AIR T INC
Form 10-Q
August 10, 2007

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, 2007

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.) |

Post Office Box 488, Denver, North Carolina 28037
(Address of principal executive offices, including zip code)

(828) 464-874 1
(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 is a large accelerated filer, an accelerated filer or a non-accelerated filer (see definition of “accelerated filer and large accelerated filer) in Rule 12b-2 of the Exchange Act)

Large Accelerated Filer_____ Accelerated Filer_____ Non-Accelerated Filer__X___

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

Yes_____ No __X__

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

2,442,306 Common Shares, par value of $.25 per share, were outstanding as of July 31, 2007.

AIR T, INC.
AND
SUBSIDIARIES

INDEX


| | | PAGE |
|---|---|---|
| PART I. FINANCIAL INFORMATION | | |
| Item 1. Financial Statements | | |
| Condensed Consolidated Statements of Operations for the three-months ended June 30, 2007 and 2006 (Unaudited) | | 3 |
| Condensed Consolidated Balance Sheets at June 30, 2007 (Unaudited) and March 31, 2007 | | 4 |
| Condensed Consolidated Statements of Cash Flows for the three-months ended June 30, 2007 and 2006 (Unaudited) | | 5 |
| Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income for the three-months ended June 30, 2007 and 2006(Unaudited) | | 6 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | | 7-11 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 11-15 |
| Item 3. | | |

| | | |
|---|---|---|
| | Quantitative and Qualitative Disclosure About Market Risk | 15 |
| Item 4. | Controls and Procedures | 16 |
| PART II. OTHER INFORMATION | | |
| Item 1. | Legal Proceedings | 16 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 16 -17 |
| Item 6. | Exhibits | 18 |
| | Signatures | 19 |
| | Exhibit Index | 20 |
| | Officers' Certifications | 21-23 |

Item 1. Financial Statements

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Operating Revenues: | | |
| Overnight air cargo | $ 8,512,451 | $ 8,575,952 |
| Ground equipment | 7,283,516 | 7,507,857 |
| | 15,795,967 | 16,083,809 |
| | | |
| Operating Expenses: | | |
| Flight-air cargo | 4,350,062 | 4,173,861 |
| Maintenance-air cargo | 2,839,161 | 3,098,683 |
| Ground equipment | 5,178,368 | 5,258,264 |
| General and administrative | 2,336,906 | 2,271,552 |
| Depreciation and amortization | 123,874 | 176,834 |
| | 14,828,371 | 14,979,194 |
| | | |
| Operating Income | 967,596 | 1,104,615 |
| | | |
| Non-operating Expense (Income) Expense: | | |
| Interest, net | 57,247 | 4,109 |
| Deferred retirement expense | 3,500 | 5,250 |
| Investment income and other | (66,537) | (60,441) |
| | (5,790) | (51,082) |
| | | |
| Earnings Before Income Taxes | 973,386 | 1,155,697 |
| | | |
| Income Tax Expense | 347,018 | 428,902 |
| | | |
| Net Earnings | $ 626,368 | $ 726,795 |
| | | |
| Basic and Diluted Net Earnings Per Share | $ 0.25 | $ 0.27 |
| | | |
| Weighted Average Shares Outstanding: | | |
| Basic | 2,461,719 | 2,671,293 |
| Diluted | 2,461,968 | 2,671,732 |

