AIR T INC
Form 10-K
June 16, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark one)
X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2008

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)

Delaware52-1206400
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(828) 464 –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 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.
Yes No 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 market value of voting stock held by non-affiliates of the registrant based upon the closing price of the common stock on September 28, 2007 was $24,840,937. As of June 6, 2008, 2,423,506 shares of common stock were outstanding.

1

AIR T, INC. AND SUBSIDIARIES
2008 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

PART I

Item 1. Business.

Air T, Inc., incorporated under the laws of the State of Delaware in 1980 (the “Company”), operates in two industry segments, providing overnight air cargo services to the air express delivery industry through its wholly owned subsidiaries, Mountain Air Cargo, Inc. (“MAC”) and CSA Air, Inc. (“CSA”), and aviation ground support and other specialized equipment products and services to passenger and cargo airlines, airports and the military through its wholly owned subsidiaries, Global Ground Support, LLC (“GGS”) and Global Aviation Services, LLC (“GAS”).

For the fiscal year ended March 31, 2008, the Company’s air cargo services through MAC and CSA accounted for approximately 50% of the Company’s consolidated revenues and the aviation ground support and other specialized equipment products and services through GGS and GAS accounted for the other 50% of consolidated revenues. The Company’s air cargo services are provided primarily to one customer, FedEx Corporation (“FedEx”). Certain financial data with respect to the Company’s overnight air cargo and ground support equipment 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, 2008, MAC and CSA had an aggregate of 89 aircraft under agreements with FedEx. Separate agreements cover the four types of aircraft operated by MAC and CSA for FedEx -- Cessna Caravan, ATR-42, ATR-72 and Fokker F-27. Pursuant to such agreements, FedEx determines the schedule of routes to be flown by MAC and CSA. For the fiscal year ended March 31, 2008, 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. MAC’s routes in South America were discontinued during fiscal 2008 as FedEx assigned larger aircraft for those routes. MAC has also owned and operated two Short Brothers SD3-30 aircraft for a number of years. Operation of these two aircraft was discontinued in fiscal 2008 and the two aircraft and all related parts and inventories are being marketed for sale.

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. 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. The Company is not contractually precluded from providing such services to other firms and does occasionally provide third party maintenance services to other airline customers and the 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 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 cargo aircraft as of March 31, 2008:

Type of Aircraft	Model Year	Form of Ownership	Number of Aircraft
Cessna Caravan 208B (single turbo prop)	1985-1996	dry lease	72
Fokker F-27 (twin turbo prop)	1968-1985	dry lease	1
ATR-42 (twin turbo prop)	1992	dry lease	11
ATR-72 (twin turbo prop)	1992	dry lease	5
Total			89

All of the cargo aircraft in the fleet are owned by FedEx and operated by MAC and CSA under the above described dry-lease service contracts.

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 Fokker F-27 aircraft is maintained under a FAA Part 121 maintenance program. The program consists of A, B, C, D and I service checks which are inspections designed to ensure the Company's maintenance procedures are in compliance with the applicable FAA regulations. The engine overhaul period is 6,700 hours. This aircraft is being phased out as part of a recent fleet modernization program, which brought on the more modern ATR aircraft.

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. 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 most of the Company's 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 air cargo operations are not materially seasonal.

Aircraft Deice, Other Ground Support and Other Specialized Industrial Equipment Products and Services.

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 U.S. Air Force and Navy, 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 and other specialized types of equipment. In the fiscal year ended March 31, 2008, sales of deicing equipment accounted for approximately 82% of GGS's revenues.

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 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. Recent improvements include the development of single operator mobile deicing units to replace units requiring two operators, a premium deicing blend system for which GGS has applied for a patent 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 provides fixed-pedestal-mounted deicers. Each model can be customized as requested by the customer, including the addition of twin engine deicing systems, single operator configuration, fire suppressant equipment, modifications for open or enclosed cab design, a patented forced-air deicing nozzle to substantially reduce glycol usage, color and style of the exterior finish. GGS also manufactures four models of scissor-lift equipment, for catering, cabin service and maintenance service of aircraft, and has developed a line of decontamination equipment and other special purpose mobile equipment. In addition to manufacturing the above-mentioned equipment, GGS also maintains and services aviation ground support equipment at four locations in the United States.

