AEROSONIC CORP /DE/
Form 10-Q/A
December 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended July 30, 2004

OR

£

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

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 November 30, 2004, the issuer had 3,921,019 shares of Common Stock outstanding, net of treasury shares.

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	
	Significant Events	4
Item 1	Financial Statements	
	Condensed Consolidated Balance Sheets as of July 30, 2004 (unaudited) and January 31, 2004 (unaudited), as restated	5
	Condensed Consolidated Statements of Operations for the three months and the six months ended July 30, 2004 and July 31, 2003 (unaudited)	6
	Condensed Consolidated Statements of Cash Flows for the six months ended July 30, 2004 and July 31, 2003 (unaudited)	7
	Notes to the Condensed Consolidated Financial Statements (unaudited)	8
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3	Quantitative and Qualitative Disclosures About Market Risk	17
Item 4	Controls and Procedures	17
PART II	**OTHER INFORMATION**	
Item 1	Legal Proceedings	18
Item 2	Changes in Securities and Use of Proceeds	19
Item 3	Defaults Upon Senior Securities	19
Item 4	Submission of Matters to a Vote of Security Holders	19

Item 5	Other Information	20
Item 6	Exhibits and Reports on Form 8-K	21-22

EXPLANATORY NOTE

Aerosonic Corporation (the **Company**) is filing this Amendment No. 1 to its quarterly report on Form 10-Q for the fiscal quarter ended July 30, 2004, as filed with the Securities and Exchange Commission on September 13, 2004 (the **Original July 2004 Form 10-Q**) in order to: **(1)** correct and error in recording income taxes receivable in the fiscal year ended January 31, 2000, as carried on the balance sheet for each subsequent period through July 30, 2004 (the **Income Tax Error**), and to correct the resulting effects upon total assets, retained earnings, and shareholders equity; **(2)** correct a typographical error on Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations (the **MD&A**); **(3)** include Exhibit 3.8 and Exhibit 10.37, since the initial filing inadvertently did not include these exhibits. In addition, this Amendment No. 1 provides an updated Note 7 to the Financial Statements; and an amendment to Part II Item 1, to announce a recent event involving the SEC investigation and recent action by the SEC, and an update of developments in the securities class action litigation

The Company erroneously recorded income taxes receivable resulting from tax refunds expected from the application of net operating loss carrybacks to tax years ended January 31, 1998 and 1999, for which the applicable statutes of limitations had expired. The prior period adjustment to correct the Income Tax Error results in a reduction of approximately $572,000 in income taxes receivable, total assets, retained earnings and shareholders equity, as of January 31, 2000 and at each subsequent year end. These adjustments, as reflected in this Amendment No.1, do not affect earnings or cash flows in the Company s previously reported financial statements for the fiscal quarters ended July 30, 2004 or 2003, as included in its Original July 2004 Form 10-Q.

The MD&A correction is at the bottom of Page 12 and reflects that:

Cash provided by financing activities increased approximately $430,000 [rather than $641,000, as inadvertently stated in the original July 30, 2004 Form 10-Q] due to the Company s completion of the refinancing of its debt obligations in February 2004.

In order to provide a complete and convenient reference to the entire July 30, 2004 Form 10-Q, as hereby amended, this Amendment No. 1 includes the entire document.

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 OR 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

On February 25, 2004, Aerosonic Corporation (the **Company**) refinanced all of its short-term and long-term bank debt obligations with Wachovia Bank, N.A. Note 5 of Item 1 of Part I includes a discussion of the nature and certain details of the debt refinancing.

Note 7 of Item 1 of Part I of this report include discussions of: (i) an investigation by the U.S. Securities and Exchange Commission (**SEC**) regarding certain accounting issues, (ii) securities class action lawsuits filed against the Company, PricewaterhouseCoopers LLP, the Company s former independent accountant, and four former employees of the Company, two of whom were directors, and (iii) action by the U.S. Internal Revenue Service (the **IRS**) with respect to the Company s amendments to its federal income tax returns for its fiscal years ended January 31, 1998 and 1999. Item 1 of Part II of this report also includes discussions of the above-mentioned SEC investigation and securities class action lawsuits.

