AIR T INC
Form 10-K
June 02, 2014

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, 2014

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 x
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 x
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 x 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 Companyx
(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     Nox

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, 2013 was approximately $21,263,000. As of May 31, 2014, 2,355,028 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the Company's definitive proxy statement for its 2014 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

AIR T, INC. AND SUBSIDIARIES
2014 ANNUAL REPORT ON FORM 10-K
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PART IV

# 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. In March 2014, the Company formed Space Age Insurance Company (“SAIC”), a captive insurance company licensed in Utah. SAIC insures risks of the Company and its subsidiaries that were not previously insured by the various Company insurance programs; and underwrites third-party risk through certain reinsurance arrangements. The activities of SAIC are included within the corporate results in the accompanying financial statements.

For the fiscal year ended March 31, 2014, the Company’s overnight air cargo segment accounted for 52% of the Company’s consolidated revenues, the ground equipment sales segment accounted for 31% of consolidated revenues and the ground support services segment accounted for 17% 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 16 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, the principal place of business for GGS is Olathe, Kansas and the principal place of business for GAS is Eagan, Minnesota. 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, 2014, MAC and CSA had an aggregate of 80 aircraft under agreement 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, 2014, 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. Included within the 80 aircraft are four Cessna Caravan aircraft that are considered soft-parked. Soft-parked aircraft remain covered under MAC and CSA’s agreements with FedEx although at a reduced administrative fee compared to aircraft that are in operation. MAC and CSA continue to perform maintenance on soft-parked aircraft, but they are not crewed and MAC and CSA do not operate soft-parked aircraft on scheduled routes.

Agreements with FedEx are renewable on one-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 52% and 48% of the Company's consolidated revenue for the fiscal years ended March 31, 2014 and 2013, respectively. The 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. As reported in our Form 10-K for the year ended March 31, 2013, we had been in the process of negotiating replacement agreements with FedEx, but the contract negotiations had been put on hold. The contract negotiations have recently resumed and are in the early stages. The terms of the new agreements may differ from the terms of our current agreements, which may affect our results going forward.

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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, 2014:

| Type of Aircraft | Model Year | Form of Ownership | Number of Aircraft |
|---|---|---|---|
| Cessna Caravan 208B (single turbo prop) | 1985-2012 | Dry lease | 63 |
| ATR-42 (twin turbo prop) | 1992 | Dry lease | 9 |
| ATR-72 (twin turbo prop) | 1992 | Dry lease | 8 |
| | | | 80 |

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, 2014, sales of deicing equipment accounted for approximately 65% of GGS's revenues, compared to 58% 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, flight-line tow tractors, 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 2013, the fourth and final option period under the contract was exercised, extending the contract to July 2014. For the year ended March 31, 2014, GGS revenues included $290,000 of deicer unit sales to the USAF under this contract ($7,598,000 for the year ended March 31, 2013.) At March 31, 2014 there were outstanding orders totaling $3 million under this contract. On May 15, 2014, GGS was awarded a new contract to supply deicing trucks to the USAF. The initial contract award is for two years through July 13, 2016 with four additional one-year extension options that may be exercised by the USAF.

In September 2010, GGS was awarded a contract to supply flight-line tow tractors to the USAF. The contract award was for one year commencing September 28, 2010 with four additional one-year extension options that may be exercised by the USAF. In August 2013, the third option period under the contract was exercised, extending the contract to September 2014. For the year ended March 31, 2014, GGS revenues included $777,000 of flight-line tow tractor sales to the USAF under this contract ($7,705,000 for the year ended March 31, 2013.) GGS's backlog at March 31, 2014 includes $2.4 million of units ordered by the USAF under this contract.

Because these contracts with the USAF do not obligate the USAF to purchase a set or minimum number of units, the value of these contracts, as well as the number of units to be delivered, depends upon the USAF's requirements and available funding. Revenue from GGS's two contracts with the USAF accounted for approximately 1% and 15% of the Company's consolidated revenue for the fiscal years ended March 31, 2014 and 2013, respectively.

Ground Support Equipment, Fleet and Facility Maintenance Services.

GAS was formed in September 2007 to operate the aircraft ground support equipment (“GSE”), fleet and facility maintenance services business of the Company. At March 31, 2014, GAS was providing GSE, fleet and facility maintenance services to more than 50 customers at 30 North American airports.

