AEROSONIC CORP /DE/
Form 10-K
May 01, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the Fiscal Year Ended January 31, 2002
Commission File Number 0-4988

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)
(Zip Code)
Registrant's telephone no., including area code: (727) 461-3000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock - Par Valcue $.40
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [_].

As of April 24, 2002, the aggregate market value of the voting stock held by non-affiliates of the registrant was $67,892,000.

As of April 24, 2002, the issuer had 3,919,845 shares of Common Stock outstanding, net of treasury shares.

Documents Incorporated by Reference

Document	Part of 10K

--------	-----------
Proxy Statement for the 2002 Annual Meeting of Stockholders	Part II, Items 10, 11, 12 and 13

PART I

THIS REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE INTENDED TO BE COVERED BY THE SAFE HARBORS CREATED THEREUNDER. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "ANTICIPATE," "ESTIMATE," "CONTINUE," "PLANS" AND "INTENDS." ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD BE INACCURATE AND THEREFORE, THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS SET FORTH HEREIN IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

Item 1. Business.

Aerosonic Corporation ("the Company") was incorporated under the laws of Delaware in 1969, and in 1970 merged with a Florida company (formerly known as "Aerosonic Corporation"). As used herein, unless the context requires otherwise, "Aerosonic" or the "Company" includes Aerosonic Corporation and its operating subsidiary, Avionics Specialties, Inc.

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

Clearwater Instruments was started in 1953 and 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 was a division of Teledyne Industries, Inc. prior to its acquisition by Aerosonic Corporation in January 1993. Avionics maintains three major product lines in the aircraft instrument segment: 1) Angle of Attack ("AOA")/Stall Warning Systems; 2) Integrated Multifunction Probe (IMFP), an integrated air data sensor; and 3) Engine Vibration Monitoring System (EVMS), an aircraft health and usage monitor. In August 1998, the Company formed a new division entitled Precision Components, to perform precision high volume machining of mechanical components, which was not significant to operations in fiscal year 2002, 2001 or 2000.

Industry

A wide range of information, including airspeed, altitude and fuel levels, is critical for the proper and safe operation of an aircraft.

Redundant systems are a vital element of aircraft design and safety. The Company is an industry leader in the manufacturing of mechanical instrument systems. These instruments are used both for primary flight data and standby redundant instruments in cockpits that use electronic displays for primary flight data. Mechanical instruments operate completely independent of the aircraft's primary electrical system, which is used to power the computer based display panels. Pilots find comfort in being able to check operation and accuracy of the displays against the reliable independent mechanical device.

The Company's three-inch product line was industry standard for many years. The additional information now available in the cockpit has made panel space more valuable. This has opened a new opportunity for smaller two-inch standby instruments. The Company has a full line of two-inch instruments that benefit the aircraft in space and weight.

Pilots use air data for a number of important purposes, including maintaining safe separation from other aircraft. Until recently, aircraft on a similar flight path at altitudes exceeding 29,000 feet have been required to maintain a vertical separation of at least 2,000 feet. As air travel has increased, U.S. and international aviation organizations have sought ways to increase traffic flow on high traffic routes. Reduced vertical separation minimums ("RVSM") have adopted a vertical separation of 1,000 feet on certain highly traveled routes.

Safe travel on RVSM routes requires that an aircraft's altimeter and test equipment associated with the altimeter is extremely accurate. The Company manufactures an Air Data Test Set that exceeds the tight tolerances of the new RVSM requirements. The technology used to develop this test equipment is adaptable for use in an electronic based altimeter system. RVSM is mandated between 29,000 and 41,000 feet and scheduled to be implemented worldwide by 2005.

Strategy

The Company's goal is to continue to reposition its products for profitable growth by maintaining dominance within niche markets. The Company intends to focus on the development of profitable long-term contracts. New aircraft cockpits are increasingly being developed through strategic alliances with market leaders. The Company is well positioned to take advantage of these strategic alliances. Expected sales increases will be derived through new product introduction and further penetration of existing markets. The Company continues to hold a competitive advantage derived from its philosophy of vertical integration. The Company is more than 80% vertically integrated.

Products and Distribution

The Company's products are sold to manufacturers of commercial and private aircraft, both domestic and foreign, and the U.S. military services. For the fiscal year ended January 31, 2002, approximately 60% of the Company's total sales were to the private sector and 40% to military services. Domestic sales of the Company's products are made to many different commercial (non-government) customers. During fiscal year 2002, there was only one commercial customer representing over 10% of total revenues. The aggregate percentage of foreign sales were 26%, 23% and 31% for the fiscal years ended January 31, 2002, 2001 and 2000 respectively.

Most of the Company's instrument sales are made directly through Company employees to original equipment manufacturers or to the military, with the Company's remaining sales being made through other distributors (who resell to aircraft operators).

The Company produces a full line, of both three- and two-inch, mechanical and electro-mechanical cockpit instruments. These instruments require no backup power, as they transfer valuable flight data to the pilot using only the air pressure (from the aircraft probes) as a power source. The company also manufactures a state of the art Air Data Test Set used by aircraft OEMS, repair centers and the US Military.

The Integrated Multifunction Probe (IMFP) is a combination of existing technologies: the Angle of Attack/Air Data Sensing Probe and pressure sensing electronics. This integrated approach to providing aircraft air data reduces the customers' system complexity on aircraft troubleshooting and logistics support while increasing reliability and decreasing system costs.

The Engine Vibration Monitoring System (EVMS) is an onboard aircraft health and usage monitoring system. This system provides the user with useful data as to the health of the aircraft as well as the ability to assess engine/system performance against manufacturer standards.

The Angle of Attack (AOA)/Stall Warning product line has undergone a redesign of its basic components. The Combined Stall Warning Transmitter takes existing technologies of AOA and Stall Warning and combines them into a single TSO C54 Stall Warning Transmitter. This combined instrument dramatically reduced the system weight and increased the system reliability.

