AEROSONIC CORP /DE/
Form 10-Q
May 31, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended April 29, 2005

OR

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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 1-11750

AEROSONIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**74-1668471**
	(I.R.S. Employer Identification No.)

(State or other jurisdiction of incorporation or organization)

1212 North Hercules Avenue

Clearwater, Florida 33765

(Address of principal executive offices and Zip Code)

Registrant s telephone number, including area code: (727) 461-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 S No £

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes £ No

As of May 16, 2005, the issuer had 3,921,019 shares of Common Stock outstanding, net of treasury shares.

PART I FINANCIAL INFORMATION

2

PART I FINANCIAL INFORMATION

Forward-Looking Statements

THIS DOCUMENT INCLUDES CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO OUR PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS AND OTHER STATEMENTS CONTAINED IN THIS REPORT THAT ARE NOT HISTORICAL FACTS AS WELL AS STATEMENTS IDENTIFIED BY WORDS SUCH AS EXPECTS, ANTICIPATES, INTENDS, PLANS, BELIEVES, SEEKS, ESTIMATES C OF SIMILAR MEANING. THESE STATEMENTS ARE BASED ON OUR CURRENT BELIEFS OR EXPECTATIONS AND ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CHANGES IN CIRCUMSTANCES, MANY OF WHICH ARE BEYOND OUR CONTROL. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THESE EXPECTATIONS DUE TO CHANGES IN GLOBAL POLITICAL, ECONOMIC, BUSINESS, COMPETITIVE, MARKET AND REGULATORY FACTORS.

Significant Events.

Note 7 of Item 1 of Part I and Item 1 of Part II of this report include discussions of: **(i)** a securities class action lawsuit filed in the Federal District Court of the Middle District of Florida against Aerosonic Corporation (the **Company**), PricewaterhouseCoopers LLP, the Company s former auditor, and four former employees of the Company, two of whom were directors (the **Federal Class Action**), and **(ii)** a derivative lawsuit filed in a Florida state court by Matilda Franzitta, asserting that she is a shareholder acting on behalf of the Company, which is a nominal defendant, and naming as defendants certain present and past officers, directors and employees, some of whom also were named as defendants in the Federal Class Action, and the Company s former auditor and that firm s partner in charge of certain of the Company s audits (the **Franzitta Suit**).

On April 1, 2005, the Company and the other named defendants in the Federal Class Action filed a Notice of Settlement with the court, confirming that all parties had executed a Memorandum of Understanding (MOU) with the plaintiffs to settle the Federal Class Action. The MOU provides for a payment by or on behalf of the defendants to the plaintiffs of approximately $5.35 million. Of this amount, the Company is obligated to pay $800,000, which has been accrued in the accompanying consolidated financial statements as of April 29, 2005 and January 31, 2005. The balance of the settlement is expected to be paid by Zurich American Insurance Company on behalf of the Company and the individual defendants under the Company s directors and officers insurance policy, and by PricewaterhouseCoopers LLP. The settlement is subject to preliminary and final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

On April 3, 2005, the Company was informed of the death of one of its directors, William C. Parker. Mr. Parker had served as a director of the Company since 1995. The passing of Mr. Parker resulted in a reduction in a pension liability that was initially recorded in the fourth quarter of the 2004 fiscal year of approximately $78,000, which the Company recognized in its financial statements in its fiscal quarter ended April 29, 2005.

On April 6, 2005, Aerosonic became aware of the Franzitta Suit filed on March 21, 2005 in the Circuit Court of Hillsborough County, Florida. The Franzitta Suit alleges (a) breaches of fiduciary duties and aiding and abetting such breaches by the present and former directors, officers, and employees named as defendants, for an asserted "Relevant Period" which appears to begin sometime in 1999 and continues to the present time; and (b) breaches of contract, professional negligence, and aiding and abetting breaches of fiduciary duties, by the Company s former registered independent certified public accounting firm during the asserted Relevant Period, and that firm s partner in charge of the Company s audits during most of that time.

The Company is in the process of evaluating the various claims of the Franzitta Suit and is hopeful it still will be able to consummate the Federal Class Action settlement in the manner announced by the Company in its press release on April 5, 2005, as filed on Form 8-K on that date. However, at this time, the Company is unable to determine what effect, if any, the Franzitta Suit will have on its ability to consummate such settlement.

Table of Contents

Item 1

Financial Statements

AEROSONIC CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	April 29, 2005 (unaudited)	January 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 734,000	$ 840,000
Receivables, net of allowance for doubtful accounts of $14,000	5,765,000	3,708,000
Income tax receivable	599,000	899,000
Costs less estimated losses in excess of billings	1,132,000	1,942,000
Inventories	5,597,000	5,483,000
Prepaid expenses	257,000	198,000
Deferred income taxes	1,236,000	1,236,000
Total current assets	15,320,000	14,306,000
Property, plant and equipment, net	3,758,000	3,842,000
Deferred income taxes	123,000	123,000
Other assets, net	263,000	192,000
Total assets	$ 19,464,000	$ 18,463,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Long-term debt and notes payable due within one year	$ 230,000	$ 243,000
Accounts payable, trade	1,566,000	1,600,000
Compensation and benefits	1,107,000	938,000
Income taxes payable	175,000	-