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2007 | March 31, 2007 |
|---|---|---|
| ASSETS | (Unaudited) | (Note) |
| Current Assets: | | |
| Cash and cash equivalents | $ 3,815,482 | $ 2,895,499 |
| Marketable securities | 875,638 | 860,870 |
| Accounts receivable, less allowance for doubtful accounts of $417,000 at June 30, 2007 and $413,000 at March 31, 2007 | 4,304,603 | 7,643,391 |
| Income taxes receivable | 171,380 | - |
| Notes and other non-trade receivables-current | 54,695 | 68,730 |
| Inventories, net | 8,940,018 | 8,085,755 |
| Deferred tax assets | 722,030 | 724,534 |
| Prepaid expenses and other | 113,706 | 325,533 |
| Total Current Assets | 18,997,552 | 20,604,312 |
| | | |
| Property and Equipment | 7,541,067 | 8,113,363 |
| Less accumulated depreciation | (5,729,448) | (5,820,852) |
| Property and Equipment, net | 1,811,619 | 2,292,511 |
| | | |
| Deferred Tax Assets | 211,358 | 170,353 |
| Cash Surrender Value of Life Insurance Policies | 1,313,704 | 1,296,703 |
| Notes and Other Non-Trade Receivables-Long Term | 190,399 | 200,529 |
| Other Assets | 50,575 | 50,576 |
| Total Assets | $ 22,575,207 | $ 24,614,984 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 4,800,403 | $ 5,304,022 |
| Accrued expenses | 1,373,620 | 2,236,106 |
| Income taxes payable | - | 194,840 |
| Current portion of long-term debt and obligations | 133,994 | 144,684 |
| Total Current Liabilities | 6,308,017 | 7,879,652 |
| | | |
| Capital Lease Obligations (less current portion) | 70,151 | 77,702 |
| Long-Term Debt (less current portion) | 547,192 | 575,204 |
| Deferred Retirement Obligations (less current | 635,996 | 633,693 |

| | | |
|---|---|---|
| portion) | | |
| Stockholders' Equity: | | |
| Preferred stock, $1 par value, authorized 50,000 shares, none issued | - | - |
| Common stock, par value $.25; authorized 4,000,000 shares; 2,442,306 and 2,509,998 shares issued and outstanding | 610,576 | 627,499 |
| Additional paid in capital | 5,615,222 | 6,058,070 |
| Retained earnings | 8,674,123 | 8,658,606 |
| Accumulated other comprehensive income, net | 113,930 | 104,558 |
| Total Stockholders' Equity | 15,013,851 | 15,448,733 |
| Total Liabilities and Stockholders' Equity | $ 22,575,207 | $ 24,614,984 |

Note: The balance sheet at March 31, 2007 has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

See notes to condensed consolidated financial statements.

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net earnings | $ 626,368 | $ 726,795 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Change in accounts receivable and inventory reserves | 34,106 | 162,579 |
| Depreciation and amortization | 123,874 | 176,834 |
| Increase in cash surrender value of life insurance | (17,001) | (17,000) |
| Deferred taxes | (43,897) | (78,661) |
| Warranty reserve | (41,000) | (47,767) |
| Compensation expense related to stock options | 87,278 | 30,750 |
| Change in assets and liabilities which provided (used) cash: | | |
| Accounts receivable | 3,334,737 | 4,267,693 |
| Notes receivable | 24,165 | 10,995 |
| Income taxes receivable/payable | (366,220) | 188,268 |
| Inventories | (426,019) | (871,035) |
| Prepaid expenses and other | 211,828 | 246,658 |
| Accounts payable | (503,619) | (575,001) |
| Accrued expenses and other liabilities | (831,574) | (679,160) |
| Total adjustments | 1,586,658 | 2,815,153 |
| Net cash provided by operating activities | 2,213,026 | 3,541,948 |
| Cash flows from investing activities: | | |
| Capital expenditures | (101,281) | (34,032) |
| Net cash used in investing activities | (101,281) | (34,032) |
| Cash flows from financing activities: | | |
| Payments on aircraft term loan | (26,825) | (22,243) |
| Net borrowings on line of credit | - | 280,211 |
| Stock repurchase | (547,049) | - |
| Payments on capital leases | (7,037) | (43,301) |
| Payment of cash dividend | (610,851) | (667,823) |
| Net cash used in financing activities | (1,191,762) | (453,156) |
| Net increase in cash and cash equivalents | 919,983 | 3,054,760 |
| Cash and cash equivalents at beginning of period | 2,895,499 | 2,702,424 |
| Cash and cash equivalents at end of period | $ 3,815,482 | $ 5,757,184 |

| | | | | |
|---|---|---|---|---|
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for: | | | | |
| Interest | $ | 83,428 | $ | 24,518 |
| Income taxes | | 757,900 | | 318,060 |
| | | | | |
| Summary of significant non-cash information: | | | | |
| Increase (decrease) in fair value of marketable securities, net of tax | $ | 14,768 | $ | (11,814) |
| Leased equipment transferred to inventory | | (458,300) | | (380,340) |
| | | | | |
| See notes to condensed consolidated financial statements. | | | | |