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.

GAS was formed in September 2007 to operate the ground support equipment and airport facility maintenance services business of the Company. GAS is in the process of finalizing a three-year maintenance services contract with a large domestic airline. Under its existing arrangement with this airline, GAS is providing ground support equipment and airport facility maintenance services at a number of locations. Operations and revenues were minimal in the second quarter as the operation was in start up mode, but operations ramped up during the third and fourth quarters and were at full staffing levels by the end of the fiscal year. Currently, GAS supports airport maintenance facilities at 13 domestic airports and supports 15 additional airports through traveling technicians. GAS has eight customers and over 60 technicians, with additional growth opportunities in 2009. Revenues for GAS for the period from inception to year-end totaled approximately $2,800,000.

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 United States Air Force. The contract was extended for two additional three-year periods, and is scheduled to expire in June 2009.

Revenue from GGS's contract with the U.S. Air Force accounted for approximately 20% and 24% of the Company's consolidated revenue for the years ended March 31, 2008 and 2007, respectively.

Backlog.

The Company's backlog for its continuing operations consists of "firm" orders supported by customer purchase orders for the equipment sold by GGS. At March 31, 2008, the Company's backlog of orders was $25.3 million, all of which the Company expects to be filled in the fiscal year ending March 31, 2009. At March 31, 2007, the Company's backlog of orders was $16.8 million.

5

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, however 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, maintains its aircraft under the appropriate FAA 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, 2008, the Company and its subsidiaries had 460 full-time and full-time-equivalent employees, of which 23 are employed by the Company, 228 are employed by MAC, 58 are employed by CSA, 72 are employed by GGS and 79 are employed by GAS. 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, 2008, 50% of our consolidated operating revenues, and 99% 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.

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, 2007. These risks include:

- Economic conditions in the global markets in which it operates;
- Any impacts on its business resulting from new domestic or international government regulation, including regulatory actions affecting aviation rights, security requirements, tax, accounting, environmental or labor rules;
- The price and availability of fuel;
- 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;
- Dependence on its strong reputation and value of its brand;
- Reliance upon technology, including the internet;
- Competition from other providers of transportation services, including its ability to compete with new or improved services offered by its competitors;
- The impact of technology developments on its operations and on demand for its services; and
- Adverse weather conditions or natural disasters.

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.

If our agreement with the United States Air Force expires in June 2009 as scheduled, and is not extended or renewed, we may be unable to replace revenues from sales of ground equipment to the United States Air Force and seasonal patterns of this segment of our business may re-emerge.

In the fiscal years ended March 31, 2008 and 2007, approximately 20% and 24%, respectively, of our operating revenues arose from sales of deicing equipment to the United States Air Force under a long-term contract. This initial four-year contract, awarded in 1999, was extended for two additional three-year periods, and is scheduled to expire in June 2009. We cannot provide any assurance that this agreement will be extended beyond its current 2009 expiration date. In the event that this agreement is not extended, our revenues from sales of ground support equipment may decrease unless we are successful in obtaining customer orders from other sources and we cannot assure you that we will be able to secure orders in that quantity or for the fully-equipped models of equipment sold to the Air Force. In addition, sales of deicing equipment to the Air Force, has enabled us to ameliorate the seasonality of our ground equipment business. Thus if the contract with the Air Force is not extended, seasonal patterns for this business may re-emerge.

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 fluctuate based on the level of heavy maintenance checks performed on aircraft operated by our air cargo operations.

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 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 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.

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.

Item 1B.Unresolved Staff Comments.

Not applicable.