Precision Components operates as a high-volume, high-precision machining operation. Products produced by Precision Components are a variety of mechanical parts primarily related to the optics industry. Some of the products include the mechanical components for rifle scopes, printing presses, microscopes and tank gun sights. The majority of the products produced by the division are under long-term agreements.

Customers

The Company primarily markets its products to the original equipment manufacturers (OEMs), particularly the manufacturers of corporate and private jets as well as contractors of military jets. Customers include, among others, the United States government and the majority of OEM's throughout the world. The Company's products reach the private aircraft owners through our network of authorized distributors.

Contracts

The Company's contracts are normally for production or development. Production contracts are typically fixed-price over a three to five year period.

Fixed-price contracts provide for a firm fixed price on a variety of products and quantities of those products. These contracts allow the Company to negotiate better overall prices that fit into customers production programs. These long-term commitments also allow the Company to capitalize on quantity based price reduction for raw materials. Under the firm fixed-price contracts, the Company agrees to perform for an agreed-upon price. Accordingly, the Company derives benefits from cost savings, but bears the risk of cost overruns.

Development contracts provide resources for technology advancement necessary for development of various products. The Company negotiates for and generally receives progress payments from customers that correlate with the costs incurred. Early in FY 2003, notification was received that a derivative of the IMFP had been selected for use on the Joint Strike Fighter (JSF). The requirements for JSF probe will require a new design based on the IMFP with development beginning in FY 2003.

Sales and Marketing

The Company has generally focused sales efforts on government and military entities, OEMs and resellers. The Company intends to increase sales efforts with respect to retrofit, modifications and repair programs.

The Company, due to the system impact of its components, is involved at a very early stage with the aircraft manufacturer's engineers to implement its system into the aircraft design. All components are integrated to the safe operation of the airplane.

In several segments of the worldwide market, the Company uses distributors and representatives to enhance its customer contact and broaden technical scope. The Company also makes use of dealers, where appropriate, to streamline the handling of spare parts orders.

In January of fiscal year 2001, the Company moved the repair operation to the Kansas facility. The Company believes this will improve its ability to provide prompt and effective repair and upgrade service.

Government Regulation

The manufacture and installation of the Company's products in aircraft owned and operated in the United States is governed by U.S. Federal Aviation Administration (FAA) regulations. The most significant of these regulations, to the Company, is the Technical Standard Order (TSO) and Type Certificate (TC) or supplemental Type Certificate (STC) certifications. TSO outlines the minimum standards that a certain type of equipment has to meet to be TSO certified. Many OEMs and Retrofitters prefer TSO-certified aviation equipment because it acts as an industry-wide stamp of approval. The Company also sells its products to European and other non-US OEMs, which typically require approval from the Joint Aviation Authorities (JAA).

The Company holds TSO approval on over 400 different instruments. This provides a significant advantage to the Company and its customers in reducing the time required obtaining TSO approval on new instruments. Most new instruments qualify for approval based on similarity. The Company also has many instruments with JAA approval.

With respect to RVSM air data products, the FAA also requires that these products be RVSM-certified before they are used in flight. This certification process may be undertaken in conjunction with the TC/STC certification process. RVSM certification requires ground and flight tests and an analysis of flight data to ensure the accuracy, reliability, system safety and mean time between failure rates of the product. The RVSM certification process typically lasts one to three months.

Quality Assurance

Product quality is imperative to the aviation industry. The Company strives to maintain the highest standards within each of the divisions.

The Company is recognized by Lockheed as a Star Supplier and by Boeing as a Q100 supplier. The Q100 program uses multilevel criteria to identify the top 100 worldwide suppliers to the Boeing Company.

The Company is ISO 9001 certified. ISO 9001 standards are an international consensus on effective management practices for ensuring that a company can consistently deliver its products and related services in a manner that meets or exceeds customer quality requirements. ISO 9001 standards outline the minimum requirements a quality system must meet to achieve this certification. As an ISO 9001-certified manufacturer, the Company can represent to its customers that it maintains high quality industry standards in the education of employees and the design and manufacture of its products. In addition, the Company's products undergo extensive quality control testing prior to being delivered to customers. As part of the Company's quality assurance procedures, the Company maintains detailed records of test results and quality control processes.

Patents and Licenses

The Company has patents on certain commercial and military products such as air data probes. The Company also has certain registered trademarks. The patents and intellectual property portfolio, in the aggregate, is valuable to operations, however the Company does not believe the business, as a whole, is materially dependent on any single patent, trademark or copyright.

Research and Development

The Company expended approximately $1,022,000, $780,000 and $801,000 in research and development costs for potential new products and enhancements during the fiscal years 2002, 2001 and 2000. There are approximately 25 engineers working at the Company, on a full- or part-time basis, involved in these activities.

Research at Avionics Specialties in fiscal 2002 was primarily concerned with the development and qualification of the Integrated Multi Function Probe (IMFP). Discussions with the European JAA certification authorities revealed that they require new and very severe icing tests for all new certifications. The severity of these new requirements has required a substantial effort to evaluate and have also required a change in the IMFP heater design during the past year. Qualification of the IMFP for Military programs, including icing, is nearing completion with the civilian (FAA/JAA) qualification tests to follow. Flight-testing of the military versions on the US F-16 and the Korean T-50 will commence early in FY 2003. A third customer for the military version of the IMFP was added during FY 2002 when it was selected for use on the Aermacchi MB339 trainer aircraft. Early in FY 2003, notification was received that a derivative of the IMFP had been selected for use on the Joint Strike Fighter (JSF). The requirements for JSF probe will require a new design based on the IMFP with development beginning in FY 2003. The completion of the IMFP development and the start of the JSF probe development will be the focus of the majority of the Research and Development activities in the next year.