Table of Contents

Item 1 Financial Statements

AEROSONIC CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 30, 2004 (unaudited) (as restated)	January 31, 2004 (audited) (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 432,000	$ 1,276,000
Receivables, net of allowance for doubtful accounts of $12,000 and $152,000	4,855,000	3,896,000
Income tax receivable	580,000	1,270,000
Costs and estimated profits in excess of billings	1,939,000	1,398,000
Inventories	5,704,000	5,683,000
Prepaid expenses	188,000	190,000
Deferred income taxes	559,000	559,000
Total current assets	14,257,000	14,272,000
Property, plant and equipment, net	3,983,000	3,954,000

Deferred income taxes	38,000	38,000
Capitalized software costs and other assets, net	200,000	127,000
Total assets	$ 18,478,000	$ 18,391,000

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Long-term debt and notes payable due within one year	$ 269,000	$ 200,000
Revolving credit facilities	600,000	1,000,000
Accounts payable, trade	1,627,000	2,910,000
Compensation and benefits	1,011,000	779,000
Income taxes payable	387,000	-
Accrued expenses and other liabilities	1,620,000	2,343,000
Total current liabilities	5,514,000	7,232,000
Long-term debt and notes payable due after one year	2,909,000	2,216,000
Total liabilities	8,423,000	9,448,000
Commitments and contingencies		
Stockholderss equity:		
Common stock $.40 par value: authorized 8,000,000; shares	1,595,000	1,595,000
issued 3,986,262; shares outstanding 3,921,019		

Additional paid-in capital	4,559,000	4,559,000
Retained earnings	4,597,000	3,485,000
Less treasury stock: 65,243 shares at April 30, 2004 and January 31, 2004, at cost	(696,000)	(696,000)
Total stockholders equity	10,055,000	8,943,000
Total liabilities and stockholders equity	$ 18,478,000	$ 18,391,000

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		Six Months Ended	
	July 30, 2004	**July 31, 2003**	**July 30, 2004**	**July 31, 2003**
Revenue, net	$ 7,937,000	$ 7,746,000	$ 15,033,000	$ 16,490,000
Cost of sales	5,220,000	5,550,000	10,308,000	11,382,000
Gross profit	2,717,000	2,196,000	4,725,000	5,108,000
Selling, general and administrative expenses	2,273,000	2,494,000	4,052,000	4,837,000
Operating income	444,000	(298,000)	673,000	271,000
Other income (expense):				
Interest expense, net	(46,000)	(53,000)	(52,000)	(106,000)
Miscellaneous income	1,058,000	(3,000)	1,179,000	1,000
	1,012,000	(56,000)	1,127,000	(105,000)
Income before income taxes	1,456,000	(354,000)	1,800,000	166,000

Income tax (expense) benefit	(553,000)	12,000	(688,000)	(5,000)
Net income	$ 903,000	$ (342,000)	$ 1,112,000	$ 161,000
Basic and diluted earnings per share	$ 0.23	$ (0.09)	$ 0.28	$ 0.04
Basic and diluted weighted average shares outstanding	3,921,019	3,921,019	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)

	Six Months Ended	
	July 30, 2004	**July 31, 2003**
Cash flow from operating activities:		
Net income	$ 1,112,000	$ 161,000
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities:		
Allowance for doubtful accounts	(140,000)	-
Depreciation	303,000	365,000
Amortization	27,000	121,000
Deferred income taxes	-	(65,000)
Changes in assets and liabilities		
Receivables	(819,000)	355,000
Income taxes receivable and payables	1,077,000	273,000
Costs and estimated profits in excess of billings	(541,000)	(1,399,000)
Inventories	(21,000)	(86,000)
Prepaid expenses	2,000	11,000
Capitalized software costs and other assets	(73,000)	(80,000)

Accounts payable, trade	(1,283,000)	504,000
Compensation and benefits	232,000	87,000
Accrued expenses and other liabilities	(723,000)	1,394,000
Net cash provided by/ (used in) operating activities	(847,000)	1,641,000
Cash flow from investing activities:		
Capital expenditures	(148,000)	(253,000)
Net cash used in investing activities	(148,000)	(253,000)
Cash flow from financing activities:		
Proceeds/ (payments) from revolving credit facilities	(400,000)	245,000
Proceeds from issuance of long-term debt	621,000	-
Principal payments on long-term debt and notes payable	(70,000)	(524,000)
Net cash provided by/ (used in) financing activities	151,000	(279,000)
Net increase/ (decrease) in cash and cash equivalents	(844,000)	1,109,000
Cash and cash equivalents at beginning of period	1,276,000	260,000
Cash and cash equivalents at end of period	$ 432,000	$ 1,369,000

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 94,000	$ 111,000
Income taxes	300,000	29,000
Non cash investing and financing activities:		
Debt refinance	$ 3,537,000	$ -
Acquisition of property under a capital lease	$ -	$ 45,000
Acquisition of property through issuance of note payable	$ 211,000	$ -

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 accordance with 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 restated January 31, 2004 consolidated balance sheet has been derived from the audited consolidated financial statements that the Company has amended (as described in Note 2 and Note 7), 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 impact of the amendment described in Note 7 upon the audited consolidated financial statements and related notes contained in the Annual Report on Form 10-K/A for the fiscal year ended January 31, 2004 (the **2004 Form 10-K/A**) that the Company filed with the SEC on December 7, 2004. Operating results for the three months and the six months ended July 30, 2004 are not necessarily indicative of the results that may be expected for the year ending January 31, 2005. The Company has changed its quarterly periods to coincide with the last Friday of each fiscal quarter for the first three fiscal quarters of each year. This is to more economically and conveniently use the Company s resources in calculating the closing figures for each quarter for which a Form 10-Q Report is required. This will not affect the January 31 fiscal year end of the Company. Thus, this year s second quarter Form 10-Q ending on July 30, 2004 is contrasted with last year s July 31, 2003 second quarter.

Note 2 - Restatement of Prior Periods Financial Statements

In September 2004, the Company announced that the United States Internal Revenue Service (**IRS**) had disallowed the Company s income tax refund claims of approximately $873,000 for the tax years ended January 31, 1998 and 1999. The Company had erroneously recorded income taxes receivable for the tax effect of net operating loss carry backs to tax years for which the applicable statutes had expired. The Company has since filed an amended return for the tax year ended January 31, 2001 that resulted in a refund of approximately $301,000. The prior period adjustment to correct this error results in the reduction of income taxes receivable and retained earnings by approximately $572,000 at January 31, 2000 and thereafter and an increase in income tax expense of approximately $572,000 for the year ended January 31, 2000. This adjustment has been made to income tax receivable and retained earnings in each reporting period. This amendment does not affect earnings or cash flows in the Company s previously reported financial statements in the Company s Original 2005 Form 10-Q.

The following table presents the impact of this adjustment on our previously reported balance sheets as of July 30, 2004 and January 31, 2004 in the Company s Original 2005 Form 10-Q:

	July 30, 2004 (unaudited)		January 31, 2004	
	Previously Reported	as Restated	Previously Reported (unaudited)	as Restated (audited)
BALANCE SHEET:				
Income taxes receivable	$ 279,000	$ 580,000	$ 969,000	$ 1,270,000
Deferred income taxes	619,000	559,000	619,000	559,000
Total current assets	14,016,000	14,257,000	14,031,000	14,272,000
Deferred income taxes	-	38,000	-	38,000
Total Assets	$ 18,199,000	$18,478,000	$ 18,112,000	$ 18,391,000
Deferred income taxes	22,000	-	22,000	-
Total liabilities	8,445,000	8,423,000	9,470,000	9,448,000
Retained earnings	4,296,000	4,597,000	3,184,000	3,485,000
Total stockholders' equity	$ 9,754,000	$ 10,055,000	$ 8,642,000	$ 8,943,000
Total liabilities and stockholders' equity	$ 18,199,000	$18,478,000	$18,112,000	$18,391,000

Note 3 Business

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

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 our 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. In August 1998, the Company formed a new division called Precision Components, to perform high volume precision machining of mechanical components, which was less than 10% of operations during the three months and the six months ended July 30, 2004 and July 31, 2003.