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, and the estate of David Clark, of which, Walter Clark, the Company’s chairman and Chief Executive Officer, is a co-executor and beneficiary, and Allison Clark, a 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 Company and MAC are headquartered at this facility. The lease for this facility extended through May 31, 2008 at a monthly rental payment of $12,737. The lease agreement includes an option permitting the

Company to renew the lease for an additional two-year period which the Company exercised on April 16, 2008, with the new monthly rental amount of $13,437. 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.

On November 16, 1995, the Company entered into a twenty-one and one-half year premises and facilities lease with Global TransPark Foundation, Inc. to lease approximately 53,000 square feet of a 66,000 square foot aircraft hangar shop and office facility at the North Carolina Global TransPark in Kinston, North Carolina. 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 a 112,500 square foot production facility in Olathe, Kansas. The facility is leased, from a third party, under a three-year lease agreement, which expires in August 2009. The monthly rental payment, as of March 31, 2008, was $34,589 and the monthly rental will increase to no more than $34,689 over the life of the lease, based on increases in the Consumer Price Index.

As of March 31, 2008, the Company leased hangar 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. For a description of material pending legal proceedings, see Note 16 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report, which is incorporated herein by reference.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Registrant's Common Equity and Related Stockholder Matters.

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

As of March 31, 2008 the number of holders of record of the Company's Common Stock was 266. The range of high and low sales price per share for the Company's common stock on the Nasdaq Stock Market from April 2006 through March 2008 is as follows:

	Common Stock	
	High	Low
June 30, 2006	$ 12.00	$ 10.99
September 30, 2006	11.09	7.95
December 31, 2006	10.50	8.56
March 31, 2007	9.30	7.53
June 30, 2007	$ 11.15	$ 7.82
September 30, 2007	10.48	7.95
December 31, 2007	10.18	8.83
March 31, 2008	12.34	8.60

The Company's Board of Directors has adopted a policy to pay a regularly scheduled annual cash dividend in the first quarter of each fiscal year. On May 20, 2008, the Company declared a fiscal 2008 cash dividend of $0.30 per common share payable on June 27, 2008 to stockholders of record on June 6, 2008.

On November 10, 2006, the Company announced that its Board of Directors authorized a program to repurchase in aggregate up to $2,000,000 of the Company's common stock from time to time on the open market. The program was successfully completed for the full amount from November 2006 to August 2007.

Item 6. Selected Financial Data.
(In thousands except per share data)

	Year Ended March 31,				
	2008	2007	2006	2005	2004
Statements of Operations Data:					
Operating revenues	$ 78,399	$ 67,303	$ 79,529	$ 69,999	$ 55,997
Earnings from continuing operations	3,402	2,486	2,055	2,106	2,164
Loss from discontinued operations	-	-	-	-	(426)

Net earnings		3,402		2,486		2,055		2,106		1,738
Basic and diluted earnings per share										
Continuing operations	$	1.40	$	0.94	$	0.77	$	0.79	$	0.80
Discontinued operations		-		-		-		-		(0.16)
Total basic and diluted net earnings per share	$	1.40	$	0.94	$	0.77	$	0.79	$	0.64
Dividend paid per common share	$	0.25	$	0.25	$	0.25	$	0.20	$	-
Balance sheet data (at period end):										
Total assets	$	27,308	$	24,615	$	23,923	$	24,109	$	19,574
Long-term debt, including current portion	$	643	$	798	$	950	$	1,245	$	279
Stockholders' equity	$	17,715	$	15,449	$	14,500	$	13,086	$	11,677

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company operates in two 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 segment, comprised of its Global Ground Support, LLC ("GGS") and Global Aviation Services, LLC ("GAS") subsidiaries, provides aviation ground support and other specialized equipment products and services to passenger and cargo airlines, airports, the military and industrial customers. Each business segment has separate management teams and infrastructures that offer different products and services.

