EATON VANCE CORP
Form 10-Q
June 04, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934** For the quarterly period ended April 30, 2010
or	
o	**Transition Report Pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934** For the transition period from _____________ to ____________

Commission file no. 1-8100

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	04-2718215 (I.R.S. Employer Identification No.)

Two International Place, Boston, Massachusetts 02110
(Address of principal executive offices) (zip code)

(617) 482-8260
(Registrant s telephone number, including area code)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Shares outstanding as of April 30, 2010:
Voting Common Stock 417,863 shares
Non-Voting Common Stock 118,143,629 shares

Eaton Vance Corp.
Form 10-Q
As of April 30, 2010 and for the
Three and Six Month Periods Ended April 30, 2010

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Part I Financial Information

Item 1. Consolidated Financial Statements

Eaton Vance Corp.
Consolidated Balance Sheets (unaudited)

(in thousands)	April 30, 2010	October 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 323,715	$ 310,586
Short-term investments		49,924
Investments advisory fees and other receivables	118,048	107,975
Note receivable from affiliate	2,500	
Other current assets	40,823	19,677
Total current assets	485,086	488,162
Other Assets:		
Deferred sales commissions	51,469	51,966
Goodwill	135,786	135,786

Other intangible assets, net	76,926	80,834
Long-term investments	191,206	133,536
Deferred income taxes	112,447	97,044
Equipment and leasehold improvements, net	73,022	75,201
Note receivable from affiliate		8,000
Other assets	4,313	4,538
Total other assets	645,169	586,905
Total assets	$ 1,130,255	$ 1,075,067

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.
Consolidated Balance Sheets (unaudited) (continued)

(in thousands, except share figures)	**April 30, 2010**	**October 31, 2009**
Liabilities, Temporary Equity and Permanent Equity		
Current Liabilities:		
Accrued Compensation	$ 60,138	$ 85,273
Accounts payable and accrued expenses	58,003	51,881
Dividend payable	18,976	18,812
Deferred income taxes	19,757	15,580
Contingent purchase price liability	5,079	13,876
Other current liabilities	3,873	2,902
Total current liabilities	165,826	188,324
Long-Term Liabilities:		
Long-term debt	500,000	500,000
Other long-term liabilities	44,170	35,812
Total long-term liabilities	544,170	535,812
Total liabilities	709,996	724,136
Commitments and contingencies (See Note 19)		
Temporary Equity:		
Redeemable non-controlling interests	54,841	43,871
Permanent Equity:		
Voting Common Stock, par value $0.00390625 per share: Authorized, 1,280,000 shares Issued and outstanding, 417,863 and 431,790 shares, respectively	2	2
Non-Voting Common Stock, par value $0.00390625 per share:		

Authorized, 190,720,000 shares Issued and outstanding, 118,143,629 and 117,087,810 shares, respectively	461	457
Additional paid in capital	56,346	44,786
Notes receivable from stock option exercises	(2,558)	(3,078)
Accumulated other comprehensive loss	(576)	(1,394)
Retained earnings	311,327	266,196
Total Eaton Vance Corp. shareholders equity	365,002	306,969
Non-redeemable non-controlling interests	416	91
Total permanent equity	365,418	307,060
Total liabilities, temporary equity and permanent equity	$ 1,130,255	$ 1,075,067

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.
Consolidated Statements of Income (unaudited)

(in thousands, except per share figures)	**Three Months Ended April 30,** **2010**	**2009**	**Six Months Ended April 30,** **2010**	**2009**
Revenue:				
Investment advisory and administration fees	$ 212,141	$ 153,158	$ 422,528	$ 313,670
Distributions and underwriter fees	24,666	18,719	49,700	39,802
Service fees	34,453	25,641	68,443	53,241
Other revenue	1,693	871	4,317	1,147
Total revenue	272,953	198,389	544,988	407,860
Expenses:				
Compensation of officers and employees	88,089	67,237	174,963	136,863
Distribution expense	30,598	21,451	59,709	43,507
Service fee expense	29,593	20,827	57,729	43,876
Amortization of deferred sales commissions	8,376	9,523	16,335	19,080
Fund expenses	5,103	4,384	9,396	9,416
Other expenses	30,105	29,844	58,420	57,996
Total expenses	191,864	153,266	376,552	310,738
Operating income	81,089	45,123	168,436	97,122
Other Income (Expense):				
Interest income	716	828	1,486	2,099
Interest expense	(8,411)	(8,407)	(16,827)	(16,823)
Realized gains (losses) on investments	(251)	(1,256)	1,497	(2,386)

Unrealized gains on investments	1,802	2,839	2,595	3,153
Foreign currency gains (losses)	200	(25)	334	36
Impairment losses on investments		(1,162)		(1,268)
Income before income taxes and equity in net income (loss) of affiliates	75,145	37,940	157,521	81,933
Income taxes	(28,880)	(10,866)	(60,525)	(28,326)
Equity in net income (loss) of affiliates, net of tax	$ 903,000	$ 927,000	$ 1,112,000	

Earnings per share:

Basic as reported	$ 0.12	$ 0.23	$ 0.24	$ 0.28
Basic pro forma	$ 0.12	$ 0.23	$ 0.24	$ 0.28
Diluted as reported	$ 0.12	$ 0.23	$ 0.24	$ 0.28
Diluted pro forma	$ 0.12	$ 0.23	$ 0.24	$ 0.28

Note 8 Earnings per Share

For the three months and six months ended July 29, 2005, 32,500 stock options were excluded from the calculation of shares applicable to diluted net income per share because their inclusion would have been anti-dilutive. No stock options were outstanding for the corresponding periods of the prior year.

Note 9 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. An assessment of this reserve was made as of January 31, 2005, and based upon the estimated cost of the remaining remediation, the reserve was increased to approximately $98,000. A subsequent assessment of activities completed and estimated remaining remediation was made as of July 29, 2005, and the reserve was reduced to approximately $93,000 as of that date.

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

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than One Year**	**1 3 years**	**4 - 5 years**	**> 5 years**
Purchase commitments	$ 4,741,000	$ 4,579,000	$ 145,000	$ 17,000	$ -
Long-term debt	2,909,000	230,000	460,000	460,000	1,759,000
Operating leases	618,000	393,000	225,000	-	-
Total	$ 8,268,000	$ 5,202,000	$ 830,000	$ 477,000	$ 1,759,000

A securities class action lawsuit in the Federal District Court of the Middle District of Florida remains pending against the Company, PricewaterhouseCoopers LLP, the Company s former auditor, and four former employees of the Company, two of whom were directors (the **Federal Class Action**). On April 1, 2005, the Company and the other named defendants in the Federal Class Action filed a Notice of Settlement with the court. On July 13, 2005, all parties filed a Stipulation of Settlement (the **Stipulation**) to settle the Federal Class Action. The Stipulation provides for a payment by or on behalf of the defendants to the plaintiffs of approximately $5.35 million. Of this amount, the Company is obligated to pay $800,000, which has been accrued in the accompanying consolidated financial statements as of July 29, 2005 and January 31, 2005. The balance of the settlement is expected to be paid by Zurich American Insurance Company on behalf of the Company and the individual defendants under the Company s directors and officers insurance policