS | (Unaudited) | |
| Current Assets: | | |
| Cash and cash equivalents | $ 6,660,973 | $ 6,515,067 |
| Short-term investments | - | 51,035 |
| Accounts receivable, less allowance for doubtful accounts of $41,000 and $40,000 | 6,680,079 | 11,690,376 |
| Notes and other receivables-current | 16,905 | 78,423 |
| Income tax receivable | 447,243 | - |
| Inventories | 13,138,488 | 11,538,120 |
| Deferred income taxes | 406,000 | 406,000 |
| Prepaid expenses and other | 199,113 | 428,038 |
| Total Current Assets | 27,548,801 | 30,707,059 |
| | | |
| Property and Equipment, net | 1,530,599 | 1,189,107 |
| | | |
| Deferred Income Taxes | 365,000 | 365,000 |
| Cash Surrender Value of Life Insurance Policies | 1,608,969 | 1,591,968 |
| Notes and Other Receivables-LongTerm | 307,419 | 288,031 |
| Other Assets | 79,525 | 79,523 |
| Total Assets | $ 31,440,313 | $ 34,220,688 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 3,759,641 | $ 6,100,012 |
| Accrued expenses | 1,752,626 | 1,799,791 |
| Income taxes payable | - | 72,000 |
| Current portion of long-term obligations | 5,035 | 8,271 |
| Total Current Liabilities | 5,517,302 | 7,980,074 |
| | | |
| Stockholders' Equity: | | |
| | - | - |

| | | | | |
|---|---|---|---|---|
| Preferred stock, $1.00 par value, 50,000 shares authorized, | | | | |
| Common stock, $.25 par value; 4,000,000 shares authorized, | | | | |
| 2,446,286 and 2,431,286 shares issued and outstanding | | 611,571 | | 607,821 |
| Additional paid-in capital | | 6,360,567 | | 6,238,498 |
| Retained earnings | | 18,950,873 | | 19,394,295 |
| Total Stockholders' Equity | | 25,923,011 | | 26,240,614 |
| Total Liabilities and Stockholders’ Equity | $ | 31,440,313 | $ | 34,220,688 |

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Three Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 168,149 | $ 298,551 |
| Adjustments to reconcile net income to net | | |
| cash provided by (used in) operating activities: | | |
| Change in accounts receivable and inventory reserves | 15,333 | 19,861 |
| Depreciation and amortization | 53,916 | 96,715 |
| Change in cash surrender value of life insurance | (17,001) | (17,001) |
| Deferred income taxes | - | (163,000) |
| Warranty reserve | 31,672 | 5,000 |
| Compensation expense related to stock options | 1,469 | - |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 5,009,964 | 114,311 |
| Notes receivable and other non-trade receivables | 42,130 | 100,603 |
| Inventories | (1,615,368) | (2,216,556) |
| Prepaid expenses and other | 228,922 | 239,915 |
| Accounts payable | (2,340,371) | 982,533 |
| Accrued expenses | (78,837) | (395,778) |
| Income taxes receivable/ payable | (519,243) | (64,811) |
| Total adjustments | 812,586 | (1,298,208) |
| Net cash provided by (used in) operating activities | 980,735 | (999,657) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of investments | 51,035 | - |
| Purchase of investments | - | (9,940) |

| | | |
|---|---|---|
| Capital expenditures | (395,407) | (37,780) |
| Net cash used in investing activities | (344,372) | (47,720) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of cash dividend | (611,571) | (802,337) |
| Payment on capital leases | (3,236) | (3,024) |
| Proceeds from exercise of stock options | 124,350 | - |
| Net cash used in financing activities | (490,457) | (805,361) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 145,906 | (1,852,738) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 6,515,067 | 9,777,587 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 6,660,973 | $ 7,924,849 |
| | | |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | $ 227 | $ 288 |
| Income taxes | 614,000 | 397,000 |
| | | |
| | | |
| See notes to condensed consolidated financial statements. | | |