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

	Year ended March 31,					
	2008			2007		
Overnight Air Cargo Segment:						
FedEx	$	38,918	50%	$	36,091	54%
Other Maintenance		358	-		-	-
	$	39,276	50%	$	36,091	54%
Ground Equipment Segment:						
Military		15,523	20%		16,342	24%
Commercial - Domestic		20,889	27%		12,709	19%
Commercial - International		2,711	3%		2,161	3%
		39,123	50%		31,212	46%
	$	78,399	100%	$	67,303	100%

MAC and CSA are short-haul express airfreight carriers and provide air cargo services to one primary customer, FedEx Corporation ("FedEx"). MAC will also on occasion provide maintenance services to other airline customers and the military. Under the terms of dry-lease service agreements, which currently cover all of the 89 revenue aircraft, the Company receives a monthly administrative fee based on the number of aircraft operated and passes through to its customer certain cost components of its operations without markup. The cost of fuel, flight crews, landing fees, outside maintenance, parts and certain other direct operating costs are included in operating expenses and billed to the customer as cargo and maintenance revenue, at cost. Pursuant to such agreements, FedEx determines the type of aircraft and schedule of routes to be flown by MAC and CSA, with all other operational decisions made by the Company. These agreements are renewable on two to five-year terms and may be terminated by FedEx at any time upon 30 days' notice. The Company believes that the short term and other provisions of its agreements with FedEx are standard within the airfreight contract delivery service industry. FedEx has been a customer of the Company since 1980. Loss of its contracts with FedEx would have a material adverse effect on the Company.

MAC and CSA's combined revenues increased by $3,185,000 (9%) in fiscal 2008. The increase in revenues was primarily related to flight and maintenance department costs passed through to its customer at cost as well as increased maintenance labor revenue. The air cargo segment's operating income for fiscal 2008 was $2,599,000 compared to $1,717,000 in fiscal 2007, a 53% increase, largely a result of increased maintenance activity and rates.

GGS and GAS manufacture, service and support aircraft deicers and ground support equipment and other specialized industrial equipment on a worldwide basis. The combined GGS and GAS revenues increased by $7,911,000 (25%) in fiscal 2008. In fiscal 2008, GGS and GAS combined revenues were 50% of consolidated revenues compared to 46% in fiscal 2007. This percentage has increased significantly from 30% in fiscal 2003 and this trend shows the increasing significance of the ground equipment segment to the consolidated results of the Company. Revenues in 2008 were affected by a significant increase in the number of deicer units sold in fiscal 2008. The start up of GAS also contributed additional sales revenue of $2,800,000 in fiscal 2008. The ground segment operating income for fiscal 2008 was $5,063,000, a 12% increase over fiscal 2007 segment operating income of $4,506,000.

In June 1999, GGS was awarded a four-year contract to supply deicing equipment to the United States Air Force. In June 2003 GGS was awarded a three-year extension of that contract and a further three-year extension was awarded in June 2006. In fiscal 2008, revenues from sales to the Air Force were down by 5% and accounted for approximately 40% of the ground equipment segment's revenues (as compared to 52% in fiscal 2007).

The following table summarizes the changes and trends in the Company's operating expenses for continuing operations as a percentage of revenue:

	Fiscal year ended March 31,	
	2008	2007
Operating revenue (in thousands)	$ 78,399	$ 67,303
Expense as a percent of revenue:		
Flight operations	24.42%	26.55%
Maintenance	17.99	19.10
Ground Equipment	37.56	33.43
General and Administrative	12.97	14.19
Depreciation and Amortization	0.60	0.99
Total Costs and Expenses	93.54%	94.26%

Fiscal 2008 vs. 2007

Consolidated revenue from operations increased $11,095,000 (17%) to $78,399,000 for the fiscal year ended March 31, 2008 compared to the prior fiscal year. The increase in 2008 revenue resulted from an increase in air cargo revenue of $3,184,000 (9%) to $39,276,000 in fiscal 2008, combined with an increase in ground equipment revenue of $7,911,000 (25%) to $39,123,000. The increase in air cargo revenue was primarily the result of an increase in flight and maintenance department costs passed through to its customer at cost as well as increased maintenance labor revenue. Maintenance labor revenue was up as a result of increased maintenance hours due to an increase in scheduled maintenance events in fiscal 2008. In addition, the Company received approval from its customer for an 8.5% increase in its maintenance billable labor rate in June 2007 and an additional 4% increase in January 2008. These rate increases are provided periodically, as a means to offset increases in maintenance operating costs. The increase in ground equipment revenue was the result of a significant increase in the number of commercial deicers sold in fiscal 2008 compared to 2007 (principally in domestic markets), as well as increased parts, service and training income. The start up of GAS also contributed additional revenue of $2,800,000 in fiscal 2008.