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

| | Common Stock | | Additional Paid-In | Retained | Accumulated Other Comprehensive | Total Stockholders' |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Income | Equity |
| Balance, March 31, 2006 | 2,671,293 | $ 667,823 | $ 6,939,357 | $ 6,840,383 | $ 52,479 | $ 14,500,042 |
| Comprehensive Income: | | | | | | |
| Net earnings | | | | 726,795 | | |
| Unrealized loss | | | | | | |
| on securities, net of tax | | | | | (11,814) | |
| Total Comprehensive Income | | | | | | 714,981 |
| Cash dividend | | | | (667,823) | | (667,823) |
| Compensation expense | | | | | | |
| related to stock options | | | 30,750 | | | 30,750 |
| Balance, June 30, 2006 | 2,671,293 | $ 667,823 | $ 6,970,107 | $ 6,899,355 | $ 40,665 | $ 14,577,950 |

| | Common Stock | | Additional Paid-In | Retained | Accumulated Other Comprehensive | Total Stockholders' |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Income | Equity |
| Balance, March 31, 2007 | 2,509,998 | $ 627,499 | $ 6,058,070 | $ 8,658,606 | $ 104,558 | $ 15,448,733 |
| Comprehensive Income: | | | | | | |
| Net earnings | | | | 626,368 | | |
| Unrealized gain | | | | | | |
| on securities, net of tax | | | | | 9,372 | |
| Total Comprehensive Income | | | | | | 635,740 |
| | | | | | | - |
| | | | | | | - |
| Cash dividend | | | | (610,851) | | (610,851) |
| Compensation expense | | | | | | |
| related to stock options | | | 87,278 | | | 87,278 |
| Stock repurchase | (67,692) | (16,923) | (530,126) | | | (547,049) |
| Balance, June 30, 2007 | 2,442,306 | $ 610,576 | $ 5,615,222 | $ 8,674,123 | $ 113,930 | $ 15,013,851 |

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 Balance Sheet as of June 30, 2007, and the Condensed Consolidated Statements of Operations, Cash Flows and Stockholders' Equity and Comprehensive Income for the three months ended June 30, 2007 and 2006, have been prepared by Air T, Inc. (the "Company") without audit. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows as of and for the period ended June 30, 2007, and for prior 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, 2007. 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 Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes- an Interpretation of FASB Statement No. 109,* on April 1, 2007. The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The periods subject to examination for the Company's federal return are the fiscal 2006 and 2007 tax years. The Company did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

It is the Company policy to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the quarter.

The tax effect of temporary differences, primarily asset reserves and accrued liabilities, gave rise to the Company's deferred tax asset in the accompanying June 30, 2007 and March 31, 2007 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 provision for the respective three-months ended June 30, 2007 and 2006 differ from the federal statutory rate primarily as a result of state income taxes and, to a lesser extent, other permanent differences.

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. As of June 30, 2007 and 2006, 1,000 outstanding stock options were anti-dilutive.

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

| | Three Months Ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Net earnings | $ 626,368 | $ 726,795 |
| Basic and Diluted Net Earnings Per Share | $ 0.25 | $ 0.27 |
| Weighted Average Shares Outstanding: | | |
| Basic | 2,461,719 | 2,671,293 |
| Plus: Incremental shares from stock options | 249 | 439 |
| Diluted | 2,461,968 | 2,671,732 |

4. Inventories

Inventories consist of the following:

| | June 30, 2007 | March 31, 2007 |
|---|---|---|
| Aircraft parts and supplies | $ 508,403 | $ 485,209 |
| Ground equipment manufacturing: | | |
| Raw materials | 7,239,854 | 6,250,813 |
| Work in process | 1,077,691 | 1,648,896 |
| Finished goods | 807,976 | 364,688 |
| Total inventory | 9,633,924 | 8,749,606 |
| Reserves | (693,906) | (663,851) |
| Total, net of reserves | $ 8,940,018 | $ 8,085,755 |

5. Stock Based Compensation

The Company maintains stock based compensation plans which allow for the issuance of nonqualified 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 the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*.