AIR T, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

| | Common Stock | | Additional Paid-In | Retained | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Equity |
| Balance, March 31, 2010 | 2,431,326 | $ 607,831 | $ 6,234,079 | $ 18,058,730 | $ 24,900,640 |
| Net income | - | - | - | 298,551 | 298,551 |
| Cash dividend ($0.33 per share) | - | - | - | (802,337) | (802,337) |
| Balance, June 30, 2010 | 2,431,326 | $ 607,831 | $ 6,234,079 | $ 17,554,944 | $ 24,396,854 |

| | Common Stock | | Additional Paid-In | Retained | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Equity |
| Balance, March 31, 2011 | 2,431,286 | $ 607,821 | $ 6,238,498 | $ 19,394,295 | $ 26,240,614 |
| Net income | - | - | - | 168,149 | 168,149 |
| Cash dividend ($0.25 per share) | - | - | - | (611,571) | (611,571) |
| Exercise of stock options | 15,000 | 3,750 | 120,600 | - | 124,350 |
| Compensation expense related to stock options | - | - | 1,469 | - | 1,469 |
| Balance, June 30, 2011 | 2,446,286 | $ 611,571 | $ 6,360,567 | $ 18,950,873 | $ 25,923,011 |

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 1. Financial Statement Presentation

The condensed consolidated financial statements of Air T, Inc. (the "Company") have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the results for the periods presented have been made.

It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2011. The results of operations for the periods ended June 30 are not necessarily indicative of the operating results for the full year.

## 2. Income Taxes

The tax effect of temporary differences, primarily asset reserves, stock based compensation and accrued liabilities, gave rise to the Company's deferred tax asset in the accompanying June 30, 2011 and March 31, 2011 consolidated balance sheets. Deferred income taxes are recognized for the tax consequence of such temporary differences at the enacted tax rate expected to be in effect when the differences reverse.

The income tax provisions for the respective three-month periods ended June 30, 2011 and 2010 differ from the federal statutory rate primarily as a result of state income taxes offset by permanent tax differences, including the federal production deduction.

## 3. Net Earnings Per Share

Basic earnings per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during each period. For purposes of calculating diluted earnings per share, shares issuable under employee stock options were considered potential common shares and were included in the weighted average common shares unless they were anti-dilutive.

The computation of basic and diluted earnings per common share is as follows:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net earnings | $ 168,149 | $ 298,551 |
| Earnings Per Share: | | |
| Basic | $ 0.07 | $ 0.12 |
| Diluted | $ 0.07 | $ 0.12 |
| Weighted Average Shares Outstanding: | | |

| | | |
|---|---|---|
| Basic | 2,436,231 | 2,431,326 |
| Diluted | 2,454,033 | 2,495,546 |

At June 30, 2011 and 2010, respectively, options to acquire 28,500 and 1,000 shares of common stock were not included in computing diluted earnings per common share because their effects were anti-dilutive.

4. Inventories

Inventories consisted of the following:

| | June 30, 2011 | March 31, 2011 |
|---|---|---|
| Aircraft parts and supplies | $ 135,222 | $ 139,555 |
| Ground equipment manufacturing: | | |
| Raw materials | 7,113,872 | 7,918,699 |
| Work in process | 4,149,207 | 1,703,250 |
| Finished goods | 2,359,833 | 2,381,262 |
| Total inventories | 13,758,134 | 12,142,766 |
| Reserves | (619,646 ) | (604,646 ) |
| | | |
| Total, net of reserves | $ 13,138,488 | $ 11,538,120 |

5. Stock Based Compensation

The Company maintains stock based compensation plans which allow for the issuance of stock options to officers, other key employees of the Company, and to members of the Board of Directors. The Company accounts for stock compensation using fair value recognition provisions.

During the three months ended June 30, 2011, options were exercised for the issuance of 15,000 shares. No options were granted during the three months ended June 30, 2011 and no options were granted or exercised during the three months ended June 30, 2010. Stock based compensation expense in the amount of $1,469 was recognized for the three month period ended June 30, 2011 (none in 2010). At June 30, 2011, there was no unrecognized compensation expense related to the stock options.