Operating expenses on a consolidated basis increased $9,901,000 (16%) to $73,345,000 for fiscal 2008 compared to fiscal 2007. The increase in air cargo operating expenses consisted of the following changes: cost of flight operations increased $1,277,000 (7%) primarily as a result of increased direct operating costs, including pilot salaries and related benefits, fuel, airport fees, and costs associated with pilot travel and decreased administrative staffing due to flight schedule changes. Aircraft maintenance expenses increased $1,247,000 (10%) primarily as a result of increases in maintenance costs that are passed through to the customer at cost, the cost of contract services, maintenance personnel, travel, and outside maintenance. Ground equipment costs increased $6,948,000 (31%), which included increased cost of parts and supplies and labor related to the increased customer orders and sales by GGS in fiscal 2008 as well as labor and parts costs attributable to GAS operations which began in fiscal 2008.

General and administrative expense increased $622,000 (7%) to $10,172,000 in fiscal 2008. The most significant portion of this increase was $536,000 of general and administrative expense associated with the start up of the new GAS operations, which began in September 2007. Profit sharing expense also increased by $130,000 in fiscal 2008 in connection with the higher profits generated by the Company. The Company incurred compensation expense related to stock options of $333,000 in fiscal 2008 and $305,000 in fiscal 2007 as a result of adopting SFAS 123(R) Share-Based Payment ("SFAS 123(R)") at the beginning of the fiscal 2007.

Operating income for the year ended March 31, 2008 was $5,054,000, a $1,195,000 (31%) improvement over fiscal 2007. The improvement came from both segments of our business as increased maintenance hours and rates increased our operating income in the air cargo segment and additional sales revenues increased our operating income in the ground equipment segment.

Non-operating income, net for the year ended March 31, 2008 was $123,000, a $79,000 (182%) increase over fiscal 2007. Interest expense decreased by $39,000 due to decreased borrowing levels. This was offset by a $35,000 decrease in investment income, due to decreased rates on investments. Fiscal 2008 also included a $110,000 gain on the sale of investments as the Company divested treasury investments in mutual funds in connection with structuring a more conservative treasury portfolio.

Income tax expense of $1,774,000 in fiscal 2008 represented an effective tax rate of 34.3%, which included the benefit of municipal bond income as well as the full impact of the U.S. production deduction authorized under tax law changes enacted in fiscal 2005. Income tax expense of $1,416,000 in fiscal 2007 represented an effective tax rate of 36.3%, which included similar tax benefits, although the U. S. production deduction was being phased in during that year and provided a lesser benefit.

Net earnings were $3,402,000 or $1.40 per diluted share for the year ended March 31, 2008, a 37% improvement over $2,486,000 or $0.94 per diluted share in fiscal 2007. Of this increase, $0.11 per diluted share is attributable to the decrease in the weighted average shares outstanding from fiscal 2007 to 2008 as a result of the $2,000,000 share repurchase program commenced in November 2006 and completed in August 2007.

Liquidity and Capital Resources

As of March 31, 2008, the Company's working capital amounted to $15,100,000, an increase of $2,370,000 compared to March 31, 2007. The increase resulted from the increased earnings in fiscal 2008. The Company has also experienced a significant increase in accounts receivable at March 31, 2008 as a result of negotiated payment terms with certain commercial customers.

