VIALTA INC
Form PREM14A
May 20, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant S Filed by a Party other than the Registrant

Check the appropriate box:

S Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Vialta, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

S Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $0.001 per share

(2) Aggregate number of securities to which transaction applies:

As of March 31, 2005, 51,043,665 outstanding shares of Common Stock, which includes vested options to acquire 2,146,167 shares of Common Stock at a per-share exercise price of less than $0.36. Outstanding shares excludes

32,039,840 shares held by Victory Acquisition Corp., which will be cancelled as of the effective time of the merger. Outstanding options excludes options held by Fred S.L. Chan, which will be cancelled as of the effective time of the merger and stapled options to purchase common stock of ESS Technology, Inc. (ESS Technology) and shares of Vialta s Common Stock which the company believes, based on the average strike price relative to the current price of ESS Technology common stock, will not be exercised.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The proposed maximum aggregate value of the transaction, for purposes only of calculating the filing fee, is $18,418,643, which is the sum of (a) the product of (i) the 51,043,665 shares of Common Stock that are proposed to be converted into the right to receive the merger consideration, multiplied by (ii) the merger consideration of $0.36 per share of Common Stock, plus (b) the product of (i) 2,146,167, the number of shares of Common Stock underlying vested options to purchase such shares at a per-share exercise price of less than $0.36, multiplied by (ii) the amount by which the per-share merger consideration of $0.36 exceeds the $0.34 per share weighted average exercise price of such options. The filing fee equals the proposed maximum aggregate value of the transaction multiplied by .0001177. Outstanding shares excludes 32,039,840 shares held by Victory Acquisition Corp., which will be cancelled as of the effective time of the merger. Outstanding options excludes options held by Fred S.L. Chan, which will be cancelled as of the effective time of the merger and stapled options to purchase common stock of ESS Technology and shares of Vialta s Common Stock which the company believes, based on the average strike price relative to the current price of ESS Technology common stock, will not be exercised.

(4) Proposed maximum aggregate value of transaction:

$18,418,643

(5) Total fee paid:

$2,168

£ Fee paid previously with preliminary materials.

£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(6) Amount Previously Paid:

(7) Form, Schedule or Registration Statement No.:

(8) Filing Party:

(9) Date Filed:

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VIALTA, INC.
48461 FREMONT BOULEVARD
FREMONT, CALIFORNIA 94538

Dear Vialta Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Vialta, Inc. to be held on , 2005 at a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538.

At the special meeting, you will be asked to consider and vote upon a proposal to approve and adopt the merger agreement between Vialta and Victory Acquisition Corp., a company controlled by Vialta s chairman, Fred S.L. Chan, and the merger contemplated thereby. You will also be asked to consider and vote upon a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.

Under the terms of the proposed merger, all stockholders of Vialta, other than Victory Acquisition Corp. and Fred S.L. Chan, his wife Annie M.H. Chan, trusts established for the benefit of their children and a related entity, who are, directly or indirectly, investors in Victory Acquisition Corp. (the participating stockholders) as well as stockholders who have perfected or not lost or waived the benefit of appraisal or dissenters rights, would receive $0.36 per share in cash, and Mr. Chan and the other participating stockholders would acquire 100% ownership of Vialta, Inc. Shares held by the company would be canceled without any payment.

The all-cash price of $0.36 per share represents a 50% premium to the average closing price of Vialta common stock for the 30 days prior to the March 28, 2005 announcement of the offer and a 60% premium to the closing price of Vialta common stock on the day before the announcement of the merger.

Our Board of Directors, in accordance with the recommendation of a special committee of the Board of Directors, unanimously, with Mr. Chan abstaining, recommends that stockholders vote FOR approval and adoption of the merger agreement and the merger and FOR the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement. A Special Committee of independent directors was appointed to evaluate the merger, and after direct negotiations with Mr. Chan and careful consideration, including a thorough review with its independent advisors and the receipt of a fairness opinion from its independent financial advisor, unanimously determined that the merger is fair to and in the best interests of Vialta s stockholders other than the participating stockholders.

Your vote is very important to us. Approval and adoption of the merger agreement and the merger requires the affirmative vote of a majority of the shares outstanding as of , 2005, the record date for the special meeting. Accordingly, whether or not you plan to attend the special meeting in person, please complete, sign, date and return the enclosed proxy in the accompanying self-addressed postage pre-paid envelope (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares) as soon as possible.

The enclosed proxy statement provides you with detailed information about the proposed merger, the merger agreement and the special meeting. We urge you to read the entire document carefully, including information incorporated by reference and included in annexes.

Very truly yours,

Didier Pietri
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction or passed upon the merits or fairness of this transaction or the adequacy or accuracy of the disclosure in the enclosed proxy statement. Any representation to the contrary is a criminal offense.

The enclosed proxy statement is dated , 2005 and is first being mailed to stockholders on or about , 2005.

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VIALTA, INC.
48461 FREMONT BOULEVARD
FREMONT, CALIFORNIA 94538

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD , 2005

To the stockholders of Vialta, Inc.:

We will hold a special meeting of stockholders of Vialta, Inc. on , 2005 at a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538. The purpose of the meeting is:

1. to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Reorganization, dated as of March 28, 2005, by and between Victory Acquisition Corp. and Vialta, Inc. and the merger contemplated thereby;

2. to consider and vote upon a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve and adopt the Agreement and Plan of Reorganization referred to in Item 1 and the merger contemplated thereby; and

3. to transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

We have described the merger agreement and the related merger in the accompanying proxy statement, which you should read in its entirety before voting. A copy of the Agreement and Plan of Reorganization is attached as Annex A to the proxy statement. The record date to determine who is entitled to vote at the special meeting is , 2005. Only holders of Vialta, Inc. common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

Your vote is important. To make sure your shares are represented at the special meeting, you should, as soon as possible, complete, sign, date and return the enclosed proxy card (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares). You retain the right to revoke your proxy at any time before it is actually voted by submitting to the Secretary of the company a written notice of revocation, by delivering a duly executed proxy bearing a later date or by attending the special meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring to the meeting a proxy from the broker, bank or other nominee authorizing you to vote the shares. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

By Order of the Board of Directors,

Didier Pietri
Chief Executive Officer

Fremont, California
, 2005

Whether or not you plan to attend the special meeting in person, please complete, sign, date and return the enclosed proxy in the accompanying self-addressed postage pre-paid envelope (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares) as soon as possible.