Accrued expenses and other liabilities	2,716,000	2,404,000
Total current liabilities	5,794,000	5,185,000
Long-term debt and notes payable due after one year	2,737,000	2,794,000
Total liabilities	8,531,000	7,979,000
Commitments and contingencies		
Stockholders equity:		
Common stock $.40 par value: shares authorized 8,000,000;		
shares issued 3,986,262; shares outstanding 3,921,019	1,595,000	1,595,000
Additional paid-in capital	4,559,000	4,559,000
Retained earnings	5,475,000	5,026,000
Less treasury stock: 65,243 shares, at cost	(696,000)	(696,000)
Total stockholders equity	10,933,000	10,484,000
Total liabilities and stockholders equity	$ 19,464,000	$ 18,463,000

The accompanying notes are an integral part of these condensed consolidated financial statements

Table of Contents

AEROSONIC CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months ended	
	April 29, 2005	April 30, 2004
Revenue, net	$ 9,075,000	$ 7,096,000
Cost of sales	6,550,000	5,088,000
Gross profit	2,525,000	2,008,000
Selling, general and administrative expenses	1,813,000	1,779,000
Operating income	712,000	229,000
Other income (expense):		
Interest expense, net	(43,000)	(6,000)
Miscellaneous income	55,000	121,000
	12,000	115,000
Income before income taxes	724,000	344,000
Income tax expense	(275,000)	(135,000)
Net income	$ 449,000	$ 209,000
Basic and diluted earnings per share	$ 0.11	$ 0.05
Basic and diluted weighted average shares outstanding	3,921,019	3,921,019

The accompanying notes are an integral part of these condensed consolidated financial statements

Table of Contents

AEROSONIC CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months ended	
	April 29, 2005	**April 30, 2004**
Cash flow from operating activities:		
Net income	$ 449,000	$ 209,000
Adjustments to reconcile net income to net cash used in		
operating activities:		
Depreciation	112,000	163,000
Amortization	9,000	2,000
Changes in assets and liabilities:		
Receivables	(2,057,000)	(385,000)
Income taxes receivable and payable	475,000	825,000
Costs less estimated losses in excess of billings	810,000	(627,000)
Inventories	(114,000)	205,000
Prepaid expenses	(59,000)	(31,000)
Capitalized software costs and other assets	(80,000)	(96,000)
Accounts payable, trade	(34,000)	(1,627,000)
Compensation and benefits	169,000	151,000
Accrued expenses and other liabilities	312,000	(267,000)
Net cash used in operating activities	(8,000)	(1,478,000)
Cash flow from investing activities:		
Capital expenditures	(28,000)	(73,000)
Net cash used in investing activities	(28,000)	(73,000)
Cash flow from financing activities:		
Proceeds/(payments) on revolving credit facilities	-	(55,000)
Proceeds from issuance of long-term debt	-	626,000
Principal payments on long-term debt and notes payable	(70,000)	-
Net cash provided by/(used in) financing activities	(70,000)	571,000

Net decrease in cash and cash equivalents		(106,000)		(980,000)
Cash and cash equivalents at beginning of period		840,000		1,276,000
Cash and cash equivalents at end of period	$	734,000	$	296,000
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	47,000	$	47,000
Income taxes		-		-
Non cash investing and financing activities:				
Debt refinance	$	-	$	3,326,000

The accompanying notes are an integral part of these condensed consolidated financial statements

Table of Contents

AEROSONIC CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Aerosonic Corporation (the **Company**) have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and in Regulation S-X of the U.S. Securities and Exchange Commission (**SEC**). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The April 29, 2005 consolidated balance sheet has been derived from the audited consolidated financial statements, but does not include all of the disclosures required by generally accepted accounting principles. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended January 31, 2005 (the **2005 Form 10-K**) that the Company filed with the SEC on April 18, 2005. Operating results for the three months ended April 29, 2005 are not necessarily indicative of the results that may be expected for the year ending January 31, 2006.

Note 2 Business

The Company is principally engaged in one business segment: The manufacture and service of aircraft instruments. The Company consists of three operating divisions in three locations. The divisions are: the Clearwater, Florida Instrument Division (**Clearwater Instruments**), the Aerosonic Wichita, Kansas Division (**Kansas Instruments**) and Avionics Specialties, Inc., a Virginia corporation wholly owned by the Company (**Avionics**).

Clearwater Instruments primarily manufactures altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, and a variety of other flight instrumentation. Kansas Instruments is the source inspection location for the Company s Wichita customers and is the primary location for Clearwater Instruments repair business. Avionics maintains three major product lines: (1) angle of attack stall warning systems; (2) integrated multifunction probes, which are integrated air data sensors; and (3) other aircraft sensors and monitoring systems.

During the three months ended April 29, 2005 and April 30, 2004, sales to Lockheed represented approximately 14% and 20% of total revenues, respectively.

The Company has a January 31 fiscal year end. Accordingly, all references in this quarterly report on Form 10-Q to the first quarter mean the first quarter ended on the last Friday of April of the referenced fiscal year. For example, references to the first quarter of fiscal year 2006 mean the first quarter ended April 29, 2005.

Note 3 Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a method that approximates the first-in, first-out method. Provisions are made for any inventory deemed excess or obsolete. Management employs certain methods to estimate the value of work in process inventories for financial reporting purposes. At fiscal year end, these estimates are affected by the nature of the operation at which the items are located and the time at which a physical inventory is conducted, and are subject to judgment. This practice was employed for the fiscal year ended January 31, 2005. For interim reporting periods, the Company utilizes monthly work in process inventory reports to estimate the value of such inventories.

Inventories at April 29, 2005 and January 31, 2005 consisted of the following:

	April 29, 2005	January 31, 2005
Raw materials	$ 3,577,000	$ 3,475,000
Work in process	2,311,000	2,276,000
Finished goods	101,000	133,000
Reserve for obsolete and slow moving inventory	(392,000)	(401,000)
	$ 5,597,000	$ 5,483,000

7

Note 4 Joint Strike Fighter Development Program

During fiscal 2003, the Company secured a long-term fixed-price contract for the development of instrumentation for the Joint Strike Fighter (**JSF**) program. Costs and estimated losses to date on this contract as of April 29, 2005 and January 31, 2005 are as follows:

	April 29, 2005	**January 31, 2005**
Costs incurred to date	$ 12,711,000	$ 11,493,000
Estimated losses	(704,000)	(201,000)
	12,007,000	11,292,000
Less billings to date	(10,875,000)	(9,350,000)
Costs less estimated losses in excess of billings	$ 1,132,000	$ 1,942,000

Following the revision to the Company s estimate at completion for the JSF program in January 2005, the Company was required to resolve a number of action items that originated from a critical design review that occurred during February 2005. These action items required considerable resources of the Company to provide a satisfactory resolution for the program customer, and were the primary driver of the increase in costs during the quarter ended April 29, 2005. The estimated costs of the project increased by approximately $503,000 and, as a result, estimated total program costs exceed estimated program revenues by approximately $704,000. The Company has recognized the additional $503,000 loss in its financial statements for the quarter ended April 29, 2005.

During the quarter ended April 29, 2005, the Company also developed a solution for a significant design element that it expects will reduce program costs. Initially, the Company believed that the reduction in costs could be recognized during the quarter, but discussions with the customer during the fourth week of April 2005 resulted in a requirement that the solution successfully pass certain testing procedures prior to the solution being formally accepted as a design change. Since the first opportunity to conduct these testing procedures would not occur until June 2005, the Company did not recognize any of the potential cost savings associated with this potential design improvement.

The JSF program is a customer-funded product development program that is presently expected to generate total project revenues of approximately $16,336,000. As of April 29, 2005, based on project progress, the Company has recognized revenues of approximately $12,007,000 for the JSF project. The estimate for this program changes with each technological breakthrough and setback and the Company will continue to adjust its estimate to reflect the most current view of the program s costs. The revenues and costs recorded in each quarter reflect the Company s best estimate of the program s expected profitability or loss at that point in time.

The JSF program represents a significant investment in the Company s future product development capabilities. While Company management is expending considerable effort to control costs and complete the development process on schedule, the key benefit to the program is the substantial revenue that the Company will earn if it is awarded the production contract for the JSF that is expected to follow the conclusion of the development program.

Note 5 Accrued Expenses

Accrued expenses as of April 29, 2005 and January 31, 2005 were approximately $2,716,000 and $2,404,000, respectively. A substantial portion of these expenses are related to amounts owed to subcontractors who participate in the Company s product development programs, as shown below:

	April 29, 2005	January 31, 2005
Product development programs	$ 1,257,000	$ 886,000
Shareholder litigation (See Note 7)	800,000	800,000
Other accrued expenses	659,000	718,000
	$ 2,716,000	$ 2,404,000

8

Note 6 Long Term Debt and Notes Payable

The Company s credit facilities are with Wachovia Bank, N.A. (**Wachovia**). The facilities total approximately $5.7 million, and include a 15 year term loan of approximately $3.0 million that is collateralized by the Company s real estate in Clearwater, Florida, a revolving credit facility of approximately $2.5 million, and a seven year equipment loan of approximately $0.2 million. All of the Company s other assets (i.e., other than the Clearwater real estate) are subject to liens collateralizing all three of the loans from Wachovia. This includes all assets of Avionics Specialties, Inc., the Company s wholly owned subsidiary.

Long term debt and notes payable at April 29, 2005 and January 31, 2005 consisted of the following:

	April 29, 2005	January 31, 2005
Mortgage note payable - Wachovia	$ 2,783,000	$ 2,833,000
Equipment term loan	184,000	191,000
Capitalized leases	-	13,000
	2,967,000	3,037,000
Less current maturities	230,000	243,000
Long-term debt and notes payable, less current maturities	$ 2,737,000	$ 2,794,000

Covenants

The Company s long-term debt agreements with Wachovia contain certain financial and other restrictive covenants, including the requirement to maintain: (i) at all times, a ratio of total liabilities to tangible net worth that does not exceed 1.30 to 1.00: and (ii) at the end of each fiscal quarter, a cash flow coverage ratio (with regard to the debt service) of at least 1.25 to 1.00. As of April 29, 2005, the Company was in compliance with these financial covenants.

The Wachovia loan agreement subjects the Company to a number of additional covenants that, among other things, require the Company to obtain consent from the lender prior to making a material change of management, guarantee or otherwise become responsible for obligations of any other person or entity or assuming or becoming liable for any debt, contingent or direct, in excess of $100,000.

The Company s ability to maintain sufficient liquidity and compliance with covenants in fiscal year 2006 and beyond is highly dependent upon achieving expected operating results. Failure to achieve expected operating results and compliance with covenants could have a material adverse effect on the Company s liquidity and operations in fiscal year 2006 and beyond, and could require implementation of further measures, including deferring planned capital expenditures, reducing discretionary spending, and/or, if necessary, selling assets.

Note 7 Commitments and Contingencies

In accordance with a consent agreement with the Department of Environmental Protection signed by the Company in 1993, the Company s environmental consultant has developed an interim remedial action plan to contain and remediate certain contamination on and underlying the Company s property in Clearwater, Florida. During 1997, the Company recorded a provision of approximately $175,000 related to the estimated costs to be incurred under this plan. As of January 31, 2000, the Company had utilized all amounts originally recorded in other accrued expenses, and Phase I remediation had been completed.

During the third quarter of 2001, management determined the post-remediation monitoring expense related to the environmental cleanup of 1993 would cost approximately $125,000. This amount was accrued and expensed during the third quarter of 2001. As of January 31, 2005, all existing reserve balances had been utilized. Based upon information provided by the Company s environmental consultants, management estimated that the Company will incur post-remediation monitoring expenses of approximately $98,000, for which a reserve was established as of January 31, 2005. As of April 29, 2005, this reserve remains at $98,000.

The Company s contractual obligations for future minimum payments under our purchase commitments, long-term debt and operating leases as of April 29, 2005 are as follows:

		Payments Due by Period			
Contractual Obligations	Total	Less than One Year	1 - 3 years	4 - 5 years	> 5 years
Purchase commitments	$ 7,062,000	$ 6,850,000	$ 188,000	$ 24,000	$ -
Long-term debt	2,967,000	230,000	460,000	460,000	1,817,000
Operating leases	718,000	398,000	320,000	-	-
Total	$10,747,000	$ 7,478,000	$ 968,000	$ 484,000	$ 1,817,000

A securities class action lawsuit in the Federal District Court of the Middle District of Florida remains pending against the Company, PricewaterhouseCoopers LLP, the Company s former auditor, and four former employees of the Company, two of whom were directors (the **Federal Class Action**). On April 1, 2005, the Company and the other named defendants in the Federal Class Action filed a Notice of Settlement with the court, confirming that all parties had executed a Memorandum of Understanding (MOU) with the plaintiffs to settle the litigation. The MOU provided for a payment by or on behalf of the defendants to the plaintiffs of approximately $5.35 million. Of this amount, the Company is obligated to pay $800,000, which has been accrued in the accompanying consolidated financial statements as of April 29, 2005 and January 31, 2005. The balance of the settlement is expected to be paid by Zurich American Insurance Company on behalf of the Company and the individual defendants under the Company s directors and officers insurance policy, and by PricewaterhouseCoopers LLP. The settlement is subject to preliminary and final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

On April 3, 2005, the Company was informed of the death of one of its directors, William C. Parker. Mr. Parker had served as a director of the Company since 1995. The passing of Mr. Parker resulted in a reduction in a pension liability that was initially recorded in the fourth quarter of the 2004 fiscal year of approximately $78,000, which the Company recognized in its financial statements in its fiscal quarter ended April 29, 2005.

On April 6, 2005, Aerosonic became aware of a Derivative Complaint filed on March 21, 2005 in the Circuit Court of Hillsborough County, Florida, by Matilda Franzitta, asserting that she is a shareholder acting on behalf of the Company, which is a nominal defendant, and naming as defendants certain present and past officers, directors and employees, some of whom also were named as defendants in the Federal Class Action, and the Company s former auditor and that firm s partner in charge of certain of the Company s audits (the **Franzitta Suit**). The Complaint alleges (a) breaches of fiduciary duties and aiding and abetting such breaches by the present and former directors, officers, and employees named as defendants, for an asserted "Relevant Period" which appears to begin sometime in 1999 and continues to the present time; and (b) breaches of contract, professional negligence, and aiding and abetting breaches of fiduciary duties, by the Company s former registered independent certified public accounting firm during the asserted Relevant Period, and that firm s partner in charge of the Company s audits during most of that time.

The Company is in the process of evaluating the various claims in the Franzitta Suit and is hopeful it still will be able to consummate the Federal Class Action settlement in the manner announced by the Company in its press release on April 5, 2005, as filed on Form 8-K on that date. However, at this time, the Company is unable to determine what effect, if any, the Franzitta Suit will have on its ability to consummate such settlement.

Note 8 Subsequent Events

The Company s revolving credit facility with Wachovia, which was set to expire June 1, 2005, was renewed effective May 16, 2005. The limit of this facility remains at $2.5 million, while the expiration date is June 30, 2006.

Table of Contents

Item 2

Management s Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Revenues for the first quarter increased approximately $1,979,000 when compared to the first quarter of fiscal year 2005. This resulted primarily from core instrument sales increasing by approximately $2,234,000 and revenue from the Joint Strike Fighter (**JSF**) development program decreasing by approximately $313,000, as compared to the first quarter of fiscal year 2005. The core instrument revenue increases were due to increased production throughput in the Company s Clearwater and Charlottesville operations. The reduction in revenues on the JSF program was due to slower progress on completion of the probe design.

Gross profit for the three months ended April 29, 2005 increased by approximately 26%, or approximately $517,000, when compared to the first quarter of fiscal year 2005. Approximately $560,000 of this change is due to an increase in volume, while changes in sales mix as well as lower margins on the JSF program partially offset this volume-related increase.

Selling, general and administrative expenses for the first quarter increased approximately $34,000 when compared to the three months ended April 30, 2004. This increase is attributable to increased costs for insurance coverage as well as slight increases in salaries and benefits, and these increases are partially offset by lower costs for travel and entertainment.

