

AIR T INC
Form 10-K
June 03, 2011

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

FORM 10-K

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 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)

Securities registered pursuant to Section 12(b) of the Act:
Title of Class Name of Each Exchange on Which Registered
Common Stock, par value \$0.25 per share The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.

Yes _____ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes _____ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No _____

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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

The aggregate market value of voting stock held by non-affiliates of the registrant based upon the closing price of the common stock on September 30, 2010 was approximately \$20,823,000. As of June 1, 2011, 2,446,286 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the Company's definitive proxy statement for its 2011 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

AIR T, INC. AND
SUBSIDIARIES
2011 ANNUAL REPORT ON
FORM 10-K
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PART I

Item 1. Business.

Air T, Inc. (the “Company”) was incorporated under the laws of the State of Delaware in 1980 and operates wholly owned subsidiaries in three industry 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 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.

For the fiscal year ended March 31, 2011, the Company’s overnight air cargo segment accounted for 51% of the Company’s consolidated revenues, the ground equipment sales segment accounted for 39% of consolidated revenues and the ground support services segment accounted for 10% of consolidated revenues. The Company’s overnight air cargo services are provided primarily to one customer, FedEx Corporation (“FedEx”). Certain financial data with respect to the Company’s three segments are set forth in Note 15 of Notes to Consolidated Financial Statements included under Part II, Item 8 of this report.

The principal place of business of the Company and MAC is 3524 Airport Road, Maiden, North Carolina; the principal place of business of CSA is Iron Mountain, Michigan and the principal place of business for GGS and GAS is Olathe, Kansas. The Company maintains an Internet website at <http://www.airt.net> and posts links to its SEC filings on its website.

Overnight Air Cargo Services.

MAC and CSA provide small package overnight airfreight delivery services on a contract basis throughout the eastern half of the United States and the Caribbean. MAC and CSA’s revenues are derived principally pursuant to “dry-lease” service contracts with FedEx. Under the dry-lease service contracts, FedEx leases its aircraft to MAC and CSA for a nominal amount and pays a monthly administrative fee to MAC and CSA to operate the aircraft. Under these contracts, all direct costs related to the operation of the aircraft (including fuel, outside maintenance, landing fees and pilot costs) are passed through to FedEx without markup.

As of March 31, 2011, MAC and CSA had an aggregate of 81 aircraft under agreements with FedEx. Separate agreements cover the three types of aircraft operated by MAC and CSA for FedEx -- Cessna Caravan, ATR-42 and ATR-72. Pursuant to such agreements, FedEx determines the schedule of routes to be flown by MAC and CSA. For the fiscal year ended March 31, 2011, MAC’s routes were primarily in the southeastern United States and the Caribbean and CSA’s routes were primarily in the upper Midwest region of the United States. In addition to the 81 aircraft under agreements with FedEx, MAC is in the process of performing heavy maintenance on three additional ATR-72 aircraft that FedEx purchased during our second quarter of fiscal 2011.

Agreements with FedEx are renewable on two to five-year terms and may be terminated by FedEx 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. Revenues from MAC and CSA’s contracts with FedEx accounted for approximately 51% and 48% of the Company’s consolidated revenue for the fiscal years ended March 31, 2011 and 2010, respectively. Loss of FedEx as a customer would have a material adverse effect on the Company. FedEx has been a customer of the Company since 1980. MAC and CSA are not contractually precluded from providing services to other parties and MAC occasionally provides third-party maintenance services to other

airline customers and the U. S. military.

MAC and CSA operate under separate aviation certifications. MAC is certified to operate under Part 121, Part 135 and Part 145 of the regulations of the Federal Aviation Administration (the "FAA"). These certifications permit MAC to operate and maintain aircraft that can carry up to 18,000 pounds of cargo and provide maintenance services to third party operators. CSA is certified to operate and maintain aircraft under Part 135 of the FAA regulations. This certification permits CSA to operate aircraft with a maximum cargo capacity of 7,500 pounds.