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FORWARD-LOOKING STATEMENTS

Any statements in this proxy statement about future expectations, plans and prospects, including statements regarding consummation of the proposed merger and statements contained herein under CERTAIN FINANCIAL MODELS RELATING TO POTENTIAL BROADBAND PRODUCTS. , constitute forward-looking statements. In some cases, forward-looking statements may be identified by their incorporation of forward-looking terminology such as anticipate, believe, continue, estimate, expect, intend, may, should or will and other comparable e Forward-looking statements are subject to risks and uncertainties, which could cause actual results or outcomes to differ materially from those currently anticipated. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including the matters discussed under Forward Looking Statements in Vialta s most recent annual report filed with the SEC, as well as factors relating to the proposed merger contained herein. The forward-looking statements included herein are made only as of the date of this proxy statement, and Vialta undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. Notwithstanding the foregoing, in the event of any material change in any of the information previously disclosed, Vialta will, where relevant and if required by applicable law, update such information through a supplement to this proxy statement to the extent necessary.

SUMMARY TERM SHEET

Vialta Inc. is delivering this statement to you in connection with its request that you consider and vote upon a proposal to approve and adopt the Agreement and Plan of Reorganization, dated as of March 28, 2005, by and between Victory Acquisition Corp. and Vialta, Inc. and the merger contemplated thereby which are referred to in this proxy statement as the merger agreement and the merger. The merger agreement provides for the merger of Victory Acquisition Corp. with and into Vialta. Vialta would be the surviving corporation in the merger, and, immediately following the merger, Fred S.L. Chan and members of his family and affiliated entities would have direct or indirect ownership of all of the outstanding capital stock of Vialta. This summary term sheet briefly describes the most material terms of the proposed merger and may not contain all of the information that is important to you. Vialta urges you to read carefully the entire proxy statement, including the information incorporated by reference and the annexes. You may obtain without charge copies of documents incorporated by reference into this proxy statement by following the instructions under WHERE YOU CAN FIND MORE INFORMATION. In this proxy statement, the terms the company and Vialta refer to Vialta, Inc. and the term Victory refers to Victory Acquisition Corp.

A copy of the merger agreement has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about us. Such information can be found elsewhere in this proxy statement and in the other public filings Vialta makes with the Securities and Exchange Commission, which are available without charge at www.sec.gov.

The merger agreement contains representations and warranties made by the parties to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that were exchanged in connection with signing the merger agreement. While we do not believe that they contain information securities laws require us to publicly disclose other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in Vialta s general prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the agreement, which subsequent information may or may not be fully reflected in the companies public disclosures.

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Parties Involved in the Proposed Transaction (page 50)

Vialta, Inc. Vialta is a Delaware corporation engaged in the business of designing and marketing a limited number of consumer electronics products. Vialta was incorporated in April 1999 as a wholly owned subsidiary of ESS Technology, Inc. It became a public company in August 2001, when it was spun off from ESS Technology, Inc. to operate as a stand-alone entity. Since the spin off, Fred S.L. Chan and members of the Chan family and related entities, have owned at least a 35% voting interest in Vialta.

Participating Stockholders The participating stockholders consist of Fred S.L. Chan, his wife Annie M.H. Chan, trusts established for the benefit of their children, and a related entity.

Victory Acquisition Corp. Victory Acquisition Corp. is a recently formed Delaware corporation established by the participating stockholders for the sole purpose of effecting the merger. The participating stockholders have contributed to Victory shares of Vialta common stock beneficially owned by them pursuant to the terms of a stock contribution agreement among Victory and the participating stockholders. The stock contribution agreement is attached to this proxy statement as Annex B. No cash merger consideration will be paid for shares that are exchanged for equity securities of Victory or for options held by the participating stockholders. In the merger, all shares of Victory common stock will be converted into Vialta common stock. As a result of the merger, the participating stockholders will collectively acquire 100% ownership of Vialta.

The Special Meeting (page 47)

Matters to be Considered (page 47) At the special meeting, stockholders will, among other things, consider and vote upon a proposal to approve the merger of Victory with and into Vialta and to approve and adopt the merger agreement.

Date, Time, Place (page 47) The special meeting will be held on , 2005 at a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538.

Record Date (page 48) Vialta has fixed , 2005 as the record date for the special meeting. Only holders of record of Vialta common stock as of the close of business on the record date are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof.

Required Vote and Voting Rights (page 48) Stockholder approval of the merger agreement and the merger requires the affirmative vote of at least a majority of the shares outstanding as of the record date for the special meeting. Only holders of record of Vialta common stock as of the close of business on the record date, which Vialta has fixed at , 2005, are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. The required vote for approval of the merger by Victory stockholders was the affirmative vote of at least a majority of the shares outstanding. The approval of the stockholders of Victory has already been obtained.

Voting Agreement (page 62) Victory has entered into a voting agreement with Vialta covering the shares of Vialta common stock it beneficially owns, representing 32,039,840 shares of common stock (or approximately 39% of the shares outstanding) providing, among other things, for such shares to be voted at the special meeting in favor of approval of the merger agreement. The voting agreement is attached to this proxy statement as Annex C. In addition, Vialta s directors and executive officers other than Mr. Chan own approximately 5% of Vialta s outstanding common stock, and have indicated to Vialta their intention to vote in favor of approval of the merger agreement and the merger.

How Shares are Voted (page 49) You may vote by attending the special meeting and voting in person by ballot or by completing the enclosed proxy card and then signing, dating and returning it in the postage pre-paid

envelope provided. Submitting a proxy now will not limit your right to vote at the special meeting if you decide to attend in person. If your shares are held of record in street name by a broker, nominee, fiduciary or other custodian and you wish to vote in person at the special meeting, you must obtain from the record holder a proxy issued in your name.

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Revocation of Proxies (page 49) You may revoke your proxy at any time before it is actually voted by submitting to the Secretary of the company a written notice of revocation, by delivering a duly executed proxy bearing a later date or by attending the special meeting and voting in person. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring to the meeting a proxy from the broker, bank or other nominee authorizing you to vote the shares. Attendance at the special meeting will not, by itself, revoke a proxy. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

Structure of the Transaction (page 12)

The proposed transaction is a merger of Victory with and into Vialta, which will be the surviving corporation in the merger. Following the satisfaction or waiver of other conditions to the merger, the following will occur in connection with the merger:

all shares of Vialta common stock that are held (1) in the treasury of Vialta, (2) by any wholly-owned subsidiary of Vialta, (3) by Victory or (4) by any of the participating stockholders will be canceled and retired without any consideration payable therefor;

each other share of Vialta common stock issued and outstanding immediately before the merger becomes effective (other than any share as to which a dissenting stockholder has perfected or not lost the benefit of appraisal or dissenters rights under California or Delaware law) will be converted into the right to receive $0.36 in cash without interest;

each share of Victory common stock will be converted into a share of common stock of Vialta, as the surviving corporation in the merger; and

each vested stock option held at the effective time of the merger will be converted into the right to receive cash in respect of such stock option in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of $0.36 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option (which amount will be payable without interest, net of any withholding tax and subject to the option holder s having executed a written consent on a form provided by Vialta to the effect that the cash payment is in full consideration for the cancellation of such stock option). As a result of the transaction, unvested options held by Didier Pietri will accelerate in accordance with his stay bonus agreement and unvested options issued to directors will accelerate in accordance with the terms of the 2000 Directors Stock Option Plan.