During the past year, the combined stall warning and angle of attack transmitter (SWTx) and the Engine and Vibration Monitoring System (EVMS) continued to have new development activities related to their use on new aircraft types. The SWTx will be under development for use on the British Aerospace Nimrod and Swearingen SJ-30 aircraft. Initial hardware and software for these programs has been delivered and they will both have continuing flight test this year. A new program to develop an Angle of Attack transmitter with digital output and self test but without stall warning capability has also begun with Gulfstream Aerospace as the initial customer. This new program and continuing development of the SWTx and EVMS for new aircraft will account for the remainder of the development effort in FY 2003.

The Company continued development of enhancements to its existing product line. Product enhancement activities included software enhancements for the air data test set to meet a market demand for additional functionality.

Competition

The markets for the Company's products are highly competitive and characterized by several industry niches in which a number of manufacturers specialize. The Company manufactures a larger variety of aircraft instruments than its competitors, who, in most instances, compete with the Company on no more than a few types of aircraft instruments.

The Company believes that the principal competitive factors are price, development cycle time, responsiveness to customer preferences, product quality, technology, reliability and variety of products. Management believes that the Company's significant and long-standing customer relationships reflect its ability to compete favorably with respect to these factors.

Manufacturing, Assembly and Material Acquisition

The Company's manufacturing processes, excluding certain electronic products, includes manufacturing principally all components and subassemblies for the instruments, the assembly of those components and testing of products at various stages in the manufacturing and assembly process.

The Company manufactures or has the capability to manufacture, principally all components and subassemblies for the instruments. Raw materials, such as, glass lenses, raw metals and castings are generally available from a number of sources and in sufficient quantities to meet current requirements, subject to normal lead times. The Company believes that retaining the ability to completely manufacture the instruments allows the Company the flexibility to respond to customers quickly and control the quality of its products.

When appropriate, less critical component parts are purchased under short and long term supply agreements. These purchased parts are normally standard parts that can be easily obtained from a variety of suppliers. This allows the company to lower overhead expenses and maintain control required to meet the exacting tolerances demanded in the industry.

Employees

As of the fiscal year ended January 31, 2002, the Company employed approximately 264 employees in its business operations. This consisted of 128 Clearwater Instrument employees, 10 Kansas Instrument employees, 114 Avionics employees and 12 Precision Component employees. The Company's future success depends on the ability to attract, train and retain quality personnel. The Company's employees are not represented by labor unions and Management regards its relations with its employees to be good.

8

Item 2. Properties.

The following sets forth the locations and general characteristics of the Company's principal plants:

Location	Approximate No. Square Feet of Factory and Office Area
Clearwater, Florida	90,000
Wichita, Kansas	7,500
Charlottesville, Virginia	53,000

All properties are well maintained, fully occupied by the Company and suitable for the Company's present level of production. All locations operate more than one shift, five days a week. The property in Wichita, Kansas is owned by the Company and is unencumbered. The Clearwater, Florida property, which is used by both Clearwater Instruments and the Precision Components, is mortgaged in accordance with an Industrial Revenue Bond executed in 1988. (See Note 6, "Financial Statements".)

The Charlottesville, Virginia property was purchased from Teledyne Industries in April 1994 and is mortgaged by a long-term note with the Company's bank. The property consists of a 53,000 square foot manufacturing facility on approximately 12 acres of land.

Item 3. Legal Proceedings.

The Company remains involved in litigation with its former President and Chief Executive Officer, David Goldman and his company Mil-Spec Finishers, Inc. The Case was originally scheduled to go to trial in June of 2001. However, Mr. Goldman and Mil-Spec Finishers filed Chapter 7 Bankruptcy on May 25, 2001. Accordingly, all actions pending in the litigation were automatically stayed pursuant to the bankruptcy code. The Company has elected to pursue Mr. Goldman and Mil-Spec Finishers, Inc. in the Bankruptcy Court.

Additionally, from time to time the Company can be 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 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters.

The Company's Common Stock is traded on the American Stock Exchange under the symbol "AIM". The range of high and low bid quotations as reported by the American Stock Exchange for each of the quarters of the fiscal years ended January 31, 2002 and January 31, 2001 is as follows:

Fiscal Year Ended January 31, 2002

Quarter		Bid		Bid
1	High	16.750	Low	12.000
2	High	19.750	Low	16.250

3	High	20.500	Low	18.010
4	High	21.350	Low	18.400

Fiscal Year Ended January 31, 2001

Quarter		Bid		Bid
1	High	11.130	Low	9.125
2	High	10.640	Low	9.125
3	High	10.440	Low	8.125
4	High	12.500	Low	9.875

During those same periods, no cash dividends were paid. The payment of future dividends, if any, on the Company's common stock and the amount thereof will be dependent upon the Company's earnings, financial requirements, and other factors deemed relevant by the Company's Board of Directors.

As of April 24, 2002, the Company's outstanding shares of common stock were owned by approximately 2,165 shareholders of record.

11

Item 6. Selected Financial Data.

The following selected financial data for the five years in the period ended January 31, 2002 have been derived from the Company's Consolidated Financial Statements.

			Years Ended January 31,	
	2002	2001	2000	
Revenue	$ 27,424,000	$ 24,672,000	$ 23,271,000	$
Income from Continuing operations	$ 1,040,000	$ 456,000	$ 260,000	$
Basic and diluted earnings per share from Continuing operations	$ 0.27	$ 0.12	$ 0.07	$
Total assets	$ 22,219,000	$ 21,473,000	$ 22,774,000	$
Long-term obligations	$ 3,495,000	$ 4,448,000	$ 3,906,000	$

=================== ================== ================== ====

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

Results of Operations.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto included elsewhere herein.

Results of Operations

Revenues

Revenues increased $2,752,000, or 11%, to $27,424,000 for fiscal year 2002 from $24,672,000 for fiscal year 2001. This growth was attributed to several areas including expanded core instrument sales, repairs and riflescope components.

Revenues increased $1,401,000, or 6%, to $24,672,000 for fiscal year 2001 from $23,271,000 for fiscal year 2000. The increase was attributable to increased penetration on new models and panel retrofit for RVSM requirements. RVSM has also provided a significant increase in demand for the Air Data Test Set. The increases in sales were offset by decreased sales of the Angle of Attack product as the Company neared the completion of a large contract to retrofit Tornado fighter jets.