No options were granted or exercised during the three months ended June 30, 2007 and 2006. Stock based compensation expense has been recognized in the amount of $87,278 and $30,750 for the three months ended June 30, 2007 and 2006, respectively. As of June 30, 2007, there was $748,742 of unrecognized compensation expense to be recognized over the next ten quarters ending December 31, 2009.

6. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 ("SFAS 157"), *Fair Value Measurements*. SFAS 157 establishes a framework for measuring fair value within generally accepted accounting principles, clarifies the definition of fair value within the framework, and expands disclosures about the use of fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not determined the impact of adopting SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* ("SFAS 159"). SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007, and is effective for the Company April 1, 2008. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value that are not currently required to be measured at fair value. Accordingly, companies would then be required to report unrealized gains and losses on these items in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company has not determined the impact of adopting SFAS 159 on its consolidated financial statements.

7. Financing Arrangements

In August 2006, the Company amended its $7,000,000 secured long-term revolving credit line to extend its expiration date to August 31, 2008. The revolving credit line contains customary events of default, a subjective acceleration clause and restrictive covenants that, among other matters, require the Company to maintain certain financial ratios. There is no requirement for the Company to maintain a lock-box arrangement under this agreement. As of June 30, 2007, the Company was in compliance with all of the restrictive covenants. 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, 2007, $5,748,000 was available under the terms of the credit facility and no amounts were outstanding. The credit facility is secured by substantially all of the Company's assets.

Amounts advanced under the credit facility bear interest at the 30-day "LIBOR" rate plus 137 basis points. The LIBOR rate at June 30, 2007 was 5.32%.

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 three subsidiaries in two business segments, overnight air cargo and ground equipment. Each business segment has separate management teams and infrastructures that offer different products and services. The overnight air cargo segment encompasses services provided primarily to one customer, FedEx Corporation, and the ground equipment segment encompasses the operations of Global Ground Support, LLC ("Global").

The Company evaluates the performance of its operating segments based on operating income.

Segment data is summarized as follows:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Operating Revenues: | | |
| Overnight Air Cargo | $ 8,512,451 | $ 8,575,952 |
| Ground Equipment: | | |
| Domestic | 7,185,016 | 7,470,357 |
| International | 98,500 | 37,500 |
| Total Ground Equipment | 7,283,516 | 7,507,857 |
| Total | $ 15,795,967 | $ 16,083,809 |
| | | |
| Operating Income (Loss): | | |
| Overnight Air Cargo | $ 346,065 | $ 462,538 |
| Ground Equipment | 1,212,786 | 1,357,755 |

| | | | | |
|---|---|---|---|---|
| Corporate (1) | | (591,255) | | (715,678) |
| Total | $ | 967,596 | $ | 1,104,615 |
| | | | | |
| Depreciation and Amortization: | | | | |
| Overnight Air Cargo | $ | 110,058 | $ | 125,957 |
| Ground Equipment | | 12,261 | | 39,040 |
| Corporate | | 1,555 | | 11,837 |
| Total | $ | 123,874 | $ | 176,834 |
| | | | | |
| Capital Expenditures, net: | | | | |
| Overnight Air Cargo | $ | 15,823 | $ | 5,000 |
| Ground Equipment | | 38,439 | | - |
| Corporate | | 47,019 | | 29,032 |
| Total | $ | 101,281 | $ | 34,032 |

| | As of | |
|---|---|---|
| | June 30, 2007 | March 31, 2007 |
| Identifiable Assets: | | |
| Overnight Air Cargo | $ 4,380,109 | $ 5,823,455 |
| Ground Equipment | 11,466,921 | 13,247,048 |
| Corporate | 6,728,177 | 5,544,481 |
| Total | $ 22,575,207 | $ 24,614,984 |

(1) Includes income from inter-segment transactions.

9. Commitments and Contingencies

On February 28, 2005, a 135-foot fixed-stand deicing boom sold by Global for installation at the Philadelphia, Pennsylvania airport, and maintained by Global, collapsed on an Airbus A330 aircraft operated by U.S. Airways. While the aircraft suffered some structural damage, no passengers or crew on the aircraft were injured. The operator of the deicing boom has claimed to suffer injuries in connection with the collapse. Immediately following this incident, the remaining eleven fixed-stand deicing booms sold by Global and installed at the Philadelphia airport were placed out of service pending investigation of their structural soundness. These booms include 114-foot smaller deicing booms, as well as additional 135-foot extended deicing booms. All of these booms were designed, fabricated and installed by parties other than Global and are the only booms of this model that have been sold by Global.