The Merger

Financing (page 36) It is expected that Vialta will use its cash on hand to pay the merger consideration. It is a condition to Victory s obligation to complete the merger that Vialta have no less than $14.5 million in cash and cash equivalents as of midnight on the day prior to the closing of the merger. As of March 31, 2005, the company had over $21 million in cash and cash equivalents. As long as Vialta meets the minimum cash consideration, Victory has agreed to fund any shortfall in the merger consideration, up to a maximum of $4 million and Fred S.L. Chan has agreed to lend up to $4 million to Victory. See SPECIAL FACTORS Merger Financing and TRANSACTION AGREEMENTS Additional Contribution Agreement.

Certain Effects of the Merger (page 34) Among other results of the merger, all currently outstanding shares of Vialta will be cancelled and the stockholders of Vialta (other than the participating stockholders) will no longer have any interest in, and will no longer be stockholders of, Vialta and will not participate in any future earnings or growth of Vialta, and the participating stockholders will own, directly or indirectly, all of the outstanding shares of Vialta. Following the merger, Vialta common stock will no longer be publicly traded, and Vialta will no longer file periodic reports with the Securities and Exchange Commission (the SEC).

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The Participating Stockholders Plans for Vialta After the Merger (page 36) Fred S.L. Chan plans to continue to operate Vialta with a significantly reduced staff, selling the company s current products and focusing research and development efforts on broadband.

Certain Fraudulent Transfer Risks (page 39) If, contrary to the belief of the board of directors, Vialta is insolvent at the time of the merger or becomes insolvent because of the merger, the funds paid to stockholders upon completion of the merger may be deemed to be a fraudulent conveyance under applicable law and therefore may be subject to the claims of Vialta s creditors. If such claims are asserted by Vialta s creditors, there is a risk that persons who were stockholders at the effective time of the merger would be ordered by a court to return to Vialta all or a portion of the funds received upon the completion of the merger. The board of directors of Vialta has no reason to believe that Vialta and its subsidiaries, on a consolidated basis, will be insolvent or otherwise left with unreasonably small capital immediately after giving effect to the merger.

Federal Income Tax Consequences (page 40) The receipt of cash by a United States holder in exchange for Vialta common stock will be a taxable transaction for U.S. federal income tax purposes. In general, United States holders of Vialta common stock who receive cash in exchange for their shares pursuant to the merger (including any cash received in connection with the exercise of dissenters rights) should be deemed to have received cash from Vialta pursuant to a redemption of the shares held by such stockholder or pursuant to a sale of such shares. If the deemed redemption of the shares held by a particular United States holder qualifies as an exchange under section 302(b) of the Internal Revenue Code of 1986, as amended, which is referred to as the Code in this proxy statement, or if shares are considered sold, the United States holder will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the holder s adjusted tax basis in the shares and the amount of cash received. If the United States holder holds Vialta common stock as a capital asset, any gain or loss should generally be a capital gain or loss. If the United States holder has held the shares for more than one year, any gain or loss should generally be a long-term gain or loss. The deductibility of capital losses is subject to limitations. **Tax matters are very complex, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger.**

Appraisal and Dissenters Rights (pages 42 and 49) If you do not vote in favor of approval of the merger agreement and the merger and you fulfill certain other procedural requirements in a timely manner, whether under California or Delaware law, as applicable, you will be entitled to a judicial appraisal of the fair value of your shares. To receive payment of the cash merger consideration after the merger becomes effective, you will be required, among other things, to waive dissenters and appraisal rights.

Fairness of the Merger; Conflicts of Interest

Vialta s Position as to the Fairness of the Merger; Recommendation of the Board of Directors (pages 22 and 26) Because certain members of Vialta s board of directors have actual or potential conflicts of interest in evaluating the merger, the board of directors appointed a special committee of independent directors, consisting of George Cain and Michael Dubester, to evaluate the merger and make recommendations to the board of directors with respect to the merger agreement. Based on their evaluation, the special committee determined that the merger agreement and the merger are advisable, fair to, and in the best interests of the company and its stockholders (other than the participating stockholders) and recommended that the board of directors approve and adopt the merger agreement and the merger. Acting on the recommendation of the special committee, the board of directors has approved and adopted the merger agreement and approved the merger. **The board of directors, based in part on the unanimous recommendation of the special committee, unanimous, with Mr. Chan abstaining, recommends that the Vialta stockholders vote FOR the approval and adoption of the merger agreement and approval of the merger.**

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Opinion of Financial Advisor to the Special Committee (page 26) Salem Partners LLC, the independent financial advisor to the special committee, has delivered an opinion to the special committee and the board of directors that, as of March 28, 2005 and based on and subject to the assumptions, limitations and qualifications set forth in the opinion, the cash consideration of $0.36 per share to be paid in the merger to the stockholders of Vialta other than the participating stockholders and Victory was fair, from a financial point of view, to such stockholders. The full text of Salem Partners LLC s written opinion is included in this proxy statement as Annex F. You should read the opinion carefully in its entirety.

Position of the Participating Stockholders and Victory Acquisition Corp. as to the Fairness of the Merger to Vialta s Stockholders (page 33) Fred S.L. Chan, the other participating stockholders and Victory believe that the merger is substantively and procedurally fair to the other stockholders of Vialta. In arriving at their position as to the fairness of the merger, Mr. Chan, the other participating stockholders and Victory considered the factors considered by the special committee of the board of directors discussed in the section entitled SPECIAL FACTORS Position of Vialta as to the Fairness of the Merger to Vialta s Stockholders; Reasons for Recommending the Approval of the Merger Agreement and the Merger, as well as the other factors discussed in the section entitled SPECIAL FACTORS Position of the Participating Stockholders and Victory Acquisition Corp. as to the Fairness of the Merger to Vialta s Stockholders.