Cost of Sales

Cost of sales increased $1,508,000 or 10%, to $17,162,000, or 63% of revenues, for fiscal year 2002 from $15,654,000 or 63% of revenues, for fiscal year 2001. The increase in dollar amount was related partly to the increase in revenues as well as higher research and development costs.

Cost of sales increased $734,000, or 5%, to $15,654,000, or 63% of revenues, for fiscal year 2001 from $14,920,000 or 64% of revenues, for fiscal year 2000. The increase in dollar amount was related to the increase in revenues, and the decrease in percentage of revenues was primarily related to the Company capitalizing on material acquisition related to long term contracts and the sale of higher margin products.

Selling General and Administrative Expenses

Selling, general and administrative expense increased $215,000, or 3%, to $8,133,000, or 30% of revenue, for fiscal year 2002 from $7,918,000, or 32% of revenues for fiscal year 2001. The increased spending is attributable to increased employee compensation and employee benefit related costs.

Selling, general and administrative expense increased $461,000, or 6%, to $7,918,000, or 32% of revenue, for fiscal year 2001 from $7,457,000, or 32% of revenues for fiscal year 2000. The increased spending is attributable to the legal expense increase of $285,000 to $461,000 from $176,000 in fiscal year 2000 and the environmental expense increase of $72,000 to $155,000 from $83,000 in fiscal year 2000. This was offset by decreased general and administrative labor costs.

Interest Expense

Net interest expense decreased $58,000 to $413,000 in fiscal year 2002 from net interest expense of $471,000 in fiscal year 2001. The net interest expense decrease was primarily due to lower average outstanding debt during the year and decreased interest rates.

Net interest expense increased $55,000 to $471,000 in fiscal year 2001 from net interest expense of $416,000 in fiscal year 2000. The net interest expense increase was primarily due to higher average outstanding debt during the year and increased interest rates.

Other, net

Other income, net decreased $130,000 to ($6,000) in fiscal year 2002 from other income, net $124,000 in fiscal year 2001. The decrease was primarily related to sale of property in Newport Arkansas during fiscal year 2001.

Other income, net increased $120,000 to $124,000 in fiscal year 2001 from other income, net $4,000 in fiscal year 2000. The increase was primarily related to sale of property in Newport Arkansas. The gain on the sale of land was approximately $131,000.

Income Tax Expense

Income tax expense was $670,000 for fiscal year 2002 as compared to $297,000 for fiscal year 2001. The increased amount is related to the higher income before tax. The effective rate decreased 1.93% to 37.47% in fiscal year 2002 from 39.4% in fiscal year 2001. The decrease in the effective tax rate is due to the elimination of a permanent difference in the current year.

Income tax expense was $297,000 for fiscal year 2001 as compared to $222,000 for fiscal year 2000. The increased amount is related to the higher income before tax. The effective rate decreased 6.6% to 39.4% in fiscal year 2001 from 46% in fiscal year 2000. The decrease in the effective rate was attributable to the lower non-deductible expenses in fiscal year 2001 compared to fiscal year 2000 and is consistent with fiscal year 1999

Net Income

As a result of the factors described above, our net income increased $584,000 or 128% to $1,040,000, or 3.8% of revenue, for fiscal year 2002 from $456,000 or 2% of revenues, for fiscal year 2001. Earnings per share increased $ .15 or 125% to $ .27 for fiscal year 2002 from $ .12 in fiscal year 2001.

As a result of the factors described above, our net income increased $196,000 or 75% to $456,000, or 2% of revenue, for fiscal year 2001 from $260,000 or 1% of revenues, for fiscal year 2000. Earnings per share increased $ .05 or 71% to $ ..12 for fiscal year 2001 from $ .07 in fiscal year 2000.

14

Liquidity and Capital Resources

Cash flows from operating activities increased to $1,811,000 for fiscal year 2002 as compared to cash flow of $1,711,000 for fiscal year 2001. The increase was primarily attributable to decreased accounts receivable and increased net income.

Cash flows from operating activities increased to $1,711,000 for fiscal year

2001 as compared to cash flow used of $724,000 for fiscal year 2000. The increase was primarily attributable to decreased accounts receivable, decreased inventory and increased net income.

Cash flow used in investing activities was $703,000 for fiscal year 2002 as compared to $238,000 for fiscal year 2001. The increase was primarily attributable to the increase in purchases of machinery and equipment and Building Improvements.

Cash flow used in investing activities was $238,000 for fiscal year 2001 as compared to $558,000 for fiscal year 2000. The decrease was primarily attributable to the decrease in purchases of large equipment for the Precision Components Division.

Cash flow used in financing activities was $480,000 for fiscal year 2002 as compared to cash used of $1,360,000 in fiscal year 2001. This decrease was a direct result of the increased cash flow from operations and the decrease in Long Term Debt.

Cash flow used in financing activities was $1,360,000 for fiscal year 2001 as compared to cash provided of $528,000 in fiscal year 2000. This decrease was a direct result of the increased cash flow from operations and the decrease in large purchase of equipment

To accommodate fluctuation in cash flow the Company has a $1,000,000 revolving credit facility, which expires in May 2002 and bears interest at the trailing 90-day treasury index plus 2.75%. At January 31, 2002, there was approximately $500,000 available under this facility.

The Company's current ratio was approximately 3.84 to 1 at January 31, 2002 compared to 4.25 to 1 at January 31, 2001. In addition, working capital increased by $312,000 to $12,916,000 in fiscal year 2002 as compared to $12,604,000 in fiscal year 2001. The increase primarily remained stable compared to prior year.

Future capital requirements depend on numerous factors, including research and development, expansion of products lines, Precision Components Division 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 capital 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 does not believe that inflation has had a material effect on the Company's financial position or results of operations. However, the Company can not predict the future effects of inflation.