In June 2005, after an independent structural engineering firm's investigation identified specific design flaws and structural defects in the remaining 11 booms and Global's subcontractor declined to participate in efforts to return the remaining 11 booms to service, Global agreed with the City of Philadelphia to effect specific repairs to the remaining 11 booms. Under this agreement, Global agreed to effect the repairs to these booms at its expense and reserved its rights to recover these expenses from any third party ultimately determined to be responsible for defects and flaws in these booms. The agreement provided that if Global performed its obligations under the agreement, the City of Philadelphia will not pursue any legal remedies against Global for the identified design flaws and structural defects with respect to these 11 booms. However, the City of Philadelphia retained its rights with respect to any cause of action arising from the collapse of the boom in February 2005.

On October 11, 2005, Global completed the repair, installation and recertification of ten of the deicing booms. Repair had been completed on the eleventh boom, which was then damaged in transit to the Philadelphia airport by an independent carrier. The additional repair work on that boom has been completed and the boom has been delivered back to the airport. The carrier had initially undertaken that such further repair work would be at its expense, though the carrier has since disclaimed liability for the full costs associated with the damage to the eleventh boom. As described below, Global has initiated litigation against the carrier to recover its costs related to the damage to the eleventh boom.

Global has been named as a defendant in three legal actions arising from the February 2005 boom collapse at the Philadelphia airport. In the first, *U.S. Airways vs. Elliott Equipment Company, et al*., which is pending in United States District Court for the Eastern District of Pennsylvania, U.S. Airways initiated an action on April 7, 2006 against Global and its subcontractor seeking to recover approximately $2.9 million, representing the alleged cost to repair the damaged Airbus A330 aircraft and including approximately $1 million for the loss of use of the aircraft while it was being repaired. Discovery is continuing in this case and a trial has been set for March 2008. In the second action, *Emerson vs. Elliott Equipment Company, et al*., pending in the Philadelphia County Court of Common Pleas, the boom operator is seeking to recover unspecified damages from Global and its subcontractor for injuries arising from the collapse of the boom. This matter was initiated on October 21, 2005 and is scheduled for trial in May 2008. The Company understands that the boom operator has recovered from his claimed injuries and has returned to fulltime work. Global maintains product liability insurance in excess of the amount of the recoveries claimed above and is being defended in these matters by its product liability insurance carrier. Global's insurance coverage does not extend to the costs incurred by Global to examine and repair the other 11 booms at the Philadelphia airport. The third lawsuit is a claim brought in December 2006, on behalf of the City of Philadelphia captioned *City of Philadelphia v. Elliott Equipment Company, et al*., which was filed in the Philadelphia County Court of Common Pleas. In that action, the City seeks to recover for the cost of replacing the boom that was destroyed in the February 2005 accident. It is estimated that the cost for replacing that boom will be in the $500,000 to $600,000 range. That matter is in its early stage and a trial is anticipated for September 2008, based on the current scheduling order. Global's product liability insurance carrier has denied coverage with respect to the third lawsuit claiming that it seeks replacement of allegedly defective products. Global has included in its claims against its subcontractor any losses it may suffer in connection with the claims alleged in this lawsuit. In light of the claims asserted in this action directly against Global's

subcontractor and the related claims made by Global against its subcontractor, management does not believe that the ultimate liability, if any, of Global for losses alleged in this lawsuit would be material to the Company's financial position or results of operations.

On August 4, 2005, Global commenced litigation in the Court of Common Pleas, Philadelphia County, Pennsylvania against Glazer Enterprises, Inc. t/a Elliott Equipment Company, Global's subcontractor that designed, fabricated and warrantied the booms at the Philadelphia airport, seeking to recover approximately $905,000 in costs incurred by Global in fiscal 2006 in connection with repairing the 11 booms and any damages arising from the collapse of the boom in February 2005. That case has been removed to federal court and is pending before United States District Court for the Eastern District of Pennsylvania and has been assigned to the same judge before whom the U.S. Airways litigation is pending against Global. Discovery is continuing in this lawsuit. The Company cannot provide assurance that it will be able to recover its repair expenses and other losses, or otherwise be successful, in this action.