Approximately 16% and 18%, respectively, of GAS’s revenue in the fiscal years ended March 31, 2014 and 2013, was derived from services under contract with Delta Airlines. Approximately 36% and 37%, respectively, of GAS’s revenue in the fiscal years ended March 31, 2014 and 2013, was derived from services under contract with LSG SkyChefs. The LSG SkyChefs contract is subject to renewal in July 2014.

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, 2014, the Company's backlog of orders was $14.4 million, all of which the Company expects to be filled in the fiscal year ending March 31, 2015. At March 31, 2013, the Company's backlog of orders was $6.5 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.

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The Company maintains cargo liability insurance, workers' compensation insurance and fire and extended coverage insurance for owned and leased 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.

In March 2014, the Company formed SAIC as a captive insurance company to insure risks of the Company and its subsidiaries that were not previously insured by the various Company insurance programs including but not limited to, the risk of the loss of key customers and contracts, administrative actions and regulatory changes.

Employees.

At March 31, 2014, the Company and its subsidiaries had 576 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 this 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, 2014, 52% 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 one-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.

Our current contracts extend through October 31, 2014. In the prior year, we had reported that we were in the process of negotiating replacement agreements with FedEx but FedEx had put the contract negotiations on hold. The contract negotiations have recently resumed and are in the early stages. We do expect the replacement agreements to be negotiated and put into effect at some point in the future. The terms of the replacement agreements may differ from the terms of our current agreements, which may affect our results of operations going forward.

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, 2013. 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;
- Potential disruption to the Internet and FedEx's technology infrastructure, including customer websites;
- The price and availability of fuel;
- Its ability to manage its assets, including aircraft, to match shifting and future shipping volumes;
- Intense competition from other providers of transportation and business services;

- Its ability to make prudent strategic acquisitions and realize the expected benefits;
- Its ability to maintain good relationships with its employees and prevent attempts by labor organizations to organize groups of its employees;
- Its ability to execute on its business realignment program to improve profitability;
- The impact of terrorist activities including the imposition of stricter governmental security requirements;
- Regulatory actions affecting global aviation rights or a failure to obtain or maintain aviation rights in important international markets;
- Global climate change or legal, regulatory or market responses to such change;
- Localized natural or man-made disasters in key locations, including its Memphis, Tennessee super-hub;
- Disruptions or modifications in service by the Unites States Postal Service, a significant customer and vendor of FedEx; and
- Widespread outbreak of an illness or other communicable disease or any other public health crisis.

A material reduction in the aircraft we fly for FedEx could materially adversely affect on our business and results of operations.

Under our agreements with FedEx, we are not guaranteed a number of aircraft or routes we are to fly. Our compensation under these agreements, including our administrative fees, depends on the number of aircraft leased to us by FedEx. Any material permanent reduction in the aircraft we operate could materially adversely affect our business and results of operations. A temporary reduction could materially adversely affect our results of operations for that period.

Our ground support services segment has been dependent upon the revenues from two significant customers, the loss of which could materially impact the segment’s results.

In the fiscal year ended March 31, 2014, approximately 52% of GAS’s revenues were derived from services under contracts with two customers. The contract with one of these customers is subject to renewal in July 2014. The loss of these customers, or a major decline in business activity with these customers, could materially adversely impact the results of the segment.

Other Business Risks

Our revenues for aircraft maintenance services fluctuate based on the heavy maintenance check schedule, which is based on aircraft usage, for aircraft flown by our overnight air cargo operations.

Our maintenance revenues are affected based on the level of heavy maintenance checks performed on aircraft operated by our overnight air cargo operations which is affected by the level of usage of the aircraft. Accordingly, our maintenance revenues fluctuate from period to period. In addition, if the number of aircraft operated for FedEx were to decrease, we would likely experience fewer maintenance hours and consequently, less maintenance revenue.

Incidents or accidents involving products and services that we sell may result in liability or otherwise adversely affect our operating results for a period.

Incidents or accidents may occur involving the products and services that we sell. While we maintain products liability and other insurance in amounts we believe are customary and appropriate, and may have rights to pursue subcontractors in the event that we have any liability in connection with accidents involving products that we sell, it is possible that in the event of multiple accidents the amount of our insurance coverage would not be adequate.

The suspension or revocation of FAA certifications could have a material adverse effect on our business, results of operations and financial condition.