In September 2007, the Company amended its $7,000,000 secured long-term revolving credit line to extend its expiration date to August 31, 2009. The revolving credit line contains customary events of default, a subjective acceleration clause and restrictive covenants that, among other matters, require the Company to maintain certain financial ratios. There is no requirement for the Company to maintain a lock-box arrangement under this agreement. As of March 31, 2008, the Company was in compliance with all of the restrictive covenants. The amount of credit available to the Company under the agreement at any given time is determined by an availability calculation, based on the eligible borrowing base, as defined in the credit agreement, which includes the Company's outstanding receivables, inventories and equipment, with certain exclusions. At March 31, 2008, $7,000,000 was available under the terms of the credit facility. The credit facility is secured by substantially all of the Company's assets. Amounts advanced under the credit facility bear interest at the 30-day "LIBOR" rate plus 137 basis points. The LIBOR rate at March 31, 2008 was 3.11%. At March 31, 2008 and 2007 there were no outstanding balances on the credit line.

The Company is exposed to changes in interest rates on its line of credit. Although the line had no outstanding balance at March 31, 2008 and 2007, the line of credit did have a weighted average balance outstanding of approximately $508,000 during the year ended March 31, 2008. If the LIBOR interest rate had been increased by one percentage point, based on the weighted average balance outstanding for the year, annual interest expense would have increased by approximately $5,000.

In March 2004, the Company utilized its revolving credit line to acquire a corporate aircraft for $975,000. In April 2004, the Company refinanced the aircraft under a secured 4.35% fixed rate five-year term loan, based on a ten-year amortization with a balloon payment at the end of the fifth year.

Following is a table of changes in cash flow for the respective years ended March 31, 2008 and 2007:

	2008	2007
Net Cash Provided by Operating Activities	$ 277,000	$ 2,463,000
Net Cash Used In Investing Activities	(1,642,000)	(198,000)
Net Cash Used in Financing Activities	(1,478,000)	(2,072,000)
Net (Decrease) Increase in Cash	(2,844,000)	193,000

Cash provided by operating activities was $2,186,000 less for fiscal 2008 compared to fiscal 2007. Although earnings provided an increase of $916,000, this increase was offset by a significant increase in accounts receivable in fiscal 2008. Accounts receivable have increased at March 31, 2008 as a result of increased sales in the fourth quarter as well as negotiated payment terms with certain commercial customers. Cash used in investing activities for fiscal 2008 was approximately $1,444,000 more than fiscal 2007, due to increased capital expenditures in the current year largely due to the start-up of GAS as well as the purchase of short-term investments with available cash, offset partially by the sale of investments. Cash used by financing activities was $594,000 less in fiscal 2008 compared to fiscal 2007 principally due to less cash outlay under the stock repurchase plan. During the fiscal years ended March 31, 2008 and 2007 the Company repurchased shares of its common stock for $713,000 and $1,287,000, respectively.

There are currently no commitments for significant capital expenditures. The Company's Board of Directors, on August 7, 1997, adopted the policy to pay an annual cash dividend in the first quarter of each fiscal year, in an amount to be determined by the board. On May 20, 2008 the Company declared a $.30 per share cash dividend, to be paid on June 27, 2008 to shareholders of record June 6, 2008. On May 22, 2007 the Company declared a $.25 per share cash dividend, to be paid on June 29, 2007 to shareholders of record June 8, 2007.

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

Seasonality

GGS's business has historically been seasonal. The Company has continued its efforts to reduce GGS's seasonal fluctuation in revenues and earnings by increasing military and international sales and broadening its product line to increase revenues and earnings throughout the year. In June 1999, GGS was awarded a four-year contract to supply deicing equipment to the United States Air Force, and GGS has been awarded two three-year extensions on the contract. Although sales remain somewhat seasonal, this diversification has lessened the seasonal impacts and allowed the Company to be more efficient in its planning and production. The air cargo segment of business is 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 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 in the amount of $268,000 and $413,000, respectively, in fiscal 2008 and 2007, was established based on management's estimates of the collectability of accounts receivable. The required allowance is determined using information such as customer credit history, industry information, credit reports, customer financial condition and the collectability of outstanding accounts receivables. 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 in the amount of $908,000 and $664,000, respectively, in fiscal 2008 and 2007, 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. As of March 31, 2008 and 2007, the Company's warranty reserve amounted to $144,000 and $196,000, respectively.