On August 8, 2006, Global commenced litigation in the United States District for the Eastern District of Pennsylvania (*Global Ground Support, LLC v. Sautter Crane Rental, Inc.*) seeking to recover all damage and loss incurred as a result of damage that occurred to the 135-foot deicing boom while in transit back to the Philadelphia International Airport. That claim was initially filed under theories of negligence, but the Court has recently ruled that the action should proceed under a contract theory, and the action has been re-filed as a contract claim. In that action, Global seeks damage of approximately $300,000. The matter is in its initial discovery stage. This matter is currently scheduled for trial in November 2007.

The Company is currently involved in certain personal injury and environmental matters, which involve pending or threatened lawsuits. Management believes the results of these pending or threatened lawsuits will not have a material adverse effect on the Company's results of operations or financial position.

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

Overview

The Company operates in two business segments, providing overnight air cargo services to the express delivery services industry and aviation ground support and other specialized equipment products to passenger and cargo airlines, airports, the military and industrial customers. Each business segment has separate management teams and infrastructures that offer different products and services. The Company's air cargo operations are comprised of its Mountain Air Cargo, Inc. ("MAC") and CSA Air, Inc. ("CSA") subsidiaries and the Company's ground support operations consist of its Global Ground Support, LLC subsidiary ("Global"). Following is a table detailing revenues by segment and by major customer category:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| Overnight Air Cargo Segment: | | | | |
| FedEx | $ 8,512,451 | 54% | $ 8,575,952 | 53% |
| | | | | |
| Ground Equipment Segment: | | | | |
| Military | 5,728,956 | 36% | 5,496,392 | 34% |
| Commercial - Domestic | 1,456,060 | 9% | 1,973,965 | 13% |
| Commercial - International | 98,500 | 1% | 37,500 | 0% |
| | 7,283,516 | 46% | 7,507,857 | 47% |
| | $ 15,795,967 | 100% | $ 16,083,809 | 100% |

MAC and CSA provide short-haul express air freight services exclusively to one customer, FedEx Corporation ("FedEx"). Under the terms of the dry-lease service agreements which currently cover the majority of the revenue aircraft operated, the Company receives an administrative fee based on the number of aircraft operated in revenue service 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. 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 these agreements are standard within the air freight 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.

Separate agreements cover the five types of aircraft operated by MAC and CSA for FedEx—Cessna Caravan, ATR-42, ATR-72, Fokker F-27, and Short Brothers SD3-30. The Cessna Caravan, ATR-42, ATR-72 and Fokker F-27 aircraft (a total of 88 aircraft at June 30, 2007) are owned by and dry-leased from FedEx, and the two Short Brothers SD3-30 aircraft are owned by the Company and operated periodically under wet-lease arrangements with FedEx. 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.

MAC and CSA's revenues contributed approximately $8,512,000 and $8,576,000 to the Company's revenues for the three-month periods ended June 30, 2007 and 2006, respectively, a current year decrease of less than 1%.

Global manufactures, services and supports aircraft deicers and ground support equipment and other specialized military and industrial equipment on a worldwide basis. Global's revenue contributed approximately $7,284,000 and $7,508,000 to the Company's revenues for the three-month periods ended June 30, 2007 and 2006, respectively. The 3% decrease in revenues was due to a slight decrease in the number of commercial orders completed during the current period. At June 30, 2007, Global's order backlog was $17.8 million compared to $16.8 million at March 31, 2007 and $16.5 million at June 30, 2006.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the U.S. 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 most significant estimates made by management include allowance for doubtful accounts receivable, reserves for excess and obsolete inventories, warranty reserves, deferred tax asset valuation and retirement benefit obligations.

Following is a discussion of critical accounting policies and related management estimates and assumptions.