Acquisitions

Currently, the Company has no arrangements or understandings with respect to any acquisitions. However, the Company continues to monitor acquisition opportunities.

Environmental Matters

In accordance with a consent agreement 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. 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-one remediation had been completed.

During the third quarter of fiscal year 2001 management assessed the post-remediation monitoring expense related to the environmental clean up of 1993 would cost approximately $125,000. This amount was accrued and expensed during the third quarter, fiscal year 2001. Approximately $10,000 remains accrued in Other accrued expenses at January 31, 2002.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The primary market risk exposure for the Company is interest rate risk. The Company does not currently utilize any financial instruments to manage interest rate risk.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements and supplementary data required by Item 8 are listed in the index beginning on page 15 and are included in this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

PART III

Item 10. Directors and Executive Officers.

Information concerning the Directors and Executive Officers of the Company is incorporated by reference to the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission (Commission) within 120 days after the close of fiscal 2002.

Item 11. Executive Compensation.

Information concerning executive compensation is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission within 120 days after the close of fiscal 2002.

Item 12. Security Ownership of Certain Beneficial Owners to Management.

Information concerning security ownership of certain beneficial owners and management is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission within 120 days after the close of fiscal 2002.

Item 13. Certain Relationships and Related Transactions.

Information concerning certain relationships and related transactions is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the Commission within 120 days after the close of fiscal 2002.

18

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AEROSONIC CORPORATION
(Registrant)

By: /s/ J. Mervyn Nabors   Date: April 24, 2002

J. Mervyn Nabors, President
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ J. Mervyn Nabors   Date: April 24, 2002

J. Mervyn Nabors
President, Chief Executive Officer
and Chairman of the Board

/s/ David A. Baldini   Date: April 24, 2002

David A. Baldini
Vice Chairman of the Board
and Vice President

/s/ Eric J. McCracken   Date: April 24, 2002

Eric J. McCracken
Executive Vice President,
Chief Financial Officer and Director

/s/ P. Mark Perkins   Date: April 24, 2002

P. Mark Perkins
Executive Vice President and Director

/s/ William C. Parker   Date: April 24, 2002

William C. Parker, Director

/s/ Todd Beard
Date: April 24, 2002

Todd Beard, Director

/s/ Dan Garwacki
Date: April 24, 2002

Dan Garwacki, Director

19

Aerosonic Corporation and Subsidiary

Table of Contents

PRICEWATERHOUSECOOPERS [LOGO]

PricewaterhouseCoopers LLP
Suite 1500
101 E. Kennedy Blvd.
Tampa FL 33602
Telephone (813) 229 0221
Facsimile (813) 229 3646

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders
of Aerosonic Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Aerosonic Corporation and its subsidiary at January 31, 2002 and 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers, LLP
March 29, 2002

F-2

Aerosonic Corporation and Subsidiary

Consolidated Balance Sheets
January 31, 2002 and 2001

	2002
Assets	
Current assets:	
Cash and cash equivalents	$ 1,705,000
Receivables, net of allowance for doubtful accounts of $81,000 and $77,000	4,263,000
Inventories	10,948,000
Prepaid expenses	131,000
Deferred income taxes	422,000
Total current assets	17,469,000
Property, plant and equipment, net	4,233,000
Capitalized software costs and other assets, net	517,000
Total assets	$ 22,219,000
Liabilities and Shareholders' Equity	
Current liabilities:	
Long-term debt and notes payable due within one year	$ 1,027,000
Revolving credit facilities	500,000
Accounts payable, trade	793,000
Compensation and benefits	884,000
Income taxes payable	406,000
Accrued expenses and other liabilities	943,000
Total current liabilities	4,553,000
Long-term debt and notes payable due after one year	3,347,000

Deferred income taxes	148,000
Total liabilities	8,048,000
Commitments and contingencies (Note 10)	
Shareholders' equity:	
Common stock, $.40 par value; authorized 8,000,000 shares, issued and outstanding 3,986,262	1,595,000
Additional paid-in capital	4,457,000
Retained earnings	8,740,000
Less treasury stock: 66,417 shares in 2002 and 2001, at cost	(621,000)
Total shareholders' equity	14,171,000
Total liabilities and shareholders' equity	$ 22,219,000

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

F-3

Aerosonic Corporation and Subsidiary

Consolidated Statements of Income
For the Years Ended January 31, 2002, 2001 and 2000

	2002	2001
Net sales	$ 27,424,000	$ 24,672,0
Cost of sales	17,162,000	15,654,0
Gross profit	10,262,000	9,018,0
Selling, general and administrative expenses	8,133,000	7,918,0
Operating income	2,129,000	1,100,0
Other income (deductions):		
Interest expense	(413,000)	(471,0
Miscellaneous (expense) income	(6,000)	124,0
	(419,000)	(347,0
Income from before income taxes	1,710,000	753,0
Income tax expense	670,000	297,0
Net income	$ 1,040,000	$ 456,0
Basic and diluted earnings per share	$ .27	$.
Basic weighted average shares outstanding	3,919,845	3,917,6

Diluted weighted average shares outstanding	3,919,845	3,917,6

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

F-4

Aerosonic Corporation and Subsidiary

Consolidated Statements of Shareholders' Equity
For the Years Ended January 31, 2002, 2001 and 2000

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balances at January 31, 1999	$ 1,595,000	$ 4,335,000	$ 6,984,00
Net income	-	-	260,00
Purchase of 43,500 shares of treasury stock	-	-	
Reissuance of 13,696 shares of treasury stock	-	101,000	
Employee stock bonus of 500 shares	-	4,000	
Balances at January 31, 2000	1,595,000	4,440,000	7,244,00
Net income	-	-	456,00
Purchase of 15,500 shares of treasury stock	-	-	
Reissuance of 17,046 shares of treasury stock	-	15,000	
Employee stock bonus of 1,000 shares	-	2,000	
Balances at January 31, 2001	1,595,000	4,457,000	7,700,00
Net income	-	-	1,040,00
Balances at January 31, 2002	$ 1,595,000	$ 4,457,000	$ 8,740,00

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

F-5

Aerosonic Corporation and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended January 31, 2002, 2001 and 2000

		2002
Cash flows from operating activities:		
Net income	$	1,040,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Allowance for doubtful accounts		-
Stock compensation		-
Depreciation		603,000
Amortization		275,000
Gain on sale of property		-
Deferred income taxes		(92,000)
Changes in assets and liabilities:		
Receivables		792,000
Income tax receivable		-
Inventories		(999,000)
Prepaid expenses		(9,000)
Capitalized software costs and other assets		50,000
Accounts payable, trade		(459,000)
Income taxes payable		253,000
Accrued expenses and other liabilities		357,000
Net cash provided by (used in) operating activities		1,811,000
Cash flows from investing activities:		
Capital expenditures		(703,000)
Net cash used in investing activities		(703,000)
Cash flows from financing activities:		
Proceeds from long-term debt and notes payable		-
Proceeds/(payments) from revolving credit facilities		500,000
Purchase of treasury stock		-
Principal payments on long-term debt and notes payable		(980,000)
Net cash (used in) provided by financing activities		(480,000)
Net increase (decrease) in cash and cash equivalents		628,000
Cash and cash equivalents at beginning of year		1,077,000
Cash and cash equivalents at end of year	$	1,705,000
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$	393,000
Income taxes	$	417,000
Noncash investing and financing activities:		
Settlement of notes payable from sale of property	$	-
Conversion of line of credit to note payable	$	-

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

Aerosonic Corporation and Subsidiary

Notes to Consolidated Financial Statements
For the Years Ended January 31, 2002, 2001 and 2000

---

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

The primary business of Aerosonic Corporation and subsidiary (the Company) is to manufacture and sell aircraft instrumentation to government and commercial users from its plants located in Florida, Virginia and Kansas. The Company's customers are located worldwide.

Principles of Consolidation

The consolidated financial statements include the financial statements of Aerosonic Corporation (which operates as the Clearwater, Florida Instrument, Precision Component Division and Wichita, Kansas Instrument division) and its wholly owned subsidiary, Avionics Specialties, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Critical Accounting Policies and Estimates

The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, the Company evaluates its estimates, including those related to accounts receivable and inventory. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications did not have any effect on total assets, liabilities, shareholders' equity or net income.

Cash and Cash Equivalents

The Company considers all short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and receivables. As of January 31, 2002 and 2001, substantially all of the Company's cash balances, including amounts representing outstanding checks, were deposited with high credit quality financial institutions. During the normal course of business, the Company extends credit to customers conducting business in the aviation industry worldwide.

Aerosonic Corporation and Subsidiary

Notes to Consolidated Financial Statements
For the Years Ended January 31, 2002, 2001 and 2000

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Provisions are made for any inventory deemed excess or obsolete.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings. Expenditures for repairs and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Repair and maintenance charges are expensed as incurred. Property under a capital lease is amortized over the lease terms.

The useful lives of property, plant and equipment for purposes of computing deprecation are:

Land and improvements	15-20 years
Buildings and improvements	25-30 years
Machinery and equipment	3-10 years
Patterns, dies, and tools	3-5 years
Furniture and fixtures	5-10 years

Valuation Assessment of Long-Lived Assets

Management periodically evaluates long-lived assets for potential impairment and will reserve for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As of January 31, 2002, management does not believe that any assets are impaired.

Research and Development

Research and development costs are expensed as incurred. Research and development expense approximated $1,022,000, $780,000 and $801,000, during the years ended January 31, 2002, 2001 and 2000, respectively.

Capitalized Software Costs and Other Assets

Included in capitalized software costs and other assets are capitalized software, which are recorded at cost less accumulated amortization. Production costs for computer software that is to be utilized as an integral part of a product is capitalized 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 on a straight line method over three years from the date the product becomes available for general release to customers. Software costs of $24,000 and $131,000 were capitalized during the years ended January 31, 2002 and 2001, respectively. Total capitalized costs were $905,000 and

Aerosonic Corporation and Subsidiary

Notes to Consolidated Financial Statements
For the Years Ended January 31, 2002, 2001 and 2000

$881,000 at January 31, 2002 and 2001, respectively. Accumulated amortization amounted to $497,000 and $222,000 at January 31, 2002 and 2001, respectively.

Income Taxes

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.

Revenue Recognition

The Company generally recognizes revenue from sales of its products when the following have occurred: evidence of a sale arrangement exists; delivery has occurred or services have been rendered; our price to the buyer is fixed or determinable; and collectibility is reasonable assured. In certain circumstances, the U.S. Government accepts title to products while still on the Company's premises. The Company records these items as sales when the government accepts title in writing and assumes all other risks and rewards of ownership.

The Company follows the percentage-of-completion method of accounting for income on one long-term engineering service contract. Under this method, contract revenue is computed as that percentage of estimated total revenue that costs incurred to date bear to total estimated costs, after giving effect to the most recent estimates of costs to complete. Revisions in costs and revenue estimates are reflected in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined without regard to the percentage-of-completion.

Environmental Expenditures

The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable.

Computation of Earnings Per Share

Basic earnings per share is computed using the weighted average of common stock outstanding. Diluted earnings per share is computed using the treasury stock method. There was no dilutive common stock outstanding during the years ended January 31, 2002, 2001, and 2000.

Segment Reporting

As of January 31, 2002 management does not believe the Company has any reportable segments as defined in SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information."