During the three months ended July 30, 2004, sales to Lockheed Martin Corporation represented approximately 14% of total revenues and sales to Mid-Continent Instrument Company Inc. represented approximately 10% of total revenues. During the six months ended July 30, 2004, sales to Lockheed represented approximately 17% of total revenues.

The Company has a January 31 fiscal year end. Accordingly, all references in this quarterly report on Form 10-Q to the second quarter mean the second quarter ended on July 30 of the referenced fiscal year. For example, references to the second quarter of fiscal year 2005 mean the second quarter ended July 30, 2004.

Note 4 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, 2004. For interim reporting periods, the Company utilizes monthly work in process inventory reports to estimate the value of such inventories.

Inventories at July 30, 2004 and January 31, 2004 consisted of the following:

	July 30, 2004	**January 31, 2004**

Raw materials	$ 3,495,000	$ 3,756,000
Work in process	2,209,000	1,719,000
Finished goods	-	208,000
	$ 5,704,000	$ 5,683,000

Note 5 Long Term Debt and Notes Payable

The Company completed a refinancing of its existing debt with Wachovia Bank, N.A. (**Wachovia**) on February 25, 2004. The new 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 (the **Clearwater real estate**), 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 securing all three of the loans from Wachovia. This includes all assets of Avionics Specialties, Inc., the Company s wholly owned subsidiary. These facilities replace all of the Company s debt that was previously held by First Commercial Bank and SunTrust Bank, N.A.

Long term debt and notes payable at July 30, 2004 and January 31, 2004 consisted of the following:

	July 30, 2004	January 31, 2004[(1)]
Mortgage note payable Wachovia	$ 2,933,000	$ -
Equipment note payable Wachovia	206,000	-
Note payable First Commercial Bank	-	717,000
Industrial development revenue bonds	-	668,000
Mortgage note payable SunTrust	-	391,000
Note payable, equipment First Commercial Bank	-	205,000
Note payable, II First Commercial Bank	-	353,000
Capitalized leases	39,000	82,000
	3,178,000	2,416,000
Less current maturity	269,000	1,497,000
Long-term debt and notes payable, less current maturity	$ 2,909,000	$ 919,000

(1)

The debt table described above reflects the repayment obligations as of January 31, 2004, but the financial statements reflect current maturities based upon the new debt agreements that were established in February 2004, as described above.

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 July 30, 2004, 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 2005 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 2005 and beyond, and could require implementation of further measures, including deferring planned capital expenditures, reducing discretionary spending, and, if necessary, selling assets.

Note 6 Accrued Expenses

Accrued expenses as of July 30, 2004 and January 31, 2004 were approximately $1,620,000 and $2,343,000, 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:

	July 30, 2004	**January 31, 2004**
Product development programs	$ 904,000	$ 1,497,000
Other accrued expenses	716,000	846,000
	$ 1,620,000	$ 2,343,000

Note 7 Commitments, Contingencies and Subsequent Events

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, 2004, all existing reserve balances had been utilized. Based upon information provided by the Company s environmental consultants, management estimates that the Company will incur post-remediation monitoring expenses of approximately $38,000, for which a reserve has been established as of January 31, 2004.

The Company s contractual obligations for future minimum payments under our purchase commitments, long term-debt and operating leases as of July 30, 2004 are as follows:

		Payments Due by Period			
		Less than			
Contractual Obligations	**Total**	**One Year**	**1 - 3 years**	**4 - 5 years**	**> 5 years**
Purchase commitments	$ 6,582,000	$ 6,283,000	$ 273,000	$ 26,000	$ -
Long-term debt	3,178,000	269,000	463,000	460,000	1,986,000
Operating leases	1,017,000	398,000	619,000	-	-
Total	$10,777,000	$ 6,940,000	$1,355,000	$ 486,000	$ 1,986,000

The Company is the subject of a Formal Order of Investigation issued by the U.S. Securities and Exchange Commission (the **SEC**) on May 13, 2003 with respect to potential violations of the federal securities laws in connection with the accounting misstatements and contributing causes disclosed by the Company in press releases dated March 17 and May 22, 2003 and further discussed in the Company s annual report for the fiscal year ended January 31, 2003 and the subsequent quarterly reports on Form 10-Q, which the Company brought to the attention of the SEC in conjunction with management s internal investigation, and other potential issues. The Company received a letter from the SEC dated October 27, 2004 advising the Company that the SEC investigation has been terminated as to the Company and that no enforcement action has been recommended to the Commission, as to the Company. See Part II Item 1 below under the caption SEC Formal Investigation and Action Against Former Executives with this same discussion and additional information as to actions taken by the SEC.

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 accountant, 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," 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.

Table of Contents

The outcome of the consolidated class action lawsuit cannot be adequately determined, and the impact upon the Company cannot be assessed, at this time. Any resolution of such litigation could have a material adverse effect upon the Company s financial position, results of operations, and cash flow.

In June 2004, the Company received a notice from the IRS that disallowed refund claims made by the Company when it filed amended tax returns for the January 31, 1998 and 1999 tax years in December 2003. The Company prepared its July 30, 2004 Balance Sheet and revised its January 31, 2004 Balance Sheet that are presented in this Form 10-Q to reflect the impact of this event. The revisions include reductions of $572,000 in both Income taxes receivable and Stockholder equity . The impact of these changes resulted in a prior period adjustment to the Company s January 31, 2000 balance sheet that flow through the balance sheets in each subsequent year. The Company amended its Annual Report on Form 10-K for the fiscal year ended January 31, 2004 and its Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2004 to incorporate this change. The Company intends to continue working with its tax advisors to determine if any potential additional deferred tax benefits that result from this change can be realized in any periods subsequent to January 31, 2000, including any future periods.

Item 2

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

Results of Operations

Revenues for the second quarter increased approximately $191,000 when compared to the second quarter of fiscal year 2004. Increases in core instrument revenues and revenues from repairs and spare parts of approximately $682,000 and approximately $478,000, respectively, were offset by decreases in Precision Components revenues of approximately $383,000 and expected slower progress on the Joint Strike Fighter (**JSF**) development program of approximately $586,000.

Revenues for the six months ended July 30, 2004 decreased approximately $1,457,000 when compared to the six months ended July 31, 2003. This resulted primarily from reduced revenues on the JSF program of approximately $1,453,000.

Gross profit for the three months ended July 30, 2004 increased by approximately 24%, or approximately $521,000, when compared to the second quarter of fiscal year 2004. Approximately $54,000 of this change is due to an increase in volume, while the remaining change of approximately $467,000 is due to changes in the revenue mix due to revenue increases in core instruments, repairs and spare parts that yield higher margins than do revenues from development programs.

Gross profit for the six months ended July 30, 2004 decreased by approximately 8%, or approximately $383,000, when compared to the six months ended July 31, 2003. A volume-related reduction in gross profit margin of approximately $451,000 was partially offset by an increase in gross profit margin of approximately $67,000 due to changes in the revenue mix.

Selling, general and administrative expenses for the second quarter decreased approximately $221,000 when compared to the three months ended July 31, 2003. This decrease is primarily attributable to the reductions in audit fees of approximately $407,000 and legal fees of approximately $203,000. These decreases were partially offset by an increase in engineering expenses of approximately $320,000 as the Company expands its Clearwater, Florida engineering capabilities in conjunction with its development of instrumentation for the Cessna Mustang business jet and an increase in sales-related travel and commissions of approximately $78,000.

Selling, general and administrative expenses for the six months ended July 30, 2004 decreased approximately $785,000 when compared to the six months ended July 31, 2003. This decrease is primarily attributable to the reductions in audit fees of approximately $674,000 and legal fees of approximately $473,000. These decreases were partially offset by an increase in engineering expenses of approximately $384,000 as the Company expands its Clearwater, Florida engineering capabilities in conjunction with its development of instrumentation for the Cessna Mustang business jet.

Interest expense decreased approximately $7,000 for the three months ended July 30, 2004 when compared to the three months ended July 31, 2003. This decrease is partially due to lower interest rates as well as slightly lower average debt balances.

Interest expense decreased approximately $54,000 for the six months ended July 30, 2004 when compared to the six months ended July 31, 2003. This decrease is partially due to lower interest rates as well as slightly lower average debt balances, but is largely due to the receipt of interest payments of approximately $41,000 in conjunction with the Company s receipt of income tax refunds in April 2004.

Miscellaneous income increased approximately $1,061,000 for the three months ended July 30, 2004 when compared to the three months ended July 31, 2003. As disclosed in the Subsequent Events section of the Company s Quarterly Report on Form 10-Q for the period ended April 30, 2004, the Company submitted a claim to its insurance carrier in April 2004 for the reimbursement of additional business interruption expenses that were identified as having been incurred as a result of a small fire that had occurred in the Company s machine shop at its Clearwater, Florida operations. In May 2004, after further negotiations, the Company and the insurance carrier reached a settlement whereby the Company would be reimbursed a total of approximately $1,214,000 as a result of the business interruption. The Company received the remaining payment of approximately $997,000 on May 25, 2004.

Miscellaneous income increased approximately $1,178,000 for the six months ended July 30, 2004 when compared to the six months ended July 31, 2003. This increase is primarily due to the insurance recovery described in the preceding paragraph as well as the Company s sale of its Engine Vibration Monitoring System (**EVMS**) product line inventory in February 2004 that resulted in miscellaneous income of approximately $170,000.

Income tax expense increased approximately $565,000 for the three months ended July 30, 2004 when compared to the three months ended July 31, 2003. The Company recognized a non-recurring benefit through a reduction in its deferred tax asset valuation allowance in the three months ended July 31, 2003.

Income tax expense increased approximately $683,000 for the six months ended July 30, 2004 when compared to the six months ended July 31, 2003. The Company recognized a non-recurring benefit through a reduction in its deferred tax asset valuation allowance in the six months ended July 31, 2003.

Liquidity and Capital Resources

Cash used in operating activities was approximately $847,000 for the six months ended July 30, 2004 an increase of approximately $2,488,000 when compared to cash provided during the six months ended July 31, 2003. This increase in cash usage is primarily attributable to:

A decrease due to accounts payable of approximately $1,787,000 as the Company negotiated reductions in or paid the remainder of its aged audit and legal fees that existed as of July 31, 2003 that were related to the financial restatement as reported in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2003

A decrease due to accrued expenses and other liabilities of approximately $2,117,000 primarily due to the Company s decreasing its liabilities to suppliers for the JSF contract by approximately $1,309,000, attorneys by approximately $170,000 and auditors by approximately $673,000 versus the increase in such liabilities that occurred for the six months ended July 31, 2003

A decrease due to accounts receivable of approximately $1,174,000 due to an increase in revenue plus the issuance of an invoice to Lockheed for $895,000 at the end of the quarter for a milestone billing on the JSF project

.

A decrease of approximately $140,000 due to a reduction in the allowance for doubtful accounts for the write-off of a previously-reserved account that has been determined to be uncollectible

These increases in cash usage were partially offset by:

An increase in net income of approximately $951,000

.

A decrease in net income taxes receivable and payable of approximately $804,000 due to the receipt of refunds from the filing of amended tax returns

---

.

A decrease due to the recording of additional costs and estimated profits in excess of billings of approximately $858,000 resulting from a comparative period-over-period reduction in development project activity

An increase in compensation and benefits of approximately $145,000

A decrease of approximately $65,000 due to a comparative period-over-period reduction in inventory accumulation

Cash used in investing activities increased approximately $105,000 due to higher investment in Machinery and Equipment.

Cash provided by financing activities increased approximately $430,000 due to the Company s completion of the refinancing of its debt obligations in February 2004.

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 cash flow from operations and 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.

As a consequence of the Company s restatement of results of operations and the pending class action lawsuit, the Company s creditworthiness may be diminished from what existed prior to the restatement. The Company s ability to maintain sufficient liquidity in fiscal year 2005 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 2005, and could require implementation of further measures, including deferring planned capital expenditures, reducing discretionary spending, and, 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 less than estimates that are based upon under different assumptions or conditions than those selected by the Company. The differences resulting from the Company s selected assumptions and conditions in contrast to other assumptions and conditions 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 Staff Accounting Bulletin 101 (**SAB 101**), entitled Revenue Recognition in Financial Statements, as modified by SAB104 , 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 101. 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**), entitled 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 Joint Strike Fighter 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 at times may 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 its 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 twenty four 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 is to conduct cycle counts of inventory at its Clearwater, Florida and Earlysville, Virginia operations throughout the year. Generally, for items that are in process at the end of a fiscal year, management will make an estimate 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 July 30, 2004 and January 31, 2004, 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.

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 July 30, 2004 are as follows:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than One Year**	**1 - 3 years**	**4 - 5 years**	**> 5 years**
Purchase commitments	$ 6,582,000	$ 6,283,000	$ 273,000	$ 26,000	$ -
Long-term debt	3,178,000	269,000	463,000	460,000	1,986,000
Operating leases	1,017,000	398,000	619,000	-	-
Total	$10,777,000	$ 6,950,000	$ 1,355,000	$ 486,000	$ 1,986,000

Item 3

Quantitative and Qualitative Disclosures about Market Risk.

The primary market risk exposure for the Company is interest rate risk under the Company s variable rates in its loans from Wachovia discussed in Note 5 to its Financial Statements in Part I above. The Company does not currently utilize any financial instruments to manage interest rate risk.

Item 4

Controls and Procedures.

As of July 30, 2004, 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.

PART II   OTHER INFORMATION

Item 1 Legal Proceedings.

SEC Formal Investigation and Action Against Former Executives

The Company is the subject of a Formal Order of Investigation issued by the U.S. Securities and Exchange Commission (the **SEC**) on May 13, 2003 with respect to potential violations of the federal securities laws in connection with the accounting misstatements and contributing causes disclosed by the Company in press releases dated March 17 and May 22, 2003 and further discussed in the Company s annual report for the fiscal year ended January 31, 2003 and the subsequent quarterly reports on Form 10-Q, which the Company brought to the attention of the SEC in conjunction with management s internal investigation, and other potential issues. The Company received a letter from the SEC dated October 27, 2004 advising the Company that the SEC investigation has been terminated as to the Company and that no enforcement action has been recommended to the Commission, as to the Company.

On October 18, 2004, the SEC filed a Complaint for Injunctive and Other Relief against John Mervyn Nabors, a former chief executive officer of the Company, and Eric J McCracken, a former chief financial officer of the Company, alleging, among other charges, that Mr. Nabors and Mr McCracken implemented various accounting schemes designed to artificially inflate the Company s reported pre-tax earnings, and that they caused the Company to report inflated earnings by recording fictitious and premature revenue. The SEC reported that Mr. Nabors has reached a settlement of this matter with the SEC and that concurrently with its Complaint, the SEC filed Mr. Nabors Consent to the proposed judgment (without his admitting or denying the allegations of the SEC s Complaint), and the proposed Final Judgment, which permanently enjoins Mr. Nabors from violating antifraud and other provisions of the federal securities laws, bars Mr. Nabors from serving as an officer or director of a public company and orders him to pay disgorgement of $210,200 and civil money penalties of $50,000 to a fund for the benefit of defrauded investors, including those who held the Company s shares during the time period alleged in the SEC Complaint. The SEC s case against Mr. McCracken is pending.