Net interest expense increased approximately $37,000 for the three months ended April 29, 2005 when compared to the three months ended April 30, 2004. The current quarter results reflect a normal level of net interest expense, while the three months ended April 30, 2004 included the one-time receipt of interest payments of approximately $41,000 in conjunction with the Company s receipt of income tax refunds during that period.

Miscellaneous income decreased approximately $66,000 for the three months ended April 29, 2005 when compared to the three months ended April 30, 2004. Foreign exchange gains on British Pound-denominated accounts receivable and bank deposits represent nearly all of the current quarter s miscellaneous income. During the three months ended April 30, 2004, the Company s miscellaneous income of approximately $121,000 was comprised of a gain on the sale of its Engine Vibration Monitoring System (**EVMS**) product line inventory, the settlement of a claim that was previously asserted by Mrs. Miriam Frank, widow of the Company s founder, Herbert J. Frank and capitalized loan costs that were written off concurrent with the refinancing of the Company s debt with Wachovia in February 2004.

Income tax expense increased approximately $140,000 for the three months ended April 29, 2005 when compared to the three months ended April 30, 2004. This increase is primarily due to an increase in taxable income in the current quarter, when compared to the three months ended April 30, 2004.

Liquidity and Capital Resources

Cash used in operating activities was approximately $8,000 for the three months ended April 29, 2005 a decrease of approximately $1,470,000 when compared to the three months ended April 30, 2004. This decrease in cash usage is primarily attributable to:

An increase in net income of approximately $240,000

An increase due to accounts payable of approximately $1,593,000 as the Company maintained a substantial majority of accounts as current, whereas the Company expended a considerable amount of cash in the three months ended April 30, 2004 to bring its accounts payable obligations to a current status

An increase due to accrued expenses and other liabilities of approximately $579,000 due primarily to increases in liabilities to suppliers for the JSF contract

A decrease due to accounts receivable of approximately $1,672,000 resulting from a significant increase in sales volume, a majority of which is due to billings related to the JSF program that occurred in the last half of April 2005

A decrease due to net income taxes receivable and payable of approximately $350,000 due to a reduced level of income tax refund receipts

An increase in compensation and benefits liabilities of approximately $18,000

An increase due to a reduction in costs less estimated losses in excess of billings of approximately $1,437,000 resulting from substantial invoicing related to the achievement of certain project milestones for the JSF program during the current quarter

A decrease of approximately $319,000 due to increases in inventories

Cash used in investing activities decreased approximately $45,000 due to lower investment in Machinery and Equipment.

Cash used by financing activities increased approximately $641,000 when compared to the three months ended April 30, 2004 as the Company s current quarter activity was confined to the scheduled repayment of long-term debt obligations while the Company had completed a refinancing of its debt obligations in the first quarter of fiscal 2005.

Future capital requirements depend on numerous factors, including research and development, expansion of product lines, the resolution of the recently filed class action suits and potential related litigation, and other factors. Management believes that cash and cash equivalents, together with the Company s current borrowing arrangements will provide for these necessary expenditures. Furthermore, the Company may develop and introduce new or enhanced products, respond to competitive pressures, invest or acquire businesses or technologies or respond to unanticipated requirements or developments, which would require additional resources.

The Company s ability to maintain sufficient liquidity in fiscal year 2006 and beyond is highly dependent upon achieving expected operating results. Failure to successfully achieve these results could have a material adverse effect on the Company s liquidity and operations in fiscal year 2006, and could require implementation of further measures, including deferring planned capital expenditures, reducing discretionary spending, and/or, if necessary, selling assets.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principals generally accepted in the United States. The preparation of those financial statements and this Quarterly Report on Form 10-Q requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure items, including disclosure of contingent assets and liabilities, at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions, and as a result of trends and uncertainties identified above under RESULTS OF OPERATIONS and LIQUIDITY AND CAPITAL RESOURCES . Further, such differences could be material.

Set forth below is a discussion of the Company s critical accounting policies. The Company considers critical accounting policies to be those (i) that require the Company to make estimates that are highly uncertain at the time the estimate is made, (ii) for which a different estimate which could have been made would have a material impact on the Company s financial statements, (iii) that are the most important and pervasive policies utilized, and (iv) that are the most sensitive to material change from external factors. Additionally, the policies discussed below are critical to an understanding of the financial statements because their application places the most significant demands on management s judgment, with financial reporting results relying on estimates about the effect of matters that are highly uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The impact and any associated risks related to these policies on business operations is discussed throughout this MD&A where such policies affect reported and expected financial results.

Senior management has discussed the development and selection of the critical accounting estimates and the related disclosure included herein with the Audit Committee of the Board of Directors.

Revenue Recognition

The Company manufactures most of its products on a build-to-order basis and ships products upon completion. The Company has a policy of strict adherence to the provisions of SEC Staff Accounting Bulletin 104 (**SAB 104**) in order to accurately state its revenues in each accounting period. For certain situations, some judgment is required, but most sales have clear revenue recognition criteria.

Revenue sources for product sales are largely from sales to commercial and government customers. The majority of customer sales terms are F.O.B. origin, although some customer terms are F.O.B. destination. For those customers where terms are origin , revenue is generally recognized upon shipment, unless additional prevailing factors would not be in accordance with the revenue recognition requirements of SAB 104. For those customers whose terms are destination , revenue is generally not recognized until goods arrive at the customers premises and all other revenue recognition criteria are met.