6. Fair Value of Financial Instruments

The Company measures and reports financial assets and liabilities at fair value, on a recurring basis. Fair value measurement is classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company’s assets and liabilities measured at fair value (all Level I categories) were as follows:

| | Fair Value Measurements at | |
|---|---|---|
| | June 30, 2011 | March 31, 2011 |
| Short-term investments | $ - | $ 51,035 |

7. Financing Arrangements

The Company has a $7,000,000 secured long-term revolving credit line with an expiration date of August 31, 2012. The revolving credit line contains customary events of default, a subjective acceleration clause and a fixed charge coverage requirement, with which the Company was in compliance at June 30, 2011. There is no requirement for the Company to maintain a lock-box arrangement under this agreement. The amount of credit available to the Company under the agreement at any given time is determined by an availability calculation, based on the eligible borrowing base, as defined in the credit agreement, which includes the Company's outstanding receivables, inventories and equipment, with certain exclusions. At June 30, 2011, $7,000,000 was available under the terms of the credit facility and no amounts were outstanding. Amounts advanced under the credit facility bear interest at the 30-day "LIBOR" rate (.19% at June 30, 2011) plus 150 basis points.

The Company assumes various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements such as debt and lease agreements.

8. Segment Information

The Company operates in three business segments. The overnight air cargo segment, comprised of its Mountain Air Cargo, Inc. ("MAC") and CSA Air, Inc. ("CSA") subsidiaries, operates in the air express delivery services industry. The ground equipment sales segment, comprised of its Global Ground Support, LLC ("GGS") subsidiary, manufactures and provides mobile deicers and other specialized equipment products to passenger and cargo airlines, airports, the U.S. military and industrial customers. The ground support services segment, comprised of its Global Aviation Services, LLC ("GAS") subsidiary, provides ground support equipment maintenance and facilities maintenance services to domestic airlines and aviation service providers. Each business segment has separate management teams and infrastructures that offer different products and services. The Company evaluates the performance of its operating segments based on operating income.

Segment data is summarized as follows:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Operating Revenues: | | |
| Overnight Air Cargo | $ 10,826,899 | $ 8,920,174 |
| Ground Equipment Sales: | | |
| Domestic | 2,280,460 | 1,309,348 |
| International | 1,890,018 | 2,616,392 |
| Total Ground Equipment Sales | 4,170,478 | 3,925,740 |
| Ground Support Services | 1,564,120 | 2,177,361 |
| Total | $ 16,561,497 | $ 15,023,275 |
| | | |
| Operating Income (Loss): | | |
| Overnight Air Cargo | $ 932,307 | $ 727,983 |
| Ground Equipment Sales | (310,856) | (162,937) |
| Ground Support Services | 38,665 | 299,299 |
| Corporate | (409,124) | (453,983) |
| Total | $ 250,992 | $ 410,362 |
| | | |
| Capital Expenditures: | | |
| Overnight Air Cargo | $ 372,836 | $ - |
| Ground Equipment Sales | 3,071 | - |
| Ground Support Services | 19,500 | 32,640 |
| Corporate | - | 5,140 |
| Total | $ 395,407 | $ 37,780 |
| | | |
| Depreciation and Amortization: | | |
| Overnight Air Cargo | $ 14,283 | $ 50,073 |
| Ground Equipment Sales | 9,969 | 7,023 |
| Ground Support Services | 19,638 | 27,478 |

| | | |
|---|---|---|
| Corporate | 10,026 | 12,141 |
| Total | $ 53,916 | $ 96,715 |

9. Commitments and Contingencies

The Company is not currently involved in or aware of any pending or threatened lawsuits involving personal injury or property damages. Any such claims are generally subject to defense under the Company's liability insurance programs.

10. Subsequent Events

Management has evaluated all events or transactions through the date of this filing. During this period, the Company did not have any material subsequent events that impacted its consolidated financial statements.

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

Overview

The Company operates in three business segments. The overnight air cargo segment, comprised of its Mountain Air Cargo, Inc. ("MAC") and CSA Air, Inc. ("CSA") subsidiaries, operates in the air express delivery services industry. The ground equipment sales segment, comprised of its Global Ground Support, LLC ("GGS") subsidiary, manufactures and provides mobile deicers and other specialized equipment products to passenger and cargo airlines, airports, the U.S. military and industrial customers. The ground support services segment, comprised of its Global Aviation Services, LLC ("GAS") subsidiary, provides ground support equipment maintenance and facilities maintenance services to domestic airlines and aviation service providers. Each business segment has separate management teams and infrastructures that offer different products and services. The Company evaluates the performance of its operating segments based on operating income.