Our overnight air cargo operations are subject to regulations of the FAA. 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. Our overnight air cargo subsidiaries, MAC and CSA, operate under separate FAA certifications. Although it is possible that, in the event that the certification of one of our subsidiaries was suspended or revoked, flights operated by that subsidiary could be transferred to the other subsidiary, we can offer no assurance that we would be able to transfer flight operations in that manner. Accordingly, the suspension or revocation of any one of these certifications could have a material adverse effect our business, results of operations and financial position. The suspension or revocation of all of these certifications would have a material adverse effect on our business, results of operations and financial position.

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Sales of deicing equipment can be affected by weather conditions.

Our deicing equipment is used to deice commercial and military aircraft. The extent of deicing activity depends on the severity of winter weather. Mild winter weather conditions permit airports to use fewer deicing units, since less time is required to deice aircraft in mild weather conditions. As a result, airports may be able to extend the useful lives of their existing units, reducing the demand for new units.

Risks Related to Ownership of Our Common Stock

Various provisions and laws could delay or prevent a change of control.

Certain provisions of our certificate of incorporation and bylaws and provisions of Delaware corporation law could delay or prevent a change of control or may impede the ability of the holders of our common stock to change our management. In particular, our certificate of incorporation and bylaws, among other things regulate how shareholders may present proposals or nominate directors for election at shareholders' meetings and authorize our board of directors to issue preferred stock in one or more series, without shareholder approval.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company leases the Little Mountain Airport in Maiden, North Carolina from a corporation whose stock is owned in part by William H. Simpson, an officer and director of the Company, John Gioffre, a director of the Company and the estate of David Clark, of which, Walter Clark, the Company's former Chief Executive Officer and a former director, is a co-executor and beneficiary, and Allison Clark, a former director, is a beneficiary. The facility consists of approximately 68 acres with one 3,000 foot paved runway, approximately 20,000 square feet of hangar space and approximately 12,300 square feet of office space. The operations of the holding company and MAC are headquartered at this facility. The lease for this facility provided for monthly rent of $14,428 through May 31, 2014. A new lease amendment was entered into in May 2014 increasing the monthly rent to $14,862 and extending the lease through January 31, 2018. The amendment also provides for three additional two-year option periods through January 31, 2024. The lease agreement provides that the Company shall be responsible for maintenance of the leased facilities and for utilities, taxes and insurance.

The Company also leases approximately 1,950 square feet of office space and approximately 4,800 square feet of hangar space at the Ford Airport in Iron Mountain, Michigan. CSA's operations are headquartered at these facilities which are leased from a third party under an annually renewable agreement.

The Company leases approximately 53,000 square feet of a 66,000 square foot aircraft maintenance facility located in Kinston, North Carolina under an agreement that extends through January 2018. This lease is cancelable under certain conditions at the Company's option. The Company currently considers the lease to be cancelable and has calculated rent expense under the current lease term.

GGS leases an 112,500 square foot production facility in Olathe, Kansas. The facility is leased from a third party under a lease agreement, which expires in August 2019.

As of March 31, 2014, the Company leased hangar, maintenance and office space from third parties at a variety of other locations, at prevailing market terms. The table of aircraft presented in Item 1 lists the aircraft operated by the Company's subsidiaries and the form of ownership.

Item 3. Legal Proceedings.

The Company and its subsidiaries are subject to legal proceedings and claims that arise in the ordinary course of their business.

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Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is publicly traded on the NASDAQ Stock Market under the symbol "AIRT."

As of March 31, 2014, the number of holders of record of the Company's Common Stock was 204. The range of high and low sales price per share for the Company's common stock on the Nasdaq Stock Market from April 1, 2012 through March 31, 2014 is as follows:

| | Fiscal Year Ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | High | Low | High | Low |
| First Quarter | $ 10.49 | $ 9.00 | $ 9.77 | $ 8.03 |
| Second Quarter | 11.80 | 9.70 | 8.88 | 7.76 |
| Third Quarter | 12.18 | 10.76 | 8.80 | 8.08 |
| Fourth Quarter | 12.99 | 11.16 | 9.69 | 8.31 |

On May 18, 2012, the Company declared a cash dividend of $0.25 per common share and, on May 13, 2013, the Company declared a cash dividend of $0.30 per common share. The Company's Board of Directors in May 2014 adopted a policy to discontinue the payment of a regularly scheduled annual cash dividend.

On May 14, 2014, the Company announced that its Board of Directors had authorized a program to repurchase up to 750,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, in compliance with SEC Rule 10b-18, over an indefinite period.

Item 6. Selected Financial Data.