The Company experiences a certain degree of sales returns that varies over time. Generally such returns occur within no more than 90 days after shipment by the Company to its customers. In accordance with Statement of Financial Accounting Standards No. 48 (**SFAS 48**) Revenue Recognition When Right of Return Exists, the Company is able to make a reasonable estimation of expected sales returns based upon history and as contemplated by the requirements of SFAS 48. For example, sales returns may occur if delivery schedules are changed by customers after products have shipped or if products are received by customers but do not meet specifications. In such cases, customers may choose to return products to the Company. Absent such circumstances, customers do not have a right to return products if the Company has met all contractual obligations. The Company has established a sales return reserve that approximates an expected level of sales returns over a 90-day period.

From time to time, the Company will jointly develop products with its customers for future applications. In such circumstances, the Company recognizes revenue on a percentage of completion basis, measured by the percentage of costs incurred to date to estimated total costs for the contract. This method is used because management considers expended costs to be the best available measure of progress on the contracts. The percentage of completion contract costs include direct labor, material, subcontracting costs, test facilities, and other indirect costs as allocated. Other operating costs are charged to expense as incurred. During fiscal 2003, the Company secured one long-term fixed-price contract for the development of instrumentation for the JSF program.

Occasionally the Company enters into research and development contracts with customers. The Company accounts for such contracts on the basis of the lesser of non-refundable cash versus percentage of completion.

Accounts Receivable Allowance for Doubtful Accounts and Credit Losses

The Company continuously evaluates its customers and provides reserves for anticipated credit losses as soon as collection becomes compromised. The Company does maintain a limited reserve in anticipation that smaller accounts may become a collection issue, which occurs from time to time based on historical experience. However, most of the Company s customers are financially sound and the Company s history of bad debts is relatively low. While credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that have been experienced in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers.

Provisions for Excess and Obsolete Inventory Losses and Residual Value Losses

The Company values inventory at the lower of cost (using a method that approximates the first-in, first-out method) or net realizable value. Reviews of inventory quantities on hand have been conducted to determine if usage or sales history supports maintaining inventory values at full cost or if it has instead become necessary to record a provision for slow moving, excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements for the subsequent twelve months. Estimates of future product demand may prove to be inaccurate, in which case the Company may understate or overstate the provision required for excess and obsolete inventory. Although the Company endeavors to ensure the accuracy of forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of inventory and consequently reported operating results.

Work In Process Inventories

Management employs certain methods to estimate the value of work in process inventories for financial reporting purposes. Company practice has been to conduct cycle counts of inventory at its Clearwater, Florida, Earlysville, Virginia and Wichita, Kansas operations throughout the year. Generally, for items that are in process at the end of a fiscal year, management will make an estimate during the cycle counting process regarding the percentage of completion of such items in order to accurately reflect costs incurred to date on the production of the items that are still in process. These estimates are affected by the nature of the operation at which the items are located at the time a physical inventory is conducted, and are subject to judgment.

Manufacturing Overhead Cost Application

The Company establishes its inventoriable cost of manufacturing overhead by calculating its overhead costs as a percentage of direct labor and applying that percentage to direct labor that has been charged to inventory on a twelve month rolling average basis. This application percentage is reviewed at least quarterly and is adjusted at least annually.

Deferred Tax Asset Valuation Allowance

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (**SFAS**) No. 109, Accounting for Income Taxes. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided against the future benefit of deferred tax assets if it is determined that it is more likely than not that the future tax benefits associated with the deferred tax asset will not be realized.

Long-Lived Assets

Management periodically evaluates long-lived assets for potential impairment and will record an impairment charge whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As of April 29, 2005 and January 31, 2005, management does not believe that any assets are impaired.

The Company will capitalize production costs for computer software that is to be utilized as an integral part of a product when both (a) technological feasibility is established for the software and (b) all research and development activities for the other components of the product have been completed. Amortization is charged to expense at the greater of the expected unit sales versus units sold or the straight line method for a period of three years from the date the product becomes available for general release to customers.

Other Accounts Affected by Management Estimates

From time to time, management will utilize estimates when preparing the financial statements of the Company. Such areas include allowances for doubtful accounts, reserves for warranty and sales returns, depreciation, amortization and other accruals.

The Company has established a provision for warranty claims in anticipation of a certain degree of warranty activity, which generally is a minimal expense. This provision is based upon recent warranty experience.

Management also uses estimates in calculating the percentage of completion of the JSF program. These estimates have a significant impact on Costs less estimated losses in excess of billings included in the Company s consolidated balance sheets.

Off-Balance Sheet Arrangements

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

Contractual Obligations

The Company s contractual obligations for future minimum payments under our purchase commitments, long-term debt and operating leases as of April 29, 2005 are as follows:

		Payments Due by Period			
Contractual Obligations	Total	Less than One Year	1 - 3 years	4 - 5 years	> 5 years
Purchase commitments	$ 7,062,000	$ 6,850,000	$ 188,000	$ 24,000	$ -
Long-term debt	2,967,000	230,000	460,000	460,000	1,817,000
Operating leases	718,000	398,000	320,000	-	-
Total	$10,747,000	$ 7,478,000	$ 968,000	$ 484,000	$ 1,817,000

Item 3

Quantitative and Qualitative Disclosures about Market Risk.