Following is a table detailing revenues by segment and by major customer category:

| (In thousands) | | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | | | | |
| | 2011 | | | 2010 | | |
| Overnight Air Cargo Segment: | | | | | | |
| FedEx | $ 10,827 | 65 | % | $ 8,920 | 59 | % |
| Ground Equipment Sales Segment: | | | | | | |
| Military | 84 | 1 | % | 497 | 3 | % |
| Commercial - Domestic | 2,197 | 13 | % | 813 | 6 | % |
| Commercial - International | 1,890 | 11 | % | 2,616 | 17 | % |
| | 4,171 | 25 | % | 3,926 | 26 | % |
| Ground Support Services Segment | 1,564 | 10 | % | 2,177 | 15 | % |
| | $ 16,562 | 100 | % | $ 15,023 | 100 | % |

MAC and CSA are short-haul express airfreight carriers and provide air cargo services to one primary customer, FedEx Corporation ("FedEx"). MAC will also on occasion provide maintenance services to other airline customers and the U.S. Military. Under the terms of dry-lease service agreements, which currently cover all of the 81 revenue aircraft, the Company receives a monthly administrative fee based on the number of aircraft operated and passes through to its customer certain cost components of its operations without markup. The cost of fuel, flight crews,

landing fees, outside maintenance, parts and certain other direct operating costs are included in operating expenses and billed to the customer as cargo and maintenance revenue, at cost. As a result, the fluctuating cost of fuel has not had any direct impact on our air cargo operating results. Pursuant to such agreements, FedEx determines the type of aircraft and schedule of routes to be flown by MAC and CSA, with all other operational decisions made by the Company. These agreements are renewable on two to five-year terms and may be terminated by FedEx at any time upon 30 days' notice. The Company believes that the short term and other provisions of its agreements with FedEx are standard within the airfreight contract delivery service industry. FedEx has been a customer of the Company since 1980. Loss of its contracts with FedEx would have a material adverse effect on the Company.

MAC and CSA combined contributed approximately $10,827,000 and $8,920,000 to the Company's revenues for the three-month periods ended June 30, 2011 and 2010, respectively, a current year increase of $1,907,000 (21%).

GGS manufactures and supports aircraft deicers and other specialized industrial equipment on a worldwide basis. GGS manufactures five basic models of mobile deicing equipment with capacities ranging from 700 to 2,800 gallons. GGS also provides fixed-pedestal-mounted deicers. Each model can be customized as requested by the customer, including single operator configuration, fire suppressant equipment, open basket or enclosed cab design, a patented forced-air deicing nozzle and on-board glycol blending system to substantially reduce glycol usage, color and style of the exterior finish. GGS also manufactures five models of scissor-lift equipment, for catering, cabin service and maintenance service of aircraft, and has developed a line of decontamination equipment, flight-line tow tractors, glycol recovery vehicles and other special purpose mobile equipment. GGS competes primarily on the basis of the quality, performance and reliability of its products, prompt delivery, customer service and price.

In June 1999, GGS was awarded a four-year contract to supply deicing equipment to the United States Air Force ("USAF"). GGS was awarded two three-year extensions of that contract through June 2009. On July 15, 2009, the Company announced that GGS had been awarded a new contract to supply deicing trucks to the USAF. The contract award was for one year with four additional one-year extension options that may be exercised by the USAF. In June 2011, the second option period under the contract was exercised, extending the contract to July 2012.

In September 2010, GGS was awarded a contract to supply flight line tow tractors to the USAF. The contract award is for one year commencing September 28, 2010 with four additional one-year extension options that may be exercised by the USAF. The value of the contract, as well as the number of units to be delivered, will be determined based upon annual requirements and available funding of the USAF. No units have yet been delivered to the USAF under this contract.

GGS contributed approximately $4,171,000 and $3,926,000 to the Company's revenues for the three-month periods ended June 30, 2011 and 2010, respectively, representing a $245,000 (6%) increase. At June 30, 2011, GGS's order backlog was $10.1 million compared to $8.8 million at June 30, 2010 and $9.6 million at March 31, 2011.