(In thousands, except per share amounts)

| | Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| Statements of Operations Data: | | | | | |
| Operating revenues | $ 100,772 | $ 103,064 | $ 89,382 | $ 83,362 | $ 81,077 |
| | | | | | |
| Net income | 1,467 | 1,670 | 1,350 | 2,138 | 3,757 |
| | | | | | |
| Basic earnings per share | 0.61 | 0.68 | 0.55 | 0.88 | 1.55 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted earnings per share | 0.60 | 0.68 | 0.55 | 0.87 | 1.54 |
| Dividend declared per share | 0.30 | 0.25 | 0.25 | 0.33 | 0.33 |
| Balance sheet data (at period end): | | | | | |
| Total assets | 37,221 | 36,055 | 35,083 | 34,221 | 29,604 |
| Long-term debt, including current portion | - | - | - | 8 | 21 |
| Stockholders' equity | 27,360 | 28,124 | 27,053 | 26,241 | 24,901 |

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Item 7. 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:

| (Dollars in thousands) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year Ended March 31, | | | | | | | |
| | | 2014 | | | | 2013 | | |
| Overnight Air Cargo Segment: | | | | | | | | |
| FedEx | $ | 52,342 | 52 | % | $ | 49,851 | 48 | % |
| Ground Equipment Sales Segment: | | | | | | | | |
| Military | | 1,115 | 1 | % | | 15,413 | 15 | % |
| Commercial - Domestic | | 24,813 | 25 | % | | 17,102 | 17 | % |
| Commercial - International | | 5,582 | 5 | % | | 7,779 | 7 | % |
| | | 31,510 | 31 | % | | 40,294 | 39 | % |
| Ground Support Services Segment | | 16,920 | 17 | % | | 12,919 | 13 | % |
| | $ | 100,772 | 100 | % | $ | 103,064 | 100 | % |

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. These pass through costs totaled $33,076,000 and $30,561,000 for the years ended March 31, 2014 and 2013, respectively. These agreements are renewable on one-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.

As of March 31, 2014, MAC and CSA had an aggregate of 80 aircraft under agreement 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. Included within the 80 aircraft are four Cessna Caravan aircraft that are considered soft-parked. Soft-parked aircraft remain covered under our agreements with FedEx although at a reduced administrative fee compared to aircraft that are in operation. MAC and CSA continue to perform maintenance on soft-parked aircraft, but they are not crewed and do not operate on scheduled routes.

GGS manufactures and supports aircraft deicers and other specialized 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 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, 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.

On July 15, 2009, the Company announced that GGS had been awarded a new contract to supply deicing trucks to the United States Air Force (“USAF”). The contract award was for one year with four additional one-year extension options that may be exercised by the USAF. In June 2013, the fourth and final option period under the contract was exercised, extending the contract to July 2014. On May 15, 2014, GGS was awarded a new contract to supply deicing trucks to the USAF. The initial contract award is for two years through July 13, 2016 with four additional one-year extension options that may be exercised by the USAF.

In September 2010, GGS was awarded a contract to supply flight-line tow tractors to the USAF. The contract award was for one year commencing September 28, 2010 with four additional one-year extension options that may be exercised by the USAF. In August 2013, the third option period under the contract was exercised, extending the contract to September 2014.

Because these contracts with the USAF do not obligate the USAF to purchase a set or minimum number of units, the value of these contracts, as well as the number of units to be delivered, depends upon the USAF’s requirements and available funding.

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 29 locations throughout the country.

In March 2014, the Company formed Space Age Insurance Company (“SAIC”), a captive insurance company licensed in Utah, and initially capitalized with $250,000. SAIC insures risks of the Company and its subsidiaries that were not previously insured by the Company’s insurance programs; and underwrites third-party risk through certain reinsurance arrangements. The activities of SAIC are included within the corporate results in the accompanying financial statements. SAIC is structured as a single parent captive hybrid that both insures the risks of its affiliated entities and businesses, and for greater risk diversification and catastrophic risk coverage, participates in a reinsurance pool, which is arranged and administered by Artex Risk Solutions, Inc., a subsidiary of Arthur J. Gallagher & Co.

Fiscal 2014 Summary

Revenues for our overnight air cargo segment totaled $52,342,000 for the year ended March 31, 2014, representing a $2,491,000 (5%) increase over the prior year. The segment saw its operating income decrease by $949,000 or 31% in fiscal 2014. While revenues were up primarily as a result of an increase in maintenance costs passed through to our customer at cost, operating income decreased as a result of a number of factors including FedEx transferring two ATR aircraft to other operators to meet scheduling needs during the past year, increased maintenance labor costs as well as increased rent and repair costs at its heavy maintenance facility.