The primary market risk exposure for the Company is interest rate risk. The Company s existing debt facilities require the payment of interest at a variable rate equal to one-month LIBOR plus 300 basis points. Consequently, the Company has an exposure to fluctuations in the underlying interest rate for its debt facilities. As an example, the prevailing rate for one-month LIBOR at April 29, 2005 was approximately 3.08%. Therefore, the Company s borrowing cost under its existing debt facilities as of April 29, 2005 was 6.08%. For each $1.0 million of borrowing at the January 31, 2005 one-month LIBOR interest rate, the Company s annual interest cost would be $60,800. Significant fluctuations in the underlying LIBOR interest rate index could have a material impact on the Company s financial statements. Presently, the Company does not utilize any financial instruments to manage this interest rate risk.

The Company also has a market risk exposure to fluctuations in foreign exchange rates. The Company has a limited number of purchase and sale transactions that are denominated in British Pounds. The Company s strategy in managing this risk exposure is to match the timing of British Pound-denominated cash inflows and outflows. British Pound-denominated cash inflows generally exceed outflows, and the excess balance, if nominal, is maintained in a British Pound-denominated bank account. Substantial amounts of foreign currency are otherwise immediately converted to U.S. Dollars when received.

Item 4

Controls and Procedures.

As of April 29, 2005, Aerosonic s Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Aerosonic s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) and concluded that such disclosure controls and procedures were effective as of such date.

Table of Contents

PART II OTHER INFORMATION

Item 1 Legal Proceedings.

Class Action Litigation

On November 12, 2003, a class action lawsuit was filed in the United States District Court for the Middle District of Florida by Sebastian P. Gaeta, individually and on behalf of all other similarly situated (the **Gaeta Suit**), against the Company, PricewaterhouseCoopers LLP, the Company s former independent registered certified public accounting firm, J. Mervyn Nabors, a former director and former President and CEO of the Company, Eric J. McCracken, a former Chief Financial Officer of the Company, and Michael T. Reed, a former Controller of the Company. The action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the **Exchange Act**) and Rule 10b-5 promulgated under that act, including, among other things, that the Company made materially false statements concerning the Company s financial condition and its future prospects. The plaintiff alleges that he suffered damages as the result of his purchase and sale of the Company s Common Stock during the asserted Class Period from November 13, 1998 through March 17, 2003. The action seeks compensatory and other damages, and costs and expenses associated with the litigation.

Shortly after the Gaeta Suit was filed, two other putative class actions (the **"Pratsch Suit"** and **"Suarez Suit"**) were filed against the same defendants as in the Gaeta Suit and predicated upon alleged violations of the same securities laws, asserting that plaintiffs purchased the Company s stock at artificially inflated prices during the Class Period and have been damaged thereby. The Pratsch Suit and Suarez Suit assert a Class Period from May 3, 1999 through March 17, 2003. At a February 27, 2004 hearing, plaintiffs in the Suarez Suit voluntarily withdrew their complaint. On February 27, 2004, the Court entered an order consolidating the Gaeta Suit and Pratsch Suit into one case entitled "In re Aerosonic Corporation Securities Litigation" (the **Federal Class Action**), appointing Lead Plaintiffs (the "Miville Group"), approving the selection of Lead Plaintiffs Counsel (Berger & Montague P.C.) On April 27, 2004, Lead Plaintiffs filed an amended and consolidated class action complaint that alleges violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 including, among other things, that the Company made materially false statements concerning the Company s financial condition and its future prospects. The amended complaint also added as a defendant, Andrew Nordstrud, a former employee of the Company. On June 28, 2004, the Company responded to the amended complaint by filing a motion to dismiss, and each of the other defendants also moved to dismiss the amended complaint. On August 27, 2004 Lead Plaintiffs filed a memorandum of law as a comprehensive opposition to the motion to dismiss.

On April 1, 2005, the Company and the other named defendants in the Federal Class Action filed a Notice of Settlement with the court, confirming that all parties had executed a Memorandum of Understanding (MOU) with the plaintiffs to settle the Federal Class Action. The MOU provides for a payment by or on behalf of the defendants to the plaintiffs of approximately $5.35 million. Of this amount, the Company is obligated to pay $800,000, which has been accrued in the accompanying consolidated financial statements as of April 29, 2005 and January 31, 2005. The balance of the settlement is expected to be paid by Zurich American Insurance Company on behalf of the Company and the individual defendants under the Company s directors and officers insurance policy, and by PricewaterhouseCoopers LLP. The settlement is subject to preliminary and final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

Derivative Suit

On April 6, 2005, Aerosonic became aware of a Derivative Complaint (the **Franzitta Suit**) filed on March 21, 2005 in the Circuit Court of Hillsborough County, Florida, by Matilda Franzitta, asserting that she is a shareholder acting on behalf of the Company, which is a nominal defendant, and naming as defendants certain present and past officers, directors and employees, some of whom also were named as defendants in the Federal Class Action, and the Company s former auditor and that firm s partner in charge of certain of the Company s audits.

The Franzitta Suit alleges (a) breaches of fiduciary duties and aiding and abetting such breaches by the present and former directors, officers, and employees named as defendants, for an asserted "Relevant Period" which appears to begin sometime in 1999 and continues to the present time; and (b) breaches of contract, professional negligence, and aiding and abetting breaches of fiduciary duties, by the Company s former registered independent certified public accounting firm during the asserted Relevant Period, and that firm s partner in charge of the Company s audits during most of that time.