Interests of Certain Persons in the Merger (page 37) In considering the recommendations of the board of directors, you should be aware that certain of Vialta s executive officers and directors have interests in the transaction that are different from, or are in addition to, the interests of Vialta s stockholders generally. The special committee and the board of directors were aware of these potential or actual conflicts of interest and considered them along with other matters when they determined to recommend the merger. These interests, which are discussed in detail in the section entitled SPECIAL FACTORS Interests of Certain Persons in the Merger, include the following:

Mr. Chan, who abstained from the vote of the board of directors, is Vialta s Chairman and the participating stockholders, who include Fred S.L. Chan, his wife Annie M.H. Chan, trusts established for the benefit of their children, and a related entity, have been the largest stockholders of Vialta since the company was founded. Mr. Chan and the other participating stockholders have contributed 32,039,840 shares of Vialta common stock (representing approximately 39% of the outstanding common stock) to Victory pursuant to the terms of the stock contribution agreement in consideration for an equal number of shares of common stock of Victory. Upon consummation of the merger, Mr. Chan and the other participating stockholders will be the sole stockholders of Vialta;

Mr. Chan is the President, Treasurer and Secretary of Victory Acquisition Corp. Upon consummation of the merger, it is anticipated that Mr. Chan will continue in the positions of President, Treasurer and Secretary of Vialta, as the surviving corporation in the merger;

unvested stock options held by Didier Pietri will accelerate in accordance with the terms of his stay bonus agreement and unvested stock options held by members of the board of directors (other than Mr. Chan) will accelerate in accordance with the terms of the 2000 Directors Stock Option Plan. Accelerated options will be converted into the right to receive cash in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of $0.36 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option. As a result of the acceleration of stock options, Didier Pietri will be entitled to receive $40,000, each of George Cain and Michael Dubester will be entitled to receive $2,400 and Matthew Fong will be entitled to receive $1,250 with respect to previously unvested stock options;

the merger agreement provides that indemnification will continue and directors and officers insurance arrangements made by Vialta before closing will be maintained for a period of six years following the effective

time of the merger for Vialta s directors and officers; and

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each member of the special committee will receive $2,000 per meeting attended in person and $1,000 per meeting attended telephonically in consideration of such member s service on the special committee, with a cap of $20,000 for the chairman and $18,000 for the other committee member. In addition, the special committee chairman is entitled to receive an annual fee of $25,000, payable quarterly at the end of each fiscal quarter, with any remaining balance payable at the effective time of the merger. The foregoing payments are due without regard to whether the special committee recommended approval of the merger agreement or whether the merger is consummated.

The Merger Agreement (page 52)

No Limitation on Solicitation of Transactions or Termination of Merger Agreement due to Fiduciary Obligations (page 60) The merger agreement does not contain restrictions on Vialta s ability to solicit or initiate any inquiries, proposals or offers with respect to any competing transaction or ultimately to consummate any such competing transaction until stockholders of Vialta approve the merger. The board of directors or special committee may terminate the merger agreement or withdraw, modify or change its approval or recommendation of the merger agreement if it determines in good faith that failure to take such action would be inconsistent with its fiduciary obligations to stockholders of Vialta (other than participating stockholders).

Conditions to Completion of the Merger (page 58) The obligations of Vialta and/or Victory to complete the merger are subject to the satisfaction or waiver of various conditions specified in the merger agreement, including conditions relating to, among other things:

the absence of any order, decree, or ruling by any court or governmental agency which would prohibit, render illegal or enjoin the consummation of the merger;

approval of the merger agreement by a majority vote of Vialta shares outstanding as of the record date;

the accuracy of the parties representations and warranties under the merger agreement, except where a failure would not have a material adverse effect;

performance by the parties in all material respects of their obligations under the merger agreement;

the absence of a material adverse effect with respect to Vialta, as determined in the reasonable judgment of the board of directors of Victory;

receipt of a legal opinion from counsel to Vialta; and

confirmation that Vialta has no less than $14,500,000 in cash and cash equivalents as of the closing. As of March 31, 2005, the company had over $21 million in cash and cash equivalents.

Termination of the Merger Agreement (page 59) The merger agreement may be terminated at any time prior to the effective time of the merger by the mutual written consent of Vialta and Victory, acting under the direction of their respective boards of directors. In addition, either Vialta or Victory may generally (but is not required to) terminate the merger agreement at any time prior to the effective time of the merger in the event of:

failure to consummate the merger by August 13, 2005;

a final and nonappealable court or other governmental action prohibiting the merger; or

failure to obtain the requisite stockholder approval of the merger agreement at the special meeting.

In addition, Victory may terminate the merger agreement at any time prior to the effective time of the merger under specified circumstances relating to:

the failure of a representation or warranty of Vialta to be true and correct except where the failure would not have a material adverse effect, subject to a 30-day cure period;

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the failure of Vialta to perform or comply in all material respects with all of its covenants, subject to a 30-day cure period;

the special committee s withdrawing, amending or modifying its approval or recommendation of the merger agreement in a manner adverse to Victory or failing to reconfirm within 10 business days after request by Victory its recommendation of the merger agreement to Vialta stockholders;

Vialta failing to include in this proxy the recommendation of the special committee or the board of directors in favor of the merger agreement and the merger;

the special committee approving or publicly recommending an acquisition proposal other than the merger or a liquidation or dissolution;

Vialta entering into a letter of intent or similar agreement accepting any acquisition proposal other than the merger; or

Vialta failing to recommend rejection of a tender or exchange offer commenced by a party unaffiliated with Victory.

In addition, Vialta may terminate the merger agreement at any time prior to the effective time of the merger under circumstances relating to:

the failure of any representation or warranty of Victory to otherwise be true and correct, subject to a 30-day cure period;

the failure of Victory to perform or comply in all material respects with all of its covenants, subject to a 30-day cure period; or

the determination by the board of directors or the special committee in good faith after consulting with its counsel that termination is necessary to comply with its fiduciary duties.

Expenses (page 60) In specified circumstances, including where Vialta terminates other than due to a breach by Victory or Victory terminates due to a breach by Vialta or Vialta s failure to recommend or otherwise support the proposed merger, if the merger agreement is terminated prior to the effective time of the merger, Vialta must reimburse up to $250,000 of Victory s expenses in connection with the merger agreement and the transactions contemplated by the merger agreement.

QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers, presented for your convenience only, briefly address some commonly asked questions about the merger. You should still carefully read the entire proxy statement, including the information incorporated by reference and the annexes.

Q: Why am I receiving these materials?

A: The board of directors is providing these proxy materials to give you information for use in determining how to vote in connection with the special meeting.

Q: When and where is the special meeting?

A: The special meeting will be held on , 2005 at a.m., local time, at the Fremont Marriott, 46100 Landing Parkway, Fremont, CA 94538.

Q: What am I being asked to vote upon?