Deferred Taxes. Deferred tax assets and liabilities, net of valuation allowance in the amount of $20,000 and $62,000, respectively, in fiscal 2008 and 2007, reflect the likelihood of the recoverability of these assets. Company judgment of the recoverability of these assets is based primarily on estimates of current and expected future earnings and tax planning.

Stock Based Compensation. The Company adopted Statement of Financial Accounting Standards No. 123(R), Accounting for Stock-Based Compensation ("SFAS 123(R)") as of April 1, 2006, using the modified prospective method of adoption, which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values over the requisite service period. The compensation cost we record for these awards is based on their fair value on the date of grant. The Company continues to use the Black Scholes option-pricing model as its method for valuing stock options. The key assumptions for this valuation method include the expected term of the option, stock price volatility, risk-free interest rate and dividend yield.

Retirement Benefits Obligation. The Company currently determines the value of retirement benefits assets and liabilities on an actuarial basis using a 4.0% discount rate (reduced from 5.75% in the prior year). Values are affected by current independent indices, which estimate the expected return on insurance policies and the discount rates used. Changes in the discount rate used will affect the amount of pension liability as well as pension gain or loss recognized in other comprehensive income.

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

15

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value within generally accepted accounting principles, clarifies the definition of fair value within the framework, and expands disclosures about the use of fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is effective for the Company April 1, 2008. The Company does not expect the adoption of SFAS 157 to have a material effect on its consolidated financial statements.

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

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs and restructuring costs. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008 (our 2010 fiscal year). This statement will impact the Company if we complete an acquisition after the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method will significantly change the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008 (our 2010 fiscal year). This statement will not impact the Company's current 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:

16

- Economic conditions in the Company's markets;
- The risk that contracts with FedEx could be terminated or that the U.S. Air Force will defer orders under its contract with GGS or that this contract will not be extended;
- 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 air cargo operations, equipment sold by GGS or services provided by GGS or 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 of

Air T, Inc.

Maiden, North Carolina

We have audited the accompanying consolidated balance sheets of Air T, Inc. and subsidiaries (the "Company") as of March 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit 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, 2008 and 2007, 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 PLLC

Charlotte, NC

June 11, 2008

AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended March 31,	
	2008	2007
Operating Revenues:		
Overnight air cargo	$ 39,275,518	$ 36,091,405
Ground equipment	39,123,288	31,211,940
	78,398,806	67,303,345
Operating Expenses:		
Flight-air cargo	19,146,933	17,870,347
Maintenance-air cargo	14,104,894	12,857,670
Ground equipment	29,449,125	22,500,712
General and administrative	10,171,711	9,549,908
Depreciation and amortization	472,455	665,818
	73,345,118	63,444,455
Operating Income	5,053,688	3,858,890
Non-operating Expense (Income):		
Interest expense	171,028	210,148
Investment income	(192,537)	(227,373)
Gain on sale of investments	(109,520)	-
Other	8,280	(26,271)
	(122,749)	(43,496)
Earnings Before Income Taxes	5,176,437	3,902,386
Income Taxes	1,774,000	1,416,340
Net Earnings	$ 3,402,437	$ 2,486,046
Basic and Diluted Net Earnings Per Share	$ 1.40	$ 0.94
Weighted Average Shares Outstanding:		
Basic and Diluted	2,435,195	2,650,121

See notes to consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2008	March 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 51,858	$ 2,895,499
Short-term investments	2,004,761	860,870
Accounts receivable, less allowance for doubtful accounts of $267,680 and $413,341	12,272,390	7,643,391
Notes and other non-trade receivables-current	48,334	68,730
Inventories	7,961,436	8,085,755
Deferred income taxes	736,000	729,150
Prepaid expenses and other	343,906	325,533
Total Current Assets	23,418,685	20,608,928
Property and Equipment, net	1,846,400	2,292,511
Deferred Income Taxes	422,000	165,737
Cash Surrender Value of Life Insurance Policies	1,368,442	1,296,703
Notes and Other Non-Trade Receivables-LongTerm	165,753	200,529
Other Assets	86,330	50,576
Total Assets	$ 27,307,610	$ 24,614,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 5,608,735	$ 5,304,022
Accrued expenses	2,530,945	2,236,106
Income taxes payable	58,000	194,840
Current portion of long-term obligations	121,478	144,684
Total Current Liabilities	8,319,158	7,879,652

Capital Lease and Other Obligations		59,996		77,702
Long-term Debt (less current portion)		461,384		575,204
Deferred Retirement Obligation		752,515		633,693
Stockholders' Equity:				
Preferred stock, $1.00 par value, 50,000 shares authorized,				
none issued or outstanding		-		-
Common stock, $.25 par value; 4,000,000 shares authorized,				
2,423,506 and 2,509,998 shares issued and outstanding		605,876		627,499
Additional paid in capital		5,700,002		6,058,070
Retained earnings		11,450,192		8,658,606
Accumulated other comprehensive income (loss), net		(41,513)		104,558
Total Stockholders' Equity		17,714,557		15,448,733
Total Liabilities and Stockholders' Equity	$	27,307,610	$	24,614,984

See notes to consolidated financial statements.

20

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

	Years Ended March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 3,402,437	$ 2,486,046
Adjustments to reconcile net earnings to net		
cash provided by operating activities:		
Gain on sale of investments	(109,520)	-
Change in accounts receivable and inventory reserves	98,183	144,768
Depreciation and amortization	472,455	665,818
Change in cash surrender value of life insurance	(71,739)	(65,222)
Deferred tax (benefit)	(170,000)	(169,566)
Periodic pension cost	10,280	13,211
Warranty reserve	77,000	123,000
Compensation expense related to stock options	333,195	305,436
Change in assets and liabilities which provided (used) cash:		
Accounts receivable	(4,483,339)	1,118,076
Notes receivable and other non-trade receivables	55,172	49,480
Inventories	331,940	(2,220,781)
Prepaid expenses and other	(54,127)	23,748
Accounts payable	304,713	(50,691)
Accrued expenses	217,864	(339,719)
Income taxes payable	(137,390)	379,136
Total adjustments	(3,125,313)	(23,306)
Net cash provided by operating activities	277,124	2,462,740
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,015,243	-
Purchase of investments	(2,179,731)	-
Capital expenditures	(477,808)	(197,925)
Net cash used in investing activities	(1,642,296)	(197,925)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net aircraft term loan payments	(119,853)	(104,352)

Net proceeds on line of credit		-		27,362
Payment of cash dividend		(610,851)		(667,823)
Payment on capital leases		(34,879)		(39,880)
Repurchase of common stock		(712,886)		(1,287,047)
Net cash used in financing activities		(1,478,469)		(2,071,740)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(2,843,641)		193,075
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,895,499		2,702,424
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	51,858	$	2,895,499
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Capital leases entered into during fiscal year	$	-	$	35,492
Change in fair value of marketable securities		130,117		58,070
Change in value of deferred retirement obligation		108,507		40,752
Tax benefit from stock option		-		60,000
Property and equipment transferred to inventory		451,464		493,345
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest	$	195,514	$	206,606
Income taxes		2,147,510		1,218,693
See notes to consolidated financial statements.				

AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders'
	Shares	Amount	Capital	Earnings		Equity
Balance, March 31, 2006	2,671,293	$ 667,823	$ 6,939,357	$ 6,840,383	$ 52,479	$ 14,500,042
Net earnings				2,486,046		
Other comprehensive income,						
net of tax					27,070	
Comprehensive Income						2,513,116
Adjustment to initially apply SFAS						