The Company is in the process of evaluating the various claims in the Franzitta Suit and is hopeful it still will be able to consummate the Federal Class Action settlement in the manner announced by the Company in its press release on April 5, 2005, as filed on Form 8-K on that date. However, at this time, the Company is unable to determine what effect, if any, the Franzitta Suit will have on its ability to consummate such settlement.

Additional Proceedings and Matters

In addition to the foregoing, from time to time, the Company is involved in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, at this time, there are no claims or legal actions that will have a material adverse effect on the Company s financial position, results of operations, or liquidity.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

Table of Contents

Item 6 Exhibits and Reports on Form 8-K.

(a) The following documents are filed as part of this Quarterly Report:

Exhibit No.

Description of Exhibit

3.1

Restated Certificate of Incorporation of Instrument Technology Corporation, filed on January 12, 1970, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.2

Certificate of Agreement of Merger between Instrument Technology Corporation and Aerosonic Corporation, filed on January 12, 1970, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.3

Certificate of Amendment to the Articles of Incorporation, changing the name Instrument Technology Corporation to Aerosonic Corporation, filed on September 21, 1970, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.4

Certificate of Amendment to the Articles of Incorporation of Aerosonic Corporation, filed on August 6, 1971, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.5

Certificate of Reduction of Capital of Aerosonic Corporation, filed on June 5, 1978, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.6

Certificate of Amendment to Articles of Incorporation of Aerosonic Corporation, filed on February 12, 1993, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.7

Composite of Amendments to Articles of Incorporation of Aerosonic Corporation (prepared by the Registrant and not filed with the Secretary of State of the State of Delaware) , incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

3.8

Amended and Restated Bylaws of the Company.

10.1

Employment Agreement, dated May 14, 2003, between Aerosonic Corporation and David A. Baldini, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

10.2

Employment Agreement, dated May 14, 2003, between Aerosonic Corporation and P. Mark Perkins, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

10.3

Employment Agreement, dated May 14, 2003, between Aerosonic Corporation and Gary E. Colbert, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

10.4

Employment Agreement, dated May 14, 2003, between Aerosonic Corporation and Carmelo Russo, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

10.5

Consulting Agreement, dated May 20, 2003, between Aerosonic Corporation and J. Mervyn Nabors, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

10.7

Supplemental Pension Plan, dated as of January 1, 2004, between Aerosonic Corporation and William C. Parker, incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2003, filed on October 31, 2003.

10.31

Loan Agreement, dated February 24, 2004, between Aerosonic Corporation and Wachovia Bank N.A., incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2004, filed on April 6, 2004.

10.32

Promissory Note, dated February 16, 2004, issued by Aerosonic Corporation and Avionics Specialties, Inc. to Wachovia Bank N.A., incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2004, filed on April 6, 2004.

10.33

Term Promissory Note, dated February 16, 2004, issued by Aerosonic Corporation and Avionics Specialties, Inc. to Wachovia Bank N.A., incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2004, filed on April 6, 2004.

10.34

Revolving Promissory Note, dated February 16, 2004, issued by Aerosonic Corporation and Avionics Specialties, Inc. to Wachovia Bank N.A., incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2004, filed on April 6, 2004.

10.35

Mortgage, Assignment of Rents and Security Agreement dated February 24, 2004 between Aerosonic Corporation and Wachovia Bank, N.A., incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2004, filed on April 6, 2004.

10.36

Deed of Trust, Assignment of Rents and Security Agreement dated February 24, 2004 by and among Avionics Specialties, Inc. TRSTE, Inc. and Wachovia Bank, N.A., incorporated by reference to the Company s Annual Report on Form 10-K for the year ended January 31, 2004, filed on April 6, 2004.

10.37

Aerosonic Corporation 2004 Stock Incentive Plan, incorporated by reference to Appendix D to the Company s Proxy Statement for the July 14, 2004 Annual Meeting of Shareholders, filed on June 15, 2004

31.1

Section 302 Certifications

31.2

Section 302 Certifications

32.1

Section 906 Certifications

32.2

Section 906 Certifications

(b) Reports on Form 8-K

During the first quarter of fiscal year 2006, the Company filed or furnished to the Securities and Exchange Commission Current Reports on Form 8-K as follows:

On April 5, 2005, the Company filed a current report on Form 8-K with the Securities and Exchange Commission reporting under Item 5.02 disclosing the death of William C. Parker, a member of the Company s Board of Directors.

On April 5, 2005, the Company filed a current report on Form 8-K with the Securities and Exchange Commission reporting under Item 8.01 disclosing the execution of a memorandum of understanding to settle its pending class action litigation. The Company s April 5, 2005 press release announcing the preliminary settlement was attached as an exhibit to this current report on Form 8-K.

On April 11, 2005, the Company filed a current report on Form 8-K with the Securities and Exchange Commission reporting under Item 7.01 disclosing that on April 6, 2005 the Company had become aware of the filing of a Derivative Complaint by a shareholder acting on behalf of the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 31, 2005

AEROSONIC CORPORATION

/s/ David A. Baldini

David A. Baldini

Chairman, President and Chief Executive Officer

Date: May 31, 2005

AEROSONIC CORPORATION

/s/ Gary E. Colbert

Gary E. Colbert

Executive Vice President and Chief Financial Officer