Revenues for GGS totaled $31,510,000 for the year ended March 31, 2014, a decrease of $8,784,000 (22%) from the prior year, while operating income increased by $1,509,000 or 170%. The decrease in GGS revenues is attributable to a $6.9 million decrease in sales of flight-line tow tractors and a $7.3 million decrease in sales of deicers under the contracts with the USAF, offset partially by a $5.3 million increase in sales of commercial deicers. Gross margins improved approximately eight percentage points in the segment compared to the prior year as a result of continuing efforts to improve production efficiencies and a change in the product and customer mix, specifically a substantial reduction in the sale of very low margin flight-line tow tractors to the USAF.

During the year ended March 31, 2014, revenues from our GAS subsidiary totaled $16,920,000, representing a $4,001,000 (31%) increase from the prior year.  The segment also saw its operating income increase by $214,000 or 25% in fiscal 2014.  These increases in revenues and operating income are the result of the addition of new customers and locations as this segment continues to build its revenue base.  The segment margin has decreased slightly as a result of increases in management salaries and related infrastructure costs.

In November 2013, the Company entered into a Severance Agreement and Release with Walter Clark which provided for Mr. Clark's resignation as President and Chief Executive Officer of the Company and from the Board of Directors of the Company. The Company agreed to pay Mr. Clark all unpaid salary, vacation pay and expenses as of the effective date of his resignation, incentive compensation pursuant to his Employment Agreement with respect to the fiscal year ending March 31, 2014 (calculated as 2% of eligible pretax earnings prorated for the fiscal year ending March 31, 2014) to be paid in June 2014, and a lump sum severance payment of $565,680 as provided by Mr. Clark's Employment Agreement. The Company also agreed to purchase all of the 93,758 shares of Company stock held by Mr. Clark at a price of $11.50 per share or $1,078,216. In addition, the Company agreed to repurchase 50,000 stock options from Mr. Clark for $160,500. All of these amounts were paid to Mr. Clark in November 2013 with the exception of the incentive compensation of $36,000 which will be paid in June 2014.

Fiscal 2014 vs. 2013

Consolidated revenue decreased $2,292,000 (2%) to $100,772,000 for the fiscal year ended March 31, 2014 compared to the prior fiscal year. The decrease in 2014 revenue resulted from the significant decrease in GGS revenues partially offset by smaller increases in GAS and overnight air cargo revenues.

Revenues in the overnight air cargo segment increased $2,491,000 (5%) to $52,342,000, principally due to increases in maintenance operating costs passed through to our air cargo customer at cost.

Revenues in the ground equipment sales segment decreased by $8,784,000 (22%) to $31,510,000 in fiscal 2014. The decrease in GGS revenues is attributable to a $6.9 million decrease in sales of flight-line tow tractors and a $7.3 million decrease in sales of deicers under the contracts with the USAF, offset partially by a $5.3 million increase in sales of commercial deicers.

Revenues in the ground support services segment increased by $4,001,000 (31%) to $16,920,000, resulting from an increase in new customers as well as an increase in work and locations for existing customers.

Operating expenses on a consolidated basis decreased $2,197,000 (2%) to $98,139,000 for fiscal 2014 compared to fiscal 2013. The decrease was due to a number of offsetting factors. Operating expenses in the overnight air cargo segment were up $3,239,000 (8%) over the prior year. Of the segment's $46,398,000 of operating costs in the current year, $33,076,000 was costs passed through to our air cargo customer without markup. In addition, MAC has experienced increased maintenance labor costs as well as increased rent and repair costs at its main maintenance facility, resulting in the higher costs this year. Finally, MAC operated two fewer ATR aircraft than in the prior year resulting in decreased pass-through costs to our air cargo customer. Ground equipment sales operating costs decreased $10,431,000 (30%) compared to the 22% decrease in sales. Gross margins improved approximately eight percentage points in the segment as a result of continuing efforts to improve production efficiencies and a change in the product and customer mix, specifically a substantial reduction in the sale of very low margin flight-line tow tractors to the USAF. Operating expenses in the ground support services segment increased by $3,263,000 (32%) driven principally by the current year's 31% increase in revenues. General and administrative expense increased $1,540,000 (14%) to $12,843,000 in fiscal 2014. The Company paid the $566,000 severance payment to Mr. Clark in the current year, representing the most significant increase from the prior year. The Company incurred increased general and administration costs in the ground support services segment of $547,000 relating to staffing costs, rents and other operating costs, and supply costs associated with new stations and increased business in fiscal 2014. The Company also experienced increases in bad debts, employee benefits, professional fees and shareholder expenses in fiscal 2014.