GAS was formed in September 2007 to operate the aircraft ground support equipment and airport facility maintenance services business of the Company. GAS is providing aircraft ground support equipment and airport facility maintenance services to a wide variety of customers at a number of locations throughout the country.

GAS contributed approximately $1,564,000 and $2,177,000 to the Company's revenues for the three-month periods ended June 30, 2011 and 2010, respectively, representing a $613,000 (28%) decrease. In July 2010, after a highly competitive bidding process, GAS was notified of changes to its contract with Delta Airlines, which has resulted in a significant reduction in the scope of work performed for Delta, principally beginning in September 2010. The services that were reduced, which included the elimination of services at GAS's largest Delta location, accounted for almost half of GAS's historical revenues and a greater proportion of its operating income. GAS continues to seek out new customers and locations to build its revenue base but expects to see lower margins than it produced prior to the Delta contract revisions.

First Quarter Highlights

The first quarter of fiscal 2011 saw the Company revenues increase by 10% over the prior year comparable quarter but operating income was down 39%.

Revenues from the air cargo segment increased 21% compared to the first quarter of the prior fiscal year, while operating income increased 28%. During the second quarter of our fiscal 2011, FedEx delivered four additional ATR-72 passenger aircraft to MAC for heavy maintenance work, resulting in increased revenues and profit for this segment. During the third quarter, one of the aircraft was completed and put onto MAC's operating certificate and has been operated by MAC since November 2010. A second ATR-72 was put on MAC's operating certificate and put into service in mid July 2011. We are unable to determine at this time whether MAC will ultimately operate the other two aircraft as revenue aircraft. However, we are receiving administrative fee revenue and maintenance revenue on the aircraft as they are readied for revenue service.

Revenues for GGS increased by 6% compared to the first quarter of the prior fiscal year. GGS incurred an operating loss of approximately $311,000 for the quarter, which was 91% higher than the operating loss for the prior year comparable quarter. While GGS was able to renew the contract with the U.S. Air Force in July 2009, orders under the new contract have not been at the same levels as under the prior contract. GGS did not ship any deicers to the U.S. Air Force in the first quarter of the current fiscal year under this contract. GGS continues to see increased pressure on margins in highly competitive domestic and international commercial equipment markets. In addition, the lack of

USAF orders continues to affect our flexibility in production and deliveries, contributing to a higher overall cost structure.

During the quarter ended June 30, 2011, revenues from our GAS subsidiary decreased by 28% as a result of changes to its contract with Delta as discussed in the previous section above. Operating income for GAS fell by 87% for the quarter.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions to determine certain assets, liabilities, revenues and expenses. Management bases these estimates and assumptions upon the best information available at the time of the estimates or assumptions. The Company's estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from estimates. The Company believes that the following are its most significant accounting policies:

Allowance for Doubtful Accounts. An allowance for doubtful accounts receivable is established based on management's estimates of the collectability of accounts receivable. The required allowance is determined using information such as customer credit history, industry information, credit reports, customer financial condition and the collectability of outstanding accounts receivables. The estimates can be affected by changes in the financial strength of the aviation industry, customer credit issues or general economic conditions.

Inventories. The Company's inventories are valued at the lower of cost or market. Provisions for excess and obsolete inventories are based on assessment of the marketability of slow-moving and obsolete inventories. Historical parts usage, current period sales, estimated future demand and anticipated transactions between willing buyers and sellers provide the basis for estimates. Estimates are subject to volatility and can be affected by reduced equipment utilization, existing supplies of used inventory available for sale, the retirement of aircraft or ground equipment and changes in the financial strength of the aviation industry.

Warranty Reserves. The Company warranties its ground equipment products for up to a three-year period from date of sale. Product warranty reserves are recorded at time of sale based on the historical average warranty cost and are adjusted quarterly as actual warranty cost becomes known.

Income Taxes. Income taxes have been provided using the liability method. Deferred income taxes reflect the net affects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes using enacted rates expected to be in effect during the year in which the basis differences reverse.

Revenue Recognition. Cargo revenue is recognized upon completion of contract terms. Maintenance and ground support services revenue is recognized when the service has been performed. Revenue from product sales is recognized when contract terms are completed and ownership has passed to the customer.