MAC and CSA, together, operated the following FedEx-owned cargo aircraft as of March 31, 2011:

Type of Aircraft	Model Year	Form of Ownership	Number of Aircraft
Cessna Caravan 208B (single turbo prop)	1985-1996	Dry lease	65
ATR-42 (twin turbo prop)	June 14, 1905	Dry lease	10
ATR-72 (twin turbo prop)	June 14, 1905	Dry lease	6
			81

The schedule above compares with 80 and 82 aircraft operated as of March 31, 2010 and 2009, respectively. The schedule above does not include the three additional ATR-72 aircraft that FedEx recently purchased and on which MAC is currently performing heavy maintenance to prepare them for freight operation.

The Cessna Caravan 208B aircraft are maintained on FAA approved inspection programs. The inspection intervals range from 100 to 200 hours. The current overhaul period on the Cessna aircraft is 7,500 hours.

The ATR-42 and ATR-72 aircraft are maintained under a FAA Part 121 maintenance program. The program consists of A and C service checks as well as calendar checks ranging from weekly to 12 years in duration. The engine overhaul period is “on condition”.

The Company operates in a niche market within a highly competitive contract cargo carrier market. MAC and CSA are two of seven carriers that operate within the United States as FedEx feeder carriers. MAC and CSA are benchmarked against the other five FedEx feeders, based on safety, reliability, compliance with Federal, state and applicable foreign regulations, price and other service related measurements. Accurate industry data is not available to indicate the Company’s position within its marketplace (in large measure because all of the Company’s direct competitors are privately held), but management believes that MAC and CSA, combined, constitute the largest contract carrier of the type described immediately above.

FedEx conducts periodic audits of CSA and MAC, and these audits are an integral part of the relationship between the carrier and FedEx. The audits test adherence to the Aircraft Dry Lease and Service Agreement and assess the carrier’s overall internal control environment, particularly as related to the processing of invoices of FedEx-reimbursable costs. The scope of these audits typically extends beyond simple validation of invoice data against the third-party supporting documentation. The audit teams generally investigate the operator’s processes and procedures for strong internal control procedures. The Company believes satisfactory audit results are critical to maintaining its relationship with FedEx. The audits conducted by FedEx are not designed to provide any assurance with respect to the Company’s financial statements, and investors, in evaluating the Company’s financial statements, may not rely in any way on any such examination of the Company or any of its subsidiaries.

The Company’s overnight air cargo operations are not materially seasonal.

Aircraft Deicer and Other Specialized Industrial Equipment Products.

In August 1997, the Company organized GGS and acquired the Simon Deicer Division of Terex Aviation Ground Equipment. GGS is located in Olathe, Kansas and manufactures, sells and services aircraft ground support and other specialized equipment sold to domestic and international passenger and cargo airlines, ground handling companies, the United States Air Force (“USAF”), airports and industrial customers. Since its inception, GGS has diversified its product line to include additional models of aircraft deicers, scissor-type lifts, military and civilian decontamination units, flight-line tow tractors, glycol recovery vehicles and other specialized types of equipment. In the fiscal year ended March 31, 2011, sales of deicing equipment accounted for approximately 80% of GGS’s revenues, compared to 77% in the prior fiscal year.

In the manufacture of its ground service equipment, GGS assembles components acquired from third-party suppliers. Components are readily available from a number of different suppliers. The primary components for mobile deicing equipment are the chassis (which is a commercial medium or heavy-duty truck), fluid storage tanks, a boom system, fluid delivery system and heating equipment. The price of these components is influenced by raw material costs, principally high-strength steels and stainless steel. GGS utilizes continuous improvements and other techniques to improve efficiencies and designs to minimize product price increases to its customers, to respond to regulatory changes, such as emission standards, and to incorporate technological improvements to enhance the efficiency of GGS's products. Improvements include the development of single operator mobile deicing units to replace units requiring two operators, a patented premium deicing blend system and a more efficient forced-air deicing system.

GGS manufactures five basic models of mobile deicing equipment with capacities ranging from 700 to 2,800 gallons. GGS also offers 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, glycol recovery vehicles and other special purpose mobile equipment.