Operating income for the year ended March 31, 2014 was $2,633,000, a $95,000 (4%) decrease from fiscal 2013. While operating income was only down marginally, there were large swings in the various segments. The ground equipment sales segment saw the largest change in operating income increasing by 170% over the prior year as a result of the dramatic improvement in margins. The ground support services segment also saw a more modest increase in its operating income resulting from its continued growth in revenues. The overnight air cargo segment saw a decrease in its operating income this year resulting from increasing expenses and reduced revenue aircraft.

Non-operating income, net for the year ended March 31, 2014 was $26,000, a $24,000 increase from fiscal 2013 resulting from gain on the sale of marketable securities and increased investment income on surplus cash.

During the year ended March 31, 2014, the Company recorded $1,192,000 in income tax expense, which resulted in an estimated annual tax rate of 44.8%, compared to the rate of 38.8% for the prior year. 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. The current period rate is higher due primarily to the true up of prior year state income taxes. In addition, during the year ended March 31, 2014, the Company settled an IRS examination for the year ended March 31, 2011 and paid additional federal tax of $62,000, which increased the income tax provision for the year ended March 31, 2014 by that amount.

Net earnings of $1,467,000 or $0.60 per diluted share, for the year ended March 31, 2014 have declined from the prior year results largely due to the increased provision for income taxes driven by the higher tax rate in the current year related to the prior year state tax true up.

Liquidity and Capital Resources

As of March 31, 2014, the Company held approximately $3.8 million in cash and cash equivalents. Of this amount, $2,500,000 was invested in accounts not insured by the Federal Deposit Insurance Corporation ("FDIC"), including approximately $1,500,000 held in a money market fund and $1,000,000 invested in uninsured demand debt obligations of Duke Energy Corporation.

As of March 31, 2014, the Company's working capital amounted to $22,133,000, a decrease of $534,000 compared to March 31, 2013.

The Company has a $7,000,000 secured long-term revolving credit line with an expiration date of August 31, 2015. 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 March 31, 2014. The Company had no outstanding obligations under its line of credit at March 31, 2014 and 2013. See Note 7 in the consolidated financial statements, included elsewhere in this report, for further discussion.

The Company is exposed to changes in interest rates on its line of credit. Although the line had no outstanding balance at March 31, 2014 and 2013, the line of credit did have a weighted average balance outstanding of approximately $52,000 during the year ended March 31, 2014. If the LIBOR interest rate had been increased by one percentage point, based on the weighted average balance outstanding for the year, the change in annual interest expense would have been negligible.

Following is a table of changes in cash flow for the respective years ended March 31, 2014 and 2013:

| | Year Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | | |
| Net Cash (Used in) Provided by Operating Activities | $ (555,000 ) | $ 4,362,000 |
| Net Cash Used in Investing Activities | (2,703,000) | (367,000 ) |
| Net Cash Used in Financing Activities | (2,181,000) | (612,000 ) |
| | | |
| Net (Decrease) Increase in Cash and Cash | $ (5,439,000) | $ 3,383,000 |

Equivalents

Cash provided by operating activities was $4,917,000 less in fiscal 2014 compared to fiscal 2013. The most significant factor was inventories which increased substantially during the current year reflecting the significant increase in order backlog compared to the prior year while inventories had declined significantly in the prior year as a result of focus on reducing inventories from substantially higher levels. This change was somewhat offset by related movements in accounts payable related to inventories. An additional offsetting factor was accounts receivable which decreased during the current year while increasing in the prior year.

Cash used in investing activities was $2,336,000 more in fiscal 2014 due to a $1,735,000 increase in the purchase of marketable securities in the current fiscal year, offset by proceeds of $275,000 from the sale of marketable securities. In addition, capital expenditures increased by $908,000 in fiscal 2014 compared to the prior year, largely as a result of $788,000 of additions to leased equipment in the current year.