Seasonality

GGS's business has historically been seasonal. The Company has continued its efforts to reduce GGS's seasonal fluctuation in revenues and earnings by increasing military and international sales and broadening its product line to increase revenues and earnings throughout the year. In June 1999, GGS was awarded a four-year contract to supply deicing equipment to the USAF, and subsequently was awarded two three-year extensions on the contract, which expired in June 2009. In July 2009, GGS was awarded a new one-year contract with the USAF with four additional one-year extension options. Although sales remain somewhat seasonal, particularly with regard to commercial deicers which typically are delivered prior to the winter season, this diversification has lessened the seasonal impacts in the past when sales under the contract with the USAF were a significant component of the Company's revenues. If sales to the USAF do not continue to be a significant component of GGS's sales, seasonal patterns of revenues and earnings attributable to its commercial deicer business may resume. The overnight air cargo and ground support services segments are not susceptible to seasonal trends.

Results of Operations

First Quarter 2012 Compared to First Quarter 2011

Consolidated revenue increased $1,538,000 (10%) to $16,562,000 for the three-month period ended June 30, 2011 compared to its equivalent prior period. The increase in revenues can be principally attributed to an increase in business in our air cargo segment. Revenues in the air cargo segment increased $1,907,000 (21%), largely as a result of increases in administrative fee revenue and maintenance labor relating to the four ATR-72 aircraft that were delivered by FedEx during the second quarter of fiscal 2011, as well as increases in flight and maintenance operating costs passed through to our customer at cost. Revenues in the ground equipment segment increased $245,000 (6%) to $4,171,000. Revenues in the ground support services segment were down $613,000 (28%), resulting from the reduction in scope of work performed for Delta within this segment.

Operating expenses increased $1,698,000 (12%) to $16,311,000 for the three-month period ended June 30, 2011 compared to its equivalent prior period. The principal component of the increase was a $1,691,000 (23%) increase in air cargo segment operating expenses, closely correlating to the increase in segment revenue. Ground equipment sales segment operating costs increased $307,000 (10%) driven primarily by the current quarter's increase in revenues but also impacted by lower margins and decreased production efficiencies which also delayed certain deliveries from the first quarter to the second quarter. Ground support services segment operating expenses decreased $390,000 (26%) following the decrease in revenues for the segment. General and administrative expenses increased $132,000 (6%) to $2,535,000 for the three-month period ended June 30, 2011 compared to its equivalent prior period. The principal components of this increase were rents, insurance, professional fees and office equipment and supplies.

Operating income for the quarter ended June 30, 2011 was $251,000, a $159,000 (39%) decrease from the same quarter of the prior year. The overnight air cargo segment saw a 28% increase in its operating income due to increased administrative fee and maintenance revenues related to the four ATR-72 aircraft. The ground equipment sales segment experienced an operating loss of $311,000 in the quarter ended June 30, 2011 compared to an operating loss of $163,000 in the prior year comparable quarter. The reduction is the result of reduced margins resulting from increased competitive pressures, and production inefficiencies. The ground support services segment saw an 87% decrease in its operating income resulting from the reduction in scope under the contract with Delta.

Non-operating income, net decreased $45,000 for the three-month period ended June 30, 2011. The principal difference was a decrease in investment income, due to decreased cash and investment balances in the current period.

Pretax earnings decreased $204,000 for the three-month period ended June 30, 2011 compared to the prior comparable period, primarily due to the decreases in the ground equipment sales and ground support services segments operating income.

During the three-month period ended June 30, 2011, the Company recorded $95,000 in income tax expense, which resulted in an estimated annual tax rate of 36.1%, the same rate as for the comparable quarter in 2010. The estimated annual effective tax rates for both periods differ from the U. S. federal statutory rate of 34% primarily due to the effect of state income taxes offset by the benefit of the federal production deduction.

Liquidity and Capital Resources

As of June 30, 2011 the Company's working capital amounted to $22,032,000, a decrease of $695,000 compared to March 31, 2011. The decrease primarily resulted from the payment of the annual dividend in June 2011 as well as higher than normal capital expenditures in the period.