Allowance for Doubtful Accounts. An allowance for doubtful accounts receivable in the amount of $417,000 and $413,000, respectively, as of June 30, 2007 and March 31, 2007, was 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 associated with a discontinued business segment. 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 parts inventories are valued at the lower of cost or market. Reserves for excess and obsolete inventories in the amount of $694,000 and $664,000, respectively, as of June 30, 2007 and March 31, 2007, are based on assessment of the marketability of slow-moving and obsolete inventories. 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 two-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. Warranty reserves were $116,000 and $196,000 at June 30, 2007 and March 31, 2007 respectively.

Deferred Taxes. Net deferred tax assets are shown net of valuation allowance in the amount of $62,000, as of June 30, 2007 and March 31, 2007 to reflect the likelihood of the recoverability of certain of these assets. Company judgment of the recoverability of certain of these assets is based primarily on estimates of current and expected future earnings and tax planning.

Retirement Benefits Obligation. The Company currently determines the value of retirement benefits assets and liabilities on an actuarial basis using a 5.75% discount rate. Values are affected by current independent indices, which estimate the expected return on insurance policies and the discount rates used. Changes in the discount rate used will affect the amount of pension liability as well as pension gain or loss recognized in other comprehensive income.

Revenue Recognition. Cargo revenue is recognized upon completion of contract terms and maintenance revenue is recognized when the service has been performed. Revenue from product sales is recognized when contract terms are completed and title has passed to customers.

Seasonality

Global's business has historically been seasonal. The Company has continued its efforts to reduce Global'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, Global was awarded a four-year contract to supply deicing equipment to the United States Air Force, and Global has been awarded two three-year extensions on the contract. Although sales remain somewhat seasonal, this diversification has lessened the seasonal impacts and allowed the Company to be more efficient in its planning and production. The air cargo segment of business has no susceptibility to seasonality.

Results of Operations

Consolidated revenue decreased $288,000 (2%) to $15,796,000 for the three-month period ended June 30, 2007 compared to its equivalent 2006 period. The decrease in revenues resulted primarily from a $224,000 (3%) decrease in ground equipment revenue due a slight decrease in commercial deicer sales, as discussed above in Overview.

Operating expenses decreased $151,000 (1%) to $14,828,000 for the three-month period ended June 30, 2007 compared to its equivalent 2006 period. The more significant components of this decrease are an $80,000 decrease in ground operating expenses as a result of the current quarter's decrease in customer revenues and a $53,000 decrease in depreciation and amortization. The Company adopted FASB Statement 123(R) in fiscal 2007, which resulted in an increase in general and administrative expense of $87,000 and $31,000 during the three-month periods ended June 30, 2007 and 2006, respectively.

Non-operating income, net, was $6,000 for the three-month period ended June 30, 2007 compared to $51,000 in the equivalent 2006 period. Interest expense relating to inventory flooring, increased by $53,000, accounting for the majority of the change.

Pretax earnings decreased $183,000 for the three-month period ended June 30, 2007 compared to 2006, principally due to the above stated ground equipment segment's decreased sales, the effects of FASB Statement 123(R), and the change in interest expense.

During the three-month period ended June 30, 2007, the Company recorded $347,000 income tax expense, which resulted in an estimated annual tax rate of 35.7%, compared to 37.1% for the comparable prior year period. 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 and to a lesser extent, permanent tax differences.

Liquidity and Capital Resources

As of June 30, 2007 the Company's working capital amounted to $12,690,000, a decrease of $35,000 compared to March 31, 2007. The change was a combination of increases in cash and cash equivalents and inventory and decreases in accounts receivable, accounts payable and accrued expenses. The changes were all in the ordinary course of business and relate to the timing of collection and payment of certain accounts.

In August 2006, the Company amended its $7,000,000 secured long-term revolving credit line to extend its expiration date to August 31, 2008. The revolving credit line contains customary events of default, a subjective acceleration clause and restrictive covenants that, among other matters, require the Company to maintain certain financial ratios. There is no requirement for the Company to maintain a lock-box arrangement under this agreement. As of June 30, 2007, the Company was in compliance with all of the restrictive covenants. 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, 2007, $5,748,000 was available under the terms of the credit facility and no amounts were outstanding. The credit facility is secured by substantially all of the Company's assets.

Amounts advanced under the credit facility bear interest at the 30-day "LIBOR" rate plus 137 basis points. The LIBOR rate at June 30, 2007 was 5.32%. The Company is exposed to changes in interest rates on certain portions of its line of credit. If the LIBOR interest rate had been increased by one percentage point, based on the average balance of the line of credit for the quarter ended June 30, 2007, annual interest expense would not have changed.

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.

The respective three-month periods ended June 30, 2007 and 2006 resulted in the following changes in cash flow: operating activities provided $2,213,000 and $3,542,000 in 2007 and 2006, respectively, investing activities used $101,000 and $34,000 in 2007 and 2006, respectively, and financing activities used $1,192,000 and $453,000 in 2007 and 2006, respectively. Net cash increased $920,000 and $3,055,000 during the three-months ended June 30, 2007 and 2006, respectively.

Cash provided by operating activities was $1,329,000 less for the three-months ended June 30, 2007 compared to the similar 2006 period, principally due to decreased accounts receivable collections.

Cash used in investing activities for the three-months ended June 30, 2007 was approximately $67,000 more than the comparable period in 2006 due to increased current period capital expenditures.

Cash used in financing activities was $739,000 more in the 2007 three-month period than in the corresponding 2006 period principally due to a $280,000 decrease in the current period line of credit borrowings and $547,000 used in the stock repurchase program.

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 2007.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 ("SFAS 157"), *Fair Value Measurements*. SFAS 157 establishes a framework for measuring fair value within generally accepted accounting principles, clarifies the definition of fair value within the framework, and expands disclosures about the use of fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not determined the impact of adopting SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* ("SFAS 159"). SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007, and is effective for the Company April 1, 2008. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value that are not currently required to be measured at fair value. Accordingly, companies would then be required to report unrealized gains and losses on these items in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company has not determined the impact of adopting SFAS 159 on its consolidated financial statements.

Deferred Retirement Obligation

Contractual death benefits for the Company's former Chairman and Chief Executive Officer who passed away on April 18, 1997 are payable by the Company in the amount of $75,000 per year for 10 years from the date of his death. As of June 30, 2007, all benefits owing under this contract have been paid.

Impact of Inflation

The Company believes that the recent increases in inflation have not had a material effect on its manufacturing 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.

Quantitative and qualitative disclosures about market risk are included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

As of the end of the period covered by this report, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this report. Based upon, and as of the date of that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that management will be timely alerted to material information required to be included in the Company's periodic reports filed with the Commission.

There were no changes in the Company's internal control over financial reporting during or subsequent to the first quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that while the Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that the Company's disclosure controls and procedures provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within
the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. 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 its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to legal proceedings and claims that arise in the ordinary course of their business. For a description of material pending legal proceedings, see Note 9 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report, which is incorporated by reference into this item.

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

On November 10, 2006, the Company announced that its Board of Directors authorized a program to repurchase in aggregate up to $2,000,000 of the Company's common stock from time to time on the open market. The program has no specified termination date. The following table summarizes the Company's share repurchase activity for the

three-month period ended June 30, 2007.

AIR T PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares | (b) Average Price Paid per Share purchased | (c) Total Number of Shares Purchased as Part of Publicly Announced Plan | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan |
|---|---|---|---|---|
| April 1, 2007 to April 30, 2007 | 39,050 | $ 8.11 | 39,050 | $ 396,000 |
| May 1, 2007 to May 31, 2007 | 27,342 | 8.03 | 27,342 | 177,000 |
| June 1, 2007 to June 30, 2007 | 1,300 | 8.29 | 1,300 | 166,000 |
| Total | 67,692 | $ 8.08 | 67,692 | $ 166,000 |

Item 6. Exhibits

(a) Exhibits

| No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001 |
| 3.2 | By-laws of the Company, as amended, incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996 |
| 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 |
| 31.1 | Certification of Walter Clark |
| 31.2 | Certification of John Parry |
| 32.1 | Section 1350 Certification |

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.

By: /s/ Walter Clark
Walter Clark, Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2007

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

Date: August 8, 2007

AIR T, INC.
EXHIBIT INDEX

| Exhibit Number | Document |
|---|---|
| 31.1 | Certification of Walter Clark |
| 31.2 | Certification of John Parry |
| 32.1 | Section 1350 certification |