2. Receivables

Receivables at January 31, 2002 and 2001 consisted of the following:

	2002	
Trade, less allowance for doubtful accounts of $81,000 and $77,000 in 2002 and 2001, respectively	$ 4,169,000	$ 5
Officers and employees	94,000	
	$ 4,263,000	$ 5

3. Inventories

Inventories at January 31, 2002 and 2001 consisted of the following:

	2002	
Raw materials and work in process	$ 10,456,000	$ 9
Finished goods	492,000	
	$ 10,948,000	$ 9

4. Property, Plant and Equipment

Property, plant and equipment at January 31, 2002 and 2001 consisted of the following:

	2002	
Land and improvements	$ 468,000	$
Buildings and improvements	3,566,000	3
Machinery and equipment	4,800,000	4
Patterns, dies, and tools	345,000	
Furniture and fixtures	1,150,000	
	10,329,000	9
Less accumulated depreciation and amortization	6,096,000	5
	$ 4,233,000	$ 4

=========== ====

Depreciation expense was $603,000, $543,000 and $530,000 for the years ended January 31, 2002, 2001 and 2000. Certain components of property, plant and equipment are pledged as collateral for debt obligations (Note 6).

Aerosonic Corporation and Subsidiary

Notes to Consolidated Financial Statements
For the Years Ended January 31, 2002, 2001 and 2000

---

5. Income Taxes

Income tax expense for the years ended January 31, 2002, 2001 and 2000 consisted of:

	2002	2001
Current:		
Federal	$ 663,000	$ 295,000
State	99,000	46,000
	762,000	341,000
Deferred:		
Federal	(79,000)	(39,000
State	(13,000)	(5,000
	(92,000)	(44,000
	$ 670,000	$ 297,000

Federal tax rate	34.00%	34.00
Increase in taxes resulting from:		
State income taxes, net of federal tax benefit	3.30%	3.30
Other-primarily non-deductible expenses	0.17%	2.10
Effective tax rate	37.47%	39.40

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at January 31, 2002 and 2001 are as follows:

	2002	

Current deferred tax assets:		
Accounts receivable	$ 30,000	$
Inventories, principally due to additional costs inventoried for tax purposes pursuant to the Tax Reform Act of 1986	303,000	
Compensated absences, principally due to accrual for financial reporting services	96,000	
Other	(7,000)	
Total current deferred tax assets	422,000	
Deferred tax liabilities:		
Property, plant and equipment, principally due to differences in depreciation and capitalized interest	148,000	
Total non-current deferred tax liabilities	148,000	
Net deferred tax asset	$ 274,000	$

Aerosonic Corporation and Subsidiary

Notes to Consolidated Financial Statements
For the Years Ended January 31, 2002, 2001 and 2000

6. Long-Term Debt and Notes Payable

Long-term debt and notes payable at January 31, 2002 and 2001 consisted of the following:

	2002
Note payable	$ 1,053,000
Industrial development revenue bonds	817,000
Mortgage note payable	577,000
Note payable, equipment	758,000
Note payable, II	1,169,000
	4,374,000
Less current maturity	1,027,000
Long-term debt and notes payable, less current maturity	$ 3,347,000

The amount of long-term debt and notes payable maturing in each of the fiscal years 2003, 2004, 2005 and thereafter approximates $1,027,000, $1,341,000, and $1,041,000 and $923,000, respectively.

Note Payable

The note payable is payable in monthly installments beginning in October

1998 through September 30, 2003 including interest at the 90-day average of the 90-day treasury bill plus 2.75% (4.91% and 8.04% at January 31, 2002 and 2001 respectively). The note payable is collateralized by accounts receivable and inventory.

Industrial Development Revenue Bonds

The industrial development revenue bonds are payable in quarterly principal installments of approximately $19,000 and monthly interest installments through December 2012 and bear interest at 90% of prime. The bonds are collateralized by property, plant and equipment located in Clearwater, Florida. The pledged collateral has a carrying value of approximately $1,270,000 at January 31, 2002. The mortgage and underlying bonds may be redeemed by the holder, in whole, at the principal amount plus accrued interest on the 10th, 15th, or 20th anniversary date of the mortgage and underlying bonds. If the tax exempt status of the bond is revoked or impaired, certain portions could become immediately payable, or the interest rate will be increased. In addition, the outstanding balance of $817,000 is subject to accelerated maturity upon a material, adverse change in financial condition or operation which in the opinion of the Trustee materially affect the borrower's ability to repay the obligation as defined in the loan agreement.

Mortgage Note Payable

The mortgage note is payable in monthly installments through May 2009, including interest at 7.5% through May 1999 and prime plus 1 percent thereafter. The note is collateralized by substantially all property, plant and equipment at the Avionics Specialties, Inc. location. The collateralized property has a carrying value of approximately $1,315,000 at January 31, 2002.

Note Payable, Equipment

During September 1999, the Company converted its equipment revolving credit facility into a note payable. The note payable is payable in monthly installments beginning in September 1999 through September 2004 including interest at 8.05%. The note payable is collateralized by all machinery and equipment at the Clearwater location.

Note Payable, II

During July 2000, the Company converted $1,800,000 of its Revolving Credit Facility (Note 7) into a long term note payable. This note bears interest at the rate of 8.71% per annum until October 31, 2000; on October 31, 2000 the interest rate shall be adjusted to 275 basis points over the "trailing 90 day average of the 90 day Treasury bill rate" on the last day of each of the Company's fiscal calendar quarters (4.91% and 8.61% at January 31, 2002 and 2001, respectively). This note is payable in thirty-seven monthly principal installments of $37,103, plus accrued interest, with the outstanding principal balance due on or before September 30, 2003. This note is collateralized by receivables, inventory and general intangibles.

The Company's long-term debt agreements include certain restrictive covenants, including restrictions on dividends (dividends during any single calendar year cannot exceed 25 percent of net income for that year), limitations on business acquisitions and sales of assets, and the requirement to maintain: a debt to tangible net worth ratio of 1.0:1, a current ratio of 2.0:1 and a long-term debt service coverage of 1.25:1. The Company is in compliance with all of the above debt covenants at January 31, 2002.

SFAS No. 107 "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of certain financial instruments. Cash, accounts receivable, short-term borrowings, accounts payable and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments. The carrying amount of long-term debt and notes payable at January 31, 2002 and 2001 approximates fair value due to their adjustable rates which change frequently.