Cash used by financing activities was $1,569,000 more in fiscal 2014, than in the corresponding prior year period due primarily to $1,078,000 paid to repurchase the former Chief Executive Officer's common stock, $395,000 paid to repurchase stock options and a $122,000 increase in the annual cash dividend paid to shareholders, offset by $25,000 received from the exercise of stock options.

There are currently no commitments for significant capital expenditures. In May 2014, the Company's Board of Directors adopted a policy to discontinue the payment of a regularly scheduled annual cash dividend.

Off-Balance Sheet Arrangements

The Company defines an off-balance sheet arrangement as any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a Company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity, or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging, or research and development arrangements with the Company. The Company is not currently engaged in the use of any of these arrangements.

Impact of Inflation

The Company believes that inflation has 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 overnight 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 by its customer. Significant increases in inflation rates could, however, have a material impact on future revenue and operating income.

Seasonality

GGS's business has historically been seasonal. The Company had worked 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 United States Air Force ("USAF"), and subsequently was awarded two three-year extensions on the contract, which expired in June 2009. In July 2009, GGS was awarded a one-year contract with the USAF with four additional one-year extension options which have been exercised. On May 15, 2014, GGS was awarded a new two-year contract with four additional one-year extension options to continue to supply deicing trucks to the USAF. Although GGS has retained the USAF deicer contract, orders under the expiring contract have decreased to the point where USAF revenues were less than 4% of GGS revenues in the year ended March 31, 2014. As a result, GGS revenues and operating income are once again seasonal in nature, particularly with regard to commercial deicers which typically are delivered prior to the winter season, with revenues and operating income for the segment typically being lower in the first and fourth fiscal quarters. The overnight air cargo and ground support services segments are not susceptible to seasonal trends.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are more fully described in Note 1 of Notes to the Consolidated Financial Statements in Item 8. The preparation of the Company's consolidated 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 parts 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 as actual warranty cost becomes known.

Income Taxes. Income taxes have been provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

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.

Recent Accounting Pronouncements

We do not believe there are any recently issued accounting standards that have not yet been adopted that will have a material impact on the Company's financial statements.

Forward Looking Statements

Certain statements in this Report, including those contained in "Overview," are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the Company's financial condition, results of operations, plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words "believes", "pending", "future", "expects," "anticipates," "estimates," "de or similar expressions. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements, because of, among other things, potential risks and uncertainties, such as:

- Economic conditions in the Company's markets;
- The risk that contracts with FedEx could be terminated or adversely modified in connection with any renewal;
- The risk that the number of aircraft operated for FedEx will be further reduced;
- The risk that the United States Air Force will continue to defer significant orders for deicing equipment under its contracts with GGS;
- The impact of any terrorist activities on United States soil or abroad;
-

The Company’s ability to manage its cost structure for operating expenses, or unanticipated capital requirements, and match them to shifting customer service requirements and production volume levels;

- The risk of injury or other damage arising from accidents involving the Company’s overnight air cargo operations, equipment sold by GGS or services provided by GAS;

    - Market acceptance of the Company’s new commercial and military equipment and services;

- Competition from other providers of similar equipment and services;
- Changes in government regulation and technology;
- Mild winter weather conditions reducing the demand for deicing equipment.

A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. We are under no obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Air T, Inc. and Subsidiaries

Maiden, North Carolina

We have audited the accompanying consolidated balance sheets of Air T, Inc. and subsidiaries (the "Company") as of March 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Air T, Inc. and subsidiaries as of March 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dixon Hughes Goodman LLP

Charlotte, North Carolina

June 2, 2014

AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | Year Ended March 31, 2014 | 2013 |
|---|---|---|
| Operating Revenues: | | |
| Overnight air cargo | $ 52,341,439 | $ 49,850,693 |
| Ground equipment sales | 31,510,192 | 40,294,093 |
| Ground support services | 16,920,414 | 12,919,453 |
| | 100,772,045 | 103,064,239 |
| | | |
| Operating Expenses: | | |
| Flight-air cargo | 20,679,970 | 20,016,194 |
| Maintenance-air cargo | 25,718,067 | 23,142,553 |
| Ground equipment sales | 24,580,644 | 35,011,452 |
| Ground support services | 13,588,522 | 10,325,812 |
| General and administrative | 12,843,507 | 11,303,067 |
| Depreciation and amortization | 752,412 | 532,770 |
| Loss (gain) on sale of property and equipment | (23,617) | 4,363 |
| | 98,139,505 | 100,336,211 |
| | | |
| Operating Income | 2,632,540 | 2,728,028 |
| | | |
| Non-operating Income: | | |
| Gain on sale of marketable securities | 10,954 | - |
| Other investment income, net | 15,142 | 1,832 |
| | 26,096 | 1,832 |
| | | |
| Income Before Income Taxes | 2,658,636 | 2,729,860 |
| | | |
| Income Taxes | 1,192,000 | 1,060,000 |
| | | |
| Net Income | 1,466,636 | 1,669,860 |
| | | |
| Other Comprehensive Income, net of tax | | |
| Unrealized loss from marketable securities | | |
| (net of $3,000 tax effect) | (7,780) | - |
| Total Other Comprehensive Income | (7,780) | - |
| | | |
| Comprehensive Income | $ 1,458,856 | $ 1,669,860 |
| | | |
| Earnings Per Share: | | |
| Basic | $ 0.61 | $ 0.68 |
| | | |
| Diluted | $ 0.60 | $ 0.68 |