GGS competes primarily on the basis of the quality and reliability of its products, prompt delivery, service and price. The market for aviation ground service equipment is highly competitive and directly related to the financial health of the aviation industry, weather patterns and changes in technology.

GGS's mobile deicing equipment business has historically been seasonal. The Company has continued its efforts to reduce GGS's seasonal fluctuation in revenues and earnings by broadening its international and domestic customer base and its product line. In June 1999, GGS was awarded a four-year contract to supply deicing equipment to the 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 2010, the first option period under the contract was exercised, extending the contract to July 2011. For the year ended March 31, 2011, no deicer units have been delivered to the USAF under this contract. GGS' backlog at March 31, 2011 includes \$4.9 million of deicers ordered by the USAF under the terms of this contract.

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. GGS backlog at March 31, 2011 includes one pre-production unit under this contract, and no units have yet been delivered to the USAF under this contract.

Revenue from GGS's contract with the USAF accounted for approximately 1% and 21% of the Company's consolidated revenue for the fiscal years ended March 31, 2011 and 2010, respectively.

In November 2010, GGS was awarded a contract to provide \$10.5 million of deicing trucks and training simulators to the City of Charlotte, North Carolina, for use at the Charlotte Douglas International Airport. As of March 31, 2011, GGS had delivered \$9.3 million of units under the contract with the remainder delivered in the first quarter of fiscal 2012.

Ground Support Equipment and Airport Facility Maintenance Services.

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. A key component of the GAS business has been a three-year contract with Delta Airlines (successor to Northwest Airlines) which was to expire in December 2010. In July 2010, after a highly competitive bidding process, GAS was notified of changes to its contract with Delta, which has resulted in a significant reduction in the scope of work performed for Delta, which principally began in September 2010. The services that were reduced, which include 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. Accordingly, the Company has experienced significant reductions in revenue and profitability of GAS in the last two quarters as these reductions have become effective.

Approximately 41% of GAS's revenue in the fiscal year ended March 31, 2011 was derived from services under contract with Delta Airlines, compared to approximately 64% in the fiscal year ended March 31, 2010.

GAS is a relatively new provider in its industry segment and competes primarily on the basis of the quality, reliability and pricing of its services. The market for ground support equipment and airport facility maintenance services is highly competitive and directly related to the financial health of the aviation industry.

GAS's maintenance service business is not materially seasonal.

Backlog.

The Company's backlog consists of "firm" orders supported by customer purchase orders for the equipment and services sold by GGS. At March 31, 2011, the Company's backlog of orders was \$9.6 million, all of which the Company expects to be filled in the fiscal year ending March 31, 2012. At March 31, 2010, the Company's backlog of orders was \$1.3 million.

Governmental Regulation.

The Department of Transportation ("DOT") has the authority to regulate economic issues affecting air service. The DOT has authority to investigate and institute proceedings to enforce its economic regulations, and may, in certain circumstances, assess civil penalties, revoke operating authority and seek criminal sanctions.

In response to the terrorist attacks of September 11, 2001, Congress enacted the Aviation and Transportation Security Act ("ATSA") of November 2001. ATSA created the Transportation Security Administration ("TSA"), an agency within the DOT, to oversee, among other things, aviation and airport security. In 2003, TSA was transferred from the DOT to the Department of Homeland Security but the basic mission and authority of TSA remain unchanged. ATSA provided for the federalization of airport passenger, baggage, cargo, mail, and employee and vendor screening processes.

Under the Federal Aviation Act of 1958, as amended, the FAA has safety jurisdiction over flight operations generally, including flight equipment, flight and ground personnel training, examination and certification, certain ground facilities, flight equipment maintenance programs and procedures, examination and certification of mechanics, flight routes, air traffic control and communications and other matters. The Company has been subject to FAA regulation since the commencement of its business activities. The FAA is concerned with safety and the regulation of flight operations generally, including equipment used, ground facilities, maintenance, communications and other matters. The FAA can suspend or revoke the authority of air carriers or their licensed personnel for failure to comply with its regulations and can ground aircraft if questions arise concerning airworthiness. The FAA also has power to suspend or revoke for cause the certificates it issues and to institute proceedings for imposition and collection of fines for violation of federal aviation regulations. The Company, through its subsidiaries, holds all operating airworthiness and other FAA certificates that are currently required for the conduct of its business, although these certificates may be suspended or revoked for cause. The FAA periodically conducts routine reviews of MAC and CSA's operating procedures and flight and maintenance records.