A: You are being asked to consider and vote upon a proposal to approve and adopt the merger agreement and approve the merger, pursuant to which Victory will merge with and into Vialta, with Vialta as the surviving corporation in the merger.

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Q: Who can vote on the proposal to approve and adopt the merger agreement and approve the merger?

A: All holders of Vialta common stock at the close of business on , 2005, the record date for the special meeting, may vote in person or by proxy on the proposal to approve and adopt the merger agreement and approve the merger at the special meeting.

Q: What vote is required to approve and adopt the merger agreement and approve the merger?

A: Stockholder approval of the merger agreement and the merger requires the affirmative vote of at least a majority of the shares outstanding as of the record date. An abstention or a broker non-vote will have the same effect as a vote against the merger and the merger agreement.

Q: How will Mr. Chan and the other directors and officers of the company vote?

A: Mr. Chan and the other participating stockholders contributed their shares of Vialta common stock to Victory. Victory has committed to vote its shares for the merger in accordance with the terms of the voting agreement. See TRANSACTION AGREEMENTS Voting Agreement and the actual terms of the agreement attached hereto as Annex C. Victory holds approximately 39% of Vialta s shares of common stock.

In addition, Vialta s directors and executive officers other than Mr. Chan own approximately 5% of Vialta s outstanding common stock, and have indicated to Vialta their intention to vote in favor of approval of the merger agreement and the merger.

Q: Who is soliciting my proxy?

A: Vialta s board of directors, including Mr. Chan, is soliciting proxies to be voted at the special meeting.

Q: What will happen in the merger?

A: Victory will be merged with and into Vialta, with Vialta continuing as the surviving corporation in the merger. Victory was formed by Vialta s Chairman and founder, Fred S.L. Chan, solely for the purpose of acquiring all of the outstanding shares of Vialta common stock not already owned or controlled by him or the other participating stockholders, all of whom are members of or entities for the benefit of members of his immediate family. The participating stockholders have contributed to Victory the shares of Vialta common stock that they beneficially own and have agreed to contribute any shares they acquire unless the merger is terminated. After the merger, Vialta will become a privately-held company owned by the participating stockholders.

Q: What will I receive in the merger?

A: You will receive $0.36 in cash in exchange for each share of common stock owned by you at the effective time of the merger, unless either (1) you are a participating stockholder of Victory or (2) you do not vote in favor of the merger agreement and have perfected or have not otherwise lost or waived your dissenters or appraisal rights under Delaware or California law, as applicable. Prior to receipt of the merger consideration, you will be required to return an executed letter of transmittal in which you waive any right to dissenters or appraisal rights. Stockholders who do not vote in favor of approval of the merger agreement and who otherwise comply with the procedures for perfecting dissenters or appraisal rights under the applicable statutory provisions of California or Delaware law, as applicable, summarized elsewhere in this proxy statement may demand payment of the fair value of their shares in cash in connection with the consummation of the merger. See SPECIAL FACTORS Appraisal and Dissenters Rights.

Q: What are the reasons for the merger?

A: Vialta s purpose in undertaking the merger is to allow its stockholders (other than the participating stockholders) to realize value from their investment in Vialta now, in cash at a price that represents a premium to the market price of Vialta common stock before the public announcement of the merger agreement, rather than assuming the risks associated with Vialta s ongoing operations and development of its broadband product. For the participating stockholders and Victory, the purposes of the merger are to permit Vialta greater operating flexibility as a privately held company; to reduce the substantial expenses associated with being a public company, including costs of compliance with new securities regulations

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relating to accounting and internal control procedures, and allow these resources to be used in operations; and to enable the participating stockholders to focus research and development on the broadband product and benefit from future growth, if any, of Vialta after the merger. See SPECIAL FACTORS Position of Vialta as to the Purpose and Reasons for the Merger and Position of the Participating Stockholders and Victory Acquisition Corp. as to the Purpose and Reasons for the Merger.

Q: What was the role of the special committee?

A: Because certain directors of Vialta have actual or potential conflicts of interest in evaluating the merger, the board of directors appointed a special committee of disinterested independent directors to negotiate, review and evaluate the proposed merger.

Q: What is the recommendation of the special committee?

A: The special committee has unanimously recommended to Vialta s board of directors that the merger and the merger agreement be approved and adopted. In arriving at its conclusion, the special committee considered, among other factors, the opinion of Salem Partners LLC, its independent financial advisor, that, as of the date of such opinion and based upon and subject to the limitations, qualifications and assumptions set forth in the opinion, the cash consideration of $0.36 per share to be paid in the merger to the stockholders of Vialta other than the participating stockholders and Victory was fair, from a financial point of view, to such stockholders. See SPECIAL FACTORS Position of Vialta as to the Fairness of the Merger to Vialta s Stockholders; Reasons for Recommending the Approval of the Merger Agreement and the Merger .

Q: What are the recommendations of the board of directors?

A: The board of directors, based in part on the unanimous recommendation of the special committee, unanimously (with Mr. Chan abstaining) recommends that the Vialta stockholders vote FOR the approval of the merger agreement and the merger. Both the special committee and the board of directors of Vialta, after careful consideration of numerous factors, have determined that the merger agreement and the merger are fair to and in the best interests of the stockholders of Vialta other than the participating stockholders. See SPECIAL FACTORS Position of Vialta as to the Fairness of the Merger to Vialta s Stockholders; Reasons for Recommending the Approval of the Merger Agreement and the Merger .

In view of his potential conflicts of interest with respect to the merger, Mr. Chan recused himself from the confidential portions of the board of directors deliberations with respect to the merger and the merger agreement and abstained from voting on the related resolutions, including the recommendation that Vialta stockholders vote for the approval of the merger agreement and the merger. Herbert Chang, who was the only member not present at the meeting, subsequently indicated his approval of the board s resolutions.

Q: What are the consequences of the merger to present members of management and the board of directors?

A: Like other stockholders, members of management and the board of directors other than Mr. Chan will be entitled to receive $0.36 per share in cash for each of their shares of Vialta common stock and cash with respect to vested stock options at the effective time of the merger in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of $0.36 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option (which amount will be payable without interest, net of any withholding tax and subject to the option holder s having executed a written consent on a form provided by Vialta to the effect that the cash payment is in full consideration for the cancellation of such stock option). The merger agreement requires Vialta to use its reasonable efforts to obtain the resignation of all officers and directors of the

company as of the effective time of the merger. Mr. Chan, the sole officer and director of Victory immediately prior to the effective time of the merger will be the initial officer and director of Vialta, as the surviving corporation.