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 accountant, 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," 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.

The outcome of the consolidated class action lawsuit cannot be adequately determined, and the impact upon the Company cannot be assessed, at this time. Any resolution of such litigation could have a material adverse effect upon the Company s financial position, results of operations, and cash flow.

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

The Company held its annual meeting of stockholders for 2004 on July 14, 2004, at which the board of directors submitted three proposals to the stockholders, including the election of directors. The details of the three proposals are described in the Company s definitive proxy statement filed with the SEC on June 15, 2004. All six of the board s nominee s were elected as directors, and the other two proposals likewise were approved by the stockholders and became effective with such approvals.

The first proposal, as approved and adopted, was an amendment to the Company s bylaws to classify the board of directors into three groups (i.e., classes) and to provide ultimately for three-year terms for each class. The classification has begun with a one-year term for Class I directors, a two-year term for Class II directors, and a three-year term for Class III directors. Each class will be elected for a three-year term when their current terms expire. There were 902,876 votes cast for this proposal and 326,010 votes against, 4,015 abstentions and 1,345,411 broker non-votes.

The second proposal for the election of six directors to constitute the entire board, but to serve in the following classes as explained above. William C. Parker and Thomas E. Whytas were elected as Class I directors, Robert J. McGill and P. Mark Perkins were elected as Class II directors, and David A. Baldini and David M. Vosen were elected as Class III directors. The following table includes the share votes for, votes withheld, and broker non-votes on the election of directors.

Name of Director and Class	**Votes For**	**Votes Withheld**
William C. Parker, Class I	2,118,364	459,948
Thomas E. Whytas, Class I	2,118,970	459,342
Robert J. McGill, Class II	2,118,864	459,448
P. Mark Perkins, Class II	2,118,864	459,448
David A. Baldini, Class III	2,108,870	469,442
David M. Vosen, Class III	2,118,864	459,448

The third proposal was to approve the Aerosonic Corporation 2004 Stock Incentive Plan (the **Stock Plan**) to provide for the use of up to 200,000 shares of the Company s Common Stock as incentive compensation to encourage and enable officers, other employees, and non-employee directors of the Company (including its subsidiaries) to acquire a proprietary interest in the Company, in order to stimulate their efforts on the Company s behalf, to strengthen their desire to remain with the Company, and to assist in the recruitment of new employees. There were 987,200 votes cast for this proposal and 243,271 votes against, 2,430 abstentions and 1,345,411 broker non-votes.

ITEM 5. OTHER INFORMATION

None

Table of Contents

Item 6 Exhibits and Reports on Form 8-K.

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.

Item 6. Exhibits and Reports on Form 8-K (continued).

Exhibit No.

Description of Exhibit

10.6

Supplemental Pension Plan, dated January 1, 2001, 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.

10.7

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

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 second quarter of fiscal year 2004, the Company filed current reports on Form 8-K as follows:

On June 3, 2004, the Company filed a current report on Form 8-K with the Securities and Exchange Commission reporting under Item 5 and attaching the Company s May 28, 2004 press release disclosing (i) the resignation of Charles M. Foster, Jr. from the Company s Board of Directors, and (ii) the election of Thomas E. Whytas to the Company s Board of Directors, filling the vacancy created by Mr. Foster s resignation. On June 4, 2004 and inadvertently again on June 8, 2004, the Company filed a Form 8-K/A amendment correcting an error in a date that was reported in the Company s Form 8-K filed on June 3, 2004.

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: December 7, 2004

AEROSONIC CORPORATION

/s/ David A. Baldini

David A. Baldini, President and Chief Executive Officer

Date: December 7, 2004

AEROSONIC CORPORATION

/s/ Gary E. Colbert

Gary E. Colbert, Chief Financial Officer