7. Revolving Credit Facilities

During July 2000, the Company acquired a revolving credit facility in the amount of $1,000,000 to replace the prior facility that matured in June 2000. The interest is payable monthly and bears interest at the rate of 8.71% per annum until October 31, 2000; on October 31, 2000 the interest rate shall be adjusted to 275 basis points over the "trailing 90 day average of the 90 day Treasury bill rate" on the last day of each of the Company's fiscal calendar quarters. This note is due and payable on demand, and if no demand is made, is due and payable May 30, 2001. The Company extended the revolving credit facility under the same terms. Approximately $500,000 of additional credit was available under this facility at January 31, 2002. The revolving credit facility matures in May 2002. The average interest rate under this facility for the year ended January 31, 2002 was 7.10%. The revolving credit facility agreement is collateralized by

---

receivables, inventory and general intangibles, and is subject to the same covenants that are included in the Company's long-term debt agreements.

8. Major Customer Information

Sales to U.S. Government agencies, when combined, represented 10 percent or more of net sales and amounted to approximately $10,972,000, $7,180,000 and $5,869,000 for the years ended January 31, 2002, 2001 and 2000, respectively. Sales to an additional customer represented 10 percent or more of net sales and amounted to $2,619,000 and $2,996,000 for the years ended 2002 and 2001, respectively. Foreign sales for the years ended January 31, 2002, 2001 and 2000 represented 10 percent or more of net sales and amounted to approximately $7,126,000, $5,671,000 and $7,116,000, respectively. All foreign sales contracts are payable in U.S. dollars. No other customer sales totaled greater than 10 percent of net sales for years ended January 31, 2002, 2001 or 2000.

Receivables at January 31, 2002 included approximately $508,000, $840,000 and $382,000 due from the U.S. Government, an additional customer and foreign customers, respectively. Receivables at January 31, 2001 included approximately $824,000, $1,035,000 and $545,000 due from the U.S. Government, an additional customer and foreign customers, respectively. No other customers represented greater than 10 percent of receivables at January 31, 2002 or 2001.

9. Benefit Plans

Effective February 1, 1993, the Company adopted a tax-deferred savings plan which covers substantially all employees of the Company. Under the plan, participants may elect to contribute up to 15% of pre-tax earnings. The Company will fund a 100% matching contribution, up to 3% of the participant's yearly compensation. Such matching contributions will be made in cash or common stock of the Company. Additional contributions may be made at the Company's discretion. For the year ended January 31, 2002, the Company contributed cash that amounted approximately $177,000. During the years ended January 31, 2001 and 2000, the Company issued 17,046 and 13,696 shares of treasury stock, respectively, in partial payment of the Plan. These stock contributions were accounted for as non-cash transactions.

In March 1993, the Board of Directors adopted, subject to shareholder approval, an Incentive Stock Option Plan, which provided for the granting of 300,000 shares of the Company's authorized but unissued common stock to key employees. Under the plan, options granted may be either incentive stock options as defined by the Internal Revenue code, or non-qualified stock options. Options may be granted at prices not less than fair market value at the date of option grant. The option price for incentive stock options granted to an optionee who possesses more than 10% total combined voting power of value of the Company may not be less than 110% of the fair market value at the date of option grant. The stock options will be exercisable over a period determined by the Board of Directors, but no longer than five years after the date they are granted.

At January 31, 2002, there are no remaining options available for grant or exercise under the plan. SFAS No. 123, "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based employee compensation plans. The Company has adopted the disclosure only provisions of SFAS No. 123 but applies Accounting Principles Board (APB) Option No. 25 and related interpretations in accounting for its plan. SFAS No. 123 and APB No. 25 have no material financial accounting or reporting impact on the Company for the years ended January 31, 2002, 2001 and 2000.

10. Commitments and Contingencies

In accordance with a consent agreement 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. 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-one remediation had been completed.

During the third quarter of 2001, management assessed the post-remediation monitoring expense related to the environmental clean up of 1993 would cost approximately $125,000. This amount was accrued and expensed during the third quarter of 2001. Approximately $10,000 remains accrued in other accrued expenses at January 31, 2002.

At January 31, 2002, the Company was committed to future purchases primarily for materials of approximately $4,420,000.

The Company entered into various operating leases in fiscal year 2002 to lease certain equipment. Total rental expense was approximately $49,000 for the year ended January 31, 2002. The future minimum rental payments under leases that have initial or remaining noncancelable lease terms in excess of one year at January 31, 2002 is as follows:

	Operating Leases
2003	$ 141,000
2004	141,000
2005	141,000
2006	106,000
2007	68,000
Total minimum lease payments	$ 597,000

The Company remains involved in litigation with its former President and Chief Executive Officer, David Goldman and his company Mil-Spec Finishers, Inc. The Case was originally scheduled to go to trial in June of 2001. However, Mr. Goldman and Mil-Spec Finishers filed Chapter 7 Bankruptcy on May 25, 2001. Accordingly, all actions pending in the litigation were automatically stayed pursuant to the bankruptcy code.

F-15

Aerosonic Corporation and Subsidiary

Notes to Consolidated Financial Statements
For the Years Ended January 31, 2002, 2001 and 2000

Additionally, from time to time the Company can be 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.

11. Quarterly Data (unaudited):

	Quarter Ended		
	April 30	July 31	Oct
2002			
Net sales	$ 6,522,000	$ 7,431,000	$
Gross profit	2,318,000	2,863,000	

Income from operations		442,000		703,000	
Net income		180,000		376,000	
Earnings per share (EPS) - basic		0.05		0.1	
Earnings per share (EPS) - diluted		0.05		0.1	
2001					
Net sales	$	6,484,000	$	5,632,000	$
Gross profit		2,090,000		1,954,000	
Income (loss) from operations		248,000		334,000	
Net income (loss)		91,000		120,000	
Earnings (loss) per share (EPS) - basic		0.02		0.03	
Earnings (loss) per share (EPS) - diluted		0.02		0.03	