In addition, as a result of the transaction, unvested options held by Didier Pietri will accelerate in accordance with his stay bonus agreement and unvested options issued to directors will accelerate in accordance with the terms of the 2000 Directors Stock Option Plan. As a result of the acceleration of stock options, Didier Pietri will be entitled to receive $40,000, each of George Cain and Michael Dubester will

*

J. Bradley Wilson Director	2,500	(1) *
All directors and executive officers as a group (9 persons)	228,455	9.0%

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* Less than one percent.

(1) Includes shares which the following executive officers and non-employee directors have the right to acquire within 60 days through the exercise of stock options issued by the Company: Mr. Walter Clark, 50,000 shares; Mr. Parry, 15,000 shares; Mr. Simpson, 30,000 shares; Mr. Chesnutt, 2,500 shares; Mr. Allison Clark, 2,500 shares; Mr. Gioffre, 6,000 shares; Mr. Prill, 2,500 shares; Mr. Wicker, 3,500 shares; Mr. Wilson, 2,500 shares; all directors and executive officers as a group, 114,500 shares.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To the Company's knowledge, based solely on review of the copies of reports under Section 16(a) of the Securities Exchange Act of 1934 that have been furnished to the Company and written representations that no other reports were required, during the fiscal year ended March 31, 2010 all executive officers, directors and greater than ten-percent beneficial owners have complied with all applicable Section 16(a) filing requirements.

EXECUTIVE OFFICER COMPENSATION

The following table sets forth a summary of the compensation paid during each of the two most recent fiscal years to the Company's Chief Executive Officer and to the two other most highly compensated executive officers as of March 31, 2010.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($) (1)	Option Awards ($) (2)	Non-equity Incentive Plan Compensation ($) (3)	Nonqualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)		Total ($)
Walter Clark	2010	256,000	-	125,037	-	18,719	(5)	$ 399,756
Chairman of the Board and	2009	225,331	-	157,346	-	23,737	(5)	$ 406,414
Chief Executive Officer								
John Parry	2010	168,000	-	93,778	-	15,208	(6)	$ 276,986
Director, VP-Finance,	2009	162,100	-	118,009	-	14,530	(6)	$ 294,639
Treasurer, Secretary and Chief Financial Officer								
William H. Simpson	2010	246,000	-	125,037	-	17,330	(7)	$ 388,367
Director and Executive	2009	221,485	-	157,346	197,485	18,122	(7)	$ 594,438
Vice President								

(1) Includes annual director fees of $6,000 each for Mr. Clark, Mr. Parry and Mr. Simpson.

(2) Effective February 28, 2010, the U. S. Securities and Exchange Commission approved a change in the reporting of option awards, now requiring a Company to report the value of stock and option awards in its summary compensation table at the aggregate "grant date fair value" of such awards (instead of by the dollar amount expensed during the year for financial statement purposes). Option awards for fiscal year 2009 have been restated to conform to the current presentation.

(3) Pursuant to their employment agreements, Mr. Clark and Mr. Simpson are entitled to receive incentive compensation equal to two percent (2%) of the earnings before income taxes or extraordinary items reported each year by the Company in its Annual Report on Form 10-K. Mr. Parry is entitled to receive incentive compensation equal to one and one-half percent (1.5%) of the earnings before income taxes or extraordinary items. This compensation is paid out in June following the fiscal year end.

(4) Represents the aggregate change in the actuarial present value of Mr. Simpson's accumulated benefit under the retirement provisions of his employment agreement.

(5) For fiscal 2010, includes $5,361 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, $5,100 for personal use of corporate airplane, $4,800 for auto allowance and $3,458 for personal auto expenses. For fiscal 2009, includes $5,217 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, $10,500 for personal use of corporate airplane, $4,800 for auto allowance and $3,220 for personal auto expenses.

(6) For fiscal 2010, includes, $5,138 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, $4,800 for auto allowance and $5,270 for personal auto expenses. For fiscal 2009, includes, $3,850 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, $4,800 for auto allowance and $5,880 for personal auto expenses.

(7) For fiscal 2010, includes $5,350 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, $4,800 for auto allowance, $3,320 for personal auto expenses and $3,860 for country club dues. For fiscal 2009, includes $5,681 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, $4,800 for auto allowance, $4,101 for personal auto expenses and $3,540 for country club dues.

On August 15, 2006, the Company awarded Mr. Clark and Mr. Simpson options to acquire, respectively, 50,000 and 30,000 shares of common stock. The exercise price of these options is $8.29 per share. On December 6, 2006, the Company awarded Mr. Parry options to acquire 15,000 shares of common stock. The exercise price of these options is $9.30 per share. These options became vested and exercisable in three equal annual installments beginning with the date of grant, or if earlier, upon a change of control of the Company or the date the employee terminates employment due to death, disability or retirement. The options expire ten years following the date of grant or, if earlier, one year from the date the executive officer terminates employment due to death, disability or retirement.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE

	Option Awards (1)				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price ($)	Option Expiration Date
Walter Clark	50,000	-	(2)	$ 8.29	08/15/2016
John Parry	15,000	-	(3)	9.30	12/06/2016
William H. Simpson	30,000	-	(2)	8.29	08/15/2016

(1) All option awards were made under the Company's 2005 Equity Incentive Plan. Under the terms of the plan, option awards were made without any corresponding transfer of consideration from the recipients.

(2) Stock options vest at the rate of 33-1/3% per year with vesting dates of 08/15/07, 08/15/08 and 08/15/09.

(3) Stock options vest at the rate of 33-1/3% per year with vesting dates of 12/06/07, 12/06/08 and 12/06/09.

Executive Officer Employment Agreements

Chief Executive Officer. On July 8, 2005, the Company entered into an employment agreement with Walter Clark to provide for his continued employment as the Company's Chief Executive Officer. The agreement has an initial term of

two years and renews for successive additional one-year periods on each anniversary of the date of the agreement unless either the Company or Mr. Clark gives notice of non-renewal within 90 days prior to that anniversary date. The agreement provides for an annual base salary of $200,000, subject to increases as subsequently determined by the Company's Board of Directors or its Compensation Committee. In addition, the agreement provides for annual bonus compensation equal to 2% of the Company's consolidated earnings before income taxes and extraordinary items as reported by the Company in its Annual Report on Form 10-K. Under the agreement, Mr. Clark is entitled to participate in the Company's general employee benefit plans, to receive four weeks of vacation per year, to receive a monthly automobile allowance of $400 plus reimbursement for fuel, repair expense and insurance for his primary automobile upon presentation of documentation in accordance with the Company's expense reimbursement policies and to use corporate passenger aircraft for personal use, with the requirement that he reimburse the Company for its costs in connection with his personal use of the aircraft to the extent those costs exceed $50,000 in any fiscal year.