The FAA has authority under the Noise Control Act of 1972, as amended, to monitor and regulate aircraft engine noise. The aircraft operated by the Company are in compliance with all such regulations promulgated by the FAA. Moreover, because the Company does not operate jet aircraft, noncompliance is not likely. Such aircraft also comply with standards for aircraft exhaust emissions promulgated by the Environmental Protection Agency pursuant to the Clean Air Act of 1970, as amended.

Because of the extensive use of radio and other communication facilities in its aircraft operations, the Company is also subject to the Federal Communications Act of 1934, as amended.

Maintenance and Insurance.

The Company, through its subsidiaries, is required to maintain the aircraft it operates under the appropriate FAA and manufacturer standards and regulations.

The Company has secured public liability and property damage insurance in excess of minimum amounts required by the United States Department of Transportation. The Company has also obtained all-risk hull insurance on Company-owned aircraft.

The Company maintains cargo liability insurance, workers' compensation insurance and fire and extended coverage insurance for leased as well as owned facilities and equipment. In addition, the Company maintains product liability insurance with respect to injuries and loss arising from use of products sold and services provided by GGS and GAS.

Employees.

At March 31, 2011, the Company and its subsidiaries had 433 full-time and full-time-equivalent employees. None of the employees of the Company or any of its subsidiaries are represented by labor unions. The Company believes its relations with its employees are good.

Item 1A Risk Factors.

The following risk factors, as well as other information included in the Company's Annual Report on Form 10-K, should be considered by investors in connection with any investment in the Company's common stock. As used in this Item, the terms "we," "us" and "our" refer to the Company and its subsidiaries.

Risks Related to Our Dependence on Significant Customers

We are significantly dependent on our contractual relationship with FedEx Corporation, the loss of which would have a material adverse effect on our business, results of operations and financial position.

In the fiscal year ended March 31, 2011, 51% of our consolidated operating revenues, and 100% of the operating revenues for our overnight air cargo segment, arose from services we provided to FedEx. Our agreements with FedEx are renewable on two to five-year terms and may be terminated by FedEx at any time upon 30 days' notice. FedEx has been a customer of the Company since 1980. The loss of these contracts with FedEx would have a material adverse effect on our business, results of operations and financial position.

Because of our dependence on FedEx, we are subject to the risks that may affect FedEx's operations.

Because of our dependence on FedEx, we are subject to the risks that may affect FedEx's operations. These risks are discussed in "Management's Discussion and Analysis of Results of Operations and Financial Condition—Risk Factors" in FedEx Corporation's Annual Report on Form 10-K for the fiscal year ended May 31, 2010. These risks include but are not limited to the following:

- Economic conditions in the global markets in which it operates;
- Dependence on its strong reputation and value of its brand;

-

Labor organizations' attempt to organize groups of their employees and potential changes in labor laws that could make it easier for them to do so;

- Heavy reliance upon technology, including the internet;
 - The price and availability of fuel;
- Intense competition from other providers of transportation services, especially during the current global recession;
- Regulatory actions affecting global aviation rights or a failure to obtain or maintain aviation rights in important international markets;
- The impact of any international conflicts or terrorist activities on the United States and global economies in general, the transportation industry in particular, and what effects these events will have on the cost and demand for its services;

- Any impacts on its business resulting from new domestic or international government laws and regulation, including regulatory actions affecting aviation rights, security requirements, tax, accounting, environmental or labor rules;
 - Widespread outbreak of an illness or other communicable disease or any other public health crisis; and
 - Adverse weather conditions or natural disasters.