| | | | | |
|---|---|---|---|---|
| Dividends Declared Per Share | $ | 0.30 | $ | 0.25 |
| | | | | |
| Weighted Average Shares Outstanding: | | | | |
| Basic | | 2,414,184 | | 2,446,286 |
| Diluted | | 2,433,058 | | 2,454,368 |

See notes to consolidated financial statements.

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AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | | March 31, 2014 | | March 31, 2013 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ | 3,758,888 | $ | 9,197,492 |
| Marketable securities | | 1,460,518 | | - |
| Accounts receivable, less allowance for doubtful accounts of $150,000 and $66,000 | | 10,247,179 | | 11,687,515 |
| Notes and other receivables-current | | 1,628,875 | | 145,485 |
| Income tax receivable | | 761,000 | | 287,000 |
| Inventories | | 12,239,469 | | 8,181,700 |
| Deferred income taxes | | 210,000 | | 410,000 |
| Prepaid expenses and other | | 845,595 | | 619,128 |
| Total Current Assets | | 31,151,524 | | 30,528,320 |
| | | | | |
| Property and Equipment, net | | 3,986,174 | | 3,472,539 |
| | | | | |
| Cash Surrender Value of Life Insurance Policies | | 1,887,611 | | 1,781,185 |
| Notes and Other Receivables-LongTerm | | 59,611 | | 158,276 |
| Other Assets | | 135,727 | | 114,270 |
| Total Assets | $ | 37,220,647 | $ | 36,054,590 |
| | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ | 6,426,056 | $ | 5,741,371 |
| Accrued expenses | | 2,592,534 | | 2,120,000 |
| Total Current Liabilities | | 9,018,590 | | 7,861,371 |
| | | | | |
| Deferred Income Taxes | | 842,000 | | 69,000 |
| | | | | |
| Stockholders' Equity: | | | | |
| Preferred stock, $1.00 par value, 50,000 shares authorized | | - | | - |
| Common stock, $.25 par value; 4,000,000 shares authorized, 2,355,028 and 2,446,286 shares issued and outstanding | | 588,756 | | 611,571 |
| Additional paid-in capital | | 4,855,093 | | 6,321,411 |
| Retained earnings | | 21,923,988 | | 21,191,237 |
| | | (7,780) | | - |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive income (loss), net | | | | |
| Total Stockholders' Equity | | 27,360,057 | | 28,124,219 |
| Total Liabilities and Stockholders' Equity | $ | 37,220,647 | $ | 36,054,590 |

See notes to consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 1,466,636 | $ 1,669,860 |
| Adjustments to reconcile net income to net | | |
| cash (used in) provided by operating activities: | | |
| Gain on sale of marketable securities | (10,954) | - |
| Loss (gain) on sale of property and equipment | (23,617) | 4,363 |
| Change in accounts receivable and inventory reserves | 49,745 | (25,570) |
| Depreciation and amortization | 752,412 | 532,770 |
| Change in cash surrender value of life insurance | (106,426) | (97,513) |
| Deferred income taxes | 911,000 | 25,000 |
| Warranty reserve | 357,350 | 184,000 |
| Compensation expense related to stock options | 23,198 | 13,000 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 1,355,998 | (2,692,701) |
| Notes receivable and other non-trade receivables | (1,384,725) | (48,002) |
| Inventories | (4,023,176) | 4,590,984 |
| Prepaid expenses and other assets | (247,923) | 139,799 |
| Accounts payable | 684,685 | (258,227) |
| Accrued expenses | 115,184 | |