Other Executive Officers. Effective January 1, 1996, the Company entered into an employment agreement with William H. Simpson, an Executive Vice President of the Company. In the absence of any notice from one party to the other to terminate automatic extensions of the term of the agreement, the agreement is automatically extended each December 1 so that upon each automatic extension the remaining term of the agreement is three years and four months. The agreement provided for an initial annual base salary of $165,537, which was subsequently increased and is subject to further increases as determined by the Compensation Committee. In addition, the agreement provides for annual bonus compensation equal to 2% of the Company's consolidated earnings before income taxes and extraordinary items as reported by the Company in its Annual Report on Form 10-K. Under the agreement, Mr. Simpson is entitled to participate in the Company's general employee benefit plans, to receive four weeks of vacation per year and to receive a monthly automobile allowance of $400 plus reimbursement for fuel, repair expense and insurance for his primary automobile upon presentation of documentation in accordance with the Company's expense reimbursement policies.

The agreement provided that upon the Mr. Simpson's retirement he would be entitled to receive an annual benefit equal to $75,000, reduced by three percent for each full year that his retirement precedes the date he reaches age 65. The retirement benefits under this agreement were to be paid, at Mr. Simpson's election in the form of a single life annuity or a joint and survivor annuity or a life annuity with a ten-year period certain. In the alternative, Mr. Simpson could elect to receive the entire retirement benefit in a lump sum payment equal to the then present value of the benefit based on standard insurance annuity mortality tables and an interest rate equal to the 90-day average of the yield on ten-year U.S. Treasury Notes.

Mr. Simpson's employment agreement was amended in December 2008 deleting the provisions providing for certain payments to be made to Mr. Simpson upon his retirement and replacing them with an obligation for the Company to pay Mr. Simpson in July 2009 an amount designed to equal the amount that he would have been entitled to receive under the prior agreement provisions if he were to retire in July 2009 and elect to receive payment in a lump sum. The amendment eliminates the incentive for Mr. Simpson to retire early in order to receive these vested benefits under the employment agreement. The balance due of $942,000 was paid to Mr. Simpson in July 2009.

Effective October 6, 2006, the Company entered into an employment agreement with John Parry, Chief Financial Officer of the Company, which has a three-year term. The agreement provides for an annual base salary of $125,000, subject to periodic review and increases as subsequently determined by the Company. In addition, the agreement provides for annual bonus compensation equal to 1.5% of the Company's consolidated earnings before income taxes as reported by the Company in its Annual Report on Form 10-K. Under the agreement, Mr. Parry is entitled to participate in the Company's general employee benefit plans, to receive four weeks of vacation per year and to receive a monthly automobile allowance of $400 plus reimbursement for fuel, repair expense and insurance for his primary automobile upon presentation of documentation in accordance with the Company's expense reimbursement policies.

Severance and Change-in-control Provisions. Mr. Clark's employment agreement provides that the Company may terminate Mr. Clark's employment at any time and for any reason. However, if the Company terminates Mr. Clark's employment other than for "disability" or "cause," both as defined in the agreement, the Company is obligated to continue to pay Mr. Clark his then-current base salary for a period of two and one-half years, or at its election the Company can pay this amount in one lump-sum payment at the net present value of those payments, calculated by assuming an 8% discount rate. In addition, during that two and one-half year period the Company must continue to provide to Mr. Clark all health and welfare benefits as existed on the date of termination of Mr. Clark's employment or, in the event that continuation of health benefits are not permitted under the Company's health insurance policies, to pay for COBRA health insurance coverage. Mr. Clark is entitled to terminate his employment under the agreement at any time and for any reason.

However, following a "change in control" of the Company, as defined in the agreement, if Mr. Clark terminates his employment for "good reason," which is defined in the agreement and includes a substantial reduction in responsibilities, relocation, increased travel requirements and adverse changes in annual or long-term incentive compensation plans, he is entitled to receive the same base salary payments and continued health and welfare benefits as described above. The agreement provides that these base salary payments and continued health and welfare benefits are Mr. Clark's sole remedy in connection with a termination of his employment.

Mr. Simpson's employment agreement provides that if the Company terminates his employment other than for "cause" (as defined in the agreement), he will be entitled to receive a lump sum cash payment equal to the amount of base salary payable for the remaining term of the agreement (at the then current rate) plus one-half of the maximum incentive bonus compensation that would be payable if he continued his employment through the date of the expiration of the agreement (assuming for such purposes that the amount of incentive bonus compensation would be the same in the remaining period under the agreement as was paid for the most recent year prior to termination of employment). The agreement further provides that if any payment on termination of employment would not be deductible by the Company under Section 280G(b)(2) of the Internal Revenue Code, the amount of such payment would be reduced to the largest amount that would be fully deductible by the Company. Mr. Simpson's employment agreement automatically renews for a one-year term each March 31 unless he or the Company's Board of Directors gives notice of termination by December 1 of the prior year.

Mr. Parry's employment agreement provides that if the Company terminates Mr. Parry's employment other than for "cause" (as defined in the agreement), Mr. Parry is entitled to receive his base salary for a period of twelve months and a pro-rated incentive bonus for that fiscal year. In addition, during that twelve month period the Company must continue to provide to Mr. Parry continued group health benefits as existed on the date of termination of Mr. Parry's employment or, in the event that continuation of health benefits are not permitted under the Company's health insurance policies, to pay for COBRA health insurance coverage.

401(k) Plan. The Company sponsors the Air T, Inc. 401(k) Plan (the "Plan"), a tax-qualified Internal Revenue Code Section 401(k) retirement savings plan, for the benefit of substantially all of its employees, including its executive officers. The Plan encourages saving for retirement by enabling participants to make contributions on a pre-tax basis and to defer taxation on earnings on funds contributed to the Plan. The Company makes matching contributions to the Plan.

CERTAIN TRANSACTIONS

The Company leases its corporate and operating facilities at the Little Mountain, North Carolina airport from Little Mountain Airport Associates, Inc. ("Airport Associates"), a corporation whose stock is owned by William H. Simpson, an officer and director of the Company, John Gioffre, a director of the Company, the estate of David Clark, of which, Walter Clark, the Company's chairman and Chief Executive Office, is a co-executor and beneficiary, and Allison Clark, a director, is a beneficiary, three unaffiliated third parties and a former executive officer. The Company paid aggregate rental payments of $163,512 to Airport Associates pursuant to such lease during the fiscal year ended March 31, 2010. The lease agreement was extended through May 2012 with a monthly rental amount of $13,689. The lease agreement provides that the Company shall be responsible for maintenance of the leased facilities and for utilities, ad valorem taxes and insurance. The Company believes that the terms of such leases are no less favorable to the Company than would be available from an independent third party.