The Company has a $7,000,000 secured long-term revolving credit line with an expiration date of August 31, 2012. The revolving credit line contains customary events of default, a subjective acceleration clause and a fixed charge coverage requirement, with which the Company was in compliance at June 30, 2011. There is no requirement for the Company to maintain a lock-box arrangement under this agreement. The amount of credit available to the Company under the agreement at any given time is determined by an availability calculation, based on the eligible borrowing base, as defined in the credit agreement, which includes the Company's outstanding receivables, inventories and equipment, with certain exclusions. At June 30, 2011, $7,000,000 was available for borrowing under the credit line and no amounts were outstanding.

Amounts advanced under the credit facility bear interest at the 30-day "LIBOR" rate plus 150 basis points. The LIBOR rate at June 30, 2011 was .19%. The Company is exposed to changes in interest rates on its line of credit with respect to any borrowings outstanding under the line of credit. However, because the Company's outstanding balance under the line of credit was negligible during the quarter ended June 30, 2011, changes in the LIBOR rate during that period

would have had a minimal affect on its interest expense for the quarter.

Following is a table of changes in cash flow for the respective periods ended June 30, 2011 and 2010:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net Cash Provided by (Used in) Operating Activities | $ 981,000 | $ (1,000,000) |
| Net Cash Used in Investing Activities | (344,000) | (48,000) |
| Net Cash Used in Financing Activities | (491,000) | (805,000) |
| Net Increase (Decrease) in Cash and Cash Equivalents | $ 146,000 | $ (1,853,000) |

Cash provided by operating activities was $1,981,000 more for the three-month period ended June 30, 2011 compared to the similar prior year period, resulting from a variety of offsetting factors. The most significant factor was accounts receivable which decreased significantly during the current period while remaining fairly constant in the prior comparable period. Offsetting this, accounts payable also decreased significantly in the current period compared to an increase in the comparable prior period.

Cash used in investing activities for the three-month period ended June 30, 2011 was $296,000 more than the comparable prior year period due to the increase in capital expenditures.

Cash used in financing activities was $314,000 less in the three-month period ended June 30, 2011, than in the corresponding prior year period due to a reduction in the dividend paid of $191,000 and proceeds from the exercise of stock options in the current period totaling $124,000.

There are currently no commitments for significant capital expenditures. The Company's Board of Directors on August 7, 1998 adopted the policy to pay an annual cash dividend, based on profitability and other factors, in the first quarter of each fiscal year, in an amount to be determined by the Board. The Company paid a $0.25 per share cash dividend in June 2011.

Impact of Inflation

The Company believes that inflation has not had a material effect on its operations, because increased costs to date have been passed on to its customers. Under the terms of its air cargo business contracts the major cost components of its operations, consisting principally of fuel, crew and other direct operating costs, and certain maintenance costs are reimbursed, without markup by its customer. Significant increases in inflation rates could, however, have a material impact on future revenue and operating income.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, including the accumulation and communication of information to the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions, regardless of how remote.

There has not been any change in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

Information on legal proceedings is set forth in Note 9 of the Notes to Condensed Consolidated Financial Statements included in Part I of this report, which is incorporated by reference herein.

Item 6. Exhibits

| (a) | Exhibits No. | Description |
|---|---|---|
| | 3.1 | Restated Certificate of Incorporation and Certificate of Amendment to Certificate of Incorporation dated September 25, 2008, incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2008 (Commission file No. 0-11720) |
| | 3.2 | Amended and Restated Bylaws of Air T, Inc., incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated July 9, 2008 (Commission file No. 0-11720) |
| | 4.1 | Specimen Common Stock Certificate, incorporated by reference to Exhibit 4.1 of the Company's Annual Report on Form 10 K for the fiscal year ended March 31, 1994 (Commission file No. 0-11720) |
| | 31.1 | Section 302 Certification of Chief Executive Officer |
| | 31.2 | Section 302 Certification of Chief Financial Officer |
| | 32.1 | Section 1350 Certifications |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AIR T, INC.

Date: August 10, 2011
/s/ Walter Clark
Walter Clark, Chief Executive Officer
(Principal Executive Officer)

/s/ John Parry
John Parry, Chief Financial Officer
(Principal Financial and Accounting Officer)

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AIR T, INC.
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