PROPOSAL 2 -- RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors recommends that the stockholders ratify the appointment of Dixon Hughes PLLC to serve as the independent registered public accounting firm for the Company and its subsidiary corporations for the fiscal year ending March 31, 2011. If the stockholders do not ratify this appointment, the Audit Committee will consider other independent registered public accounting firms.

Dixon Hughes PLLC has served as the independent registered public accounting firm for the Company since November 17, 2005. Representatives of Dixon Hughes PLLC are expected to be present at the annual meeting and will have an opportunity to make a statement and will be available to respond to appropriate questions.

The Board of Directors recommends a vote "FOR" the proposal to ratify the selection of Dixon Hughes PLLC as independent auditors for the fiscal year ending March 31, 2011 (Item 2 on the enclosed proxy card).

Audit Committee Pre-approval of Auditor Engagements

It is the policy of the Audit Committee that all audit and permitted non-audit services provided to the Company by its independent registered public accounting firm are approved by the Audit Committee in advance. In addition, it is the Company's practice that any invoices not covered by the annual engagement letter that are subsequently submitted by its independent registered public accounting firm are provided to the Chairman of the Audit Committee for approval prior to payment. The independent auditor, management and the Audit Committee must meet on at least an annual basis to review the plans and scope of the audit and the proposed fees of the independent auditor.

Audit Fees

Fees billed to the Company by its independent registered public accounting firm, Dixon Hughes PLLC, for each of the past two fiscal years were as follows:

	2010	2009
Audit Fees (1)	$ 166,000	$ 160,000
Audit-Related Fees (2)	12,000	12,000
Tax Fees (3)	72,000	64,700
All Other Fees	-	-

(1) Audit fees consist of fees incurred for professional services rendered for the audit of our annual financial statements and review of the quarterly financial statements that are provided by Dixon Hughes PLLC in connection with regulatory filings or engagements.

(2) Audit-related fees relate to professional services rendered that are related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." Audit-related fees also include fees associated with the audit of the Company's employee benefit plan.

(3) Tax fees consist of professional services for tax compliance, tax advice and tax planning.

Report of the Audit Committee

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The Company's independent registered public accounting firm is responsible for expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles.

In this context, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm the audited financial statements as of and for the year ended March 31, 2010. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Public Company Accounting Oversight Board Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence. In addition, the Audit Committee has received from the independent registered public accounting firm the written disclosures and letter required by Independence Standards Board No. 1 (Independence Discussions with Audit Committees) and discussed with them their independence from the Company and its management. The Audit Committee also has considered whether the independent registered public accounting firm provision of non-audit services to the Company is compatible with their independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended March 31, 2010 for filing with the Securities and Exchange Commission.

June 7, 2010

AUDIT COMMITTEE

John J. Gioffre, Chair
Sam Chesnutt
George C. Prill

ADDITIONAL INFORMATION

THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER OF THE COMPANY, AND TO EACH PERSON REPRESENTING THAT AS OF THE RECORD DATE FOR THE MEETING HE OR SHE WAS A BENEFICIAL OWNER OF SHARES ENTITLED TO BE VOTED AT THE MEETING, IF SOLICITED BY WRITTEN REQUEST, A COPY OF THE COMPANY'S 2009 ANNUAL REPORT ON FORM 10-K TO THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE FINANCIAL STATEMENTS. SUCH WRITTEN REQUESTS SHOULD BE DIRECTED TO AIR T, INC., 3524 AIRPORT ROAD, MAIDEN, NORTH CAROLINA 28650, ATTENTION: MR. JOHN PARRY, SECRETARY.

IN ADDITION, THE COMPANY HAS A DEDICATED WEBSITE AT WWW.AIRT.NET/SHAREHOLDERDIRECT.HTML WHERE IT POSTS ALL ANNUAL MEETING MATERIALS INCLUDING THE ANNUAL REPORT ON FORM 10-K, ANNUAL REPORT AND PROXY STATEMENT.

STOCKHOLDER COMMUNICATIONS

The Board of Directors has established a process for stockholders and other interested parties to communicate with the Board of Directors or a particular director. Such individual may send a letter to Air T, Inc., Attention: Corporate Secretary, 3524 Airport Road, Maiden, North Carolina 28650. The mailing envelope should contain a clear notation indicating that the enclosed letter is a "Board Communication" or "Director Communication." All such letters should state whether the intended recipients are all members of the Board or just certain specified individual directors. The Secretary of the Company will circulate the communications (with the exception of commercial solicitations) to the appropriate director or directors. Communications marked "Confidential" will be forwarded unopened.

STOCKHOLDER PROPOSALS AND NOMINATIONS FOR 2011 MEETING

Proposals by stockholders intended to be presented at the 2011 annual meeting of stockholders must be received by the Company's Corporate Secretary no later than March 17, 2011 in order to be included in the proxy statement and on the proxy card that will be solicited by the Board of Directors in connection with that meeting. The inclusion of any proposal will be subject to applicable rules of the SEC. In addition, the Company's bylaws establish an advance notice requirement for any proposal of business to be considered at an annual meeting of stockholders, including the nomination of any person for election as director. In general, written notice must be received by the Company's Corporate Secretary at the Company's principal executive office, 3524 Airport Road, Maiden, North Carolina 28650, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting and must contain specified information concerning the matter to be brought before such meeting and concerning the stockholder proposing such a matter. Accordingly, to be considered at the 2011 annual meeting of stockholders, proposals must be received by the Corporate Secretary no earlier than May 4, 2011 and no later than June 3, 2011. Any waiver by the Company of these requirements with respect to the submission of a particular stockholder proposal shall not constitute a waiver with respect to the submission of any other stockholder proposal nor shall it obligate the Company to waive these requirements with respect to future submissions of the stockholder proposal or any other stockholder proposal. Any stockholder desiring a copy of the Company's bylaws will be furnished one without charge upon written request to the Corporate Secretary at 3524 Airport Road, Maiden, North Carolina 28650.

Individuals appointed as proxies in connection with the annual meeting of stockholders to be held in 2011 will have discretion to vote on any proposal presented at the meeting by a stockholder unless the stockholder gives the Company written notice of the proposal no later than June 3, 2011.

OTHER MATTERS

The Board of Directors knows of no other matters that may be presented at the meeting.

AIR T, INC.

July 15, 2010

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AIR T, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 1, 2010
AND
PROXY STATEMENT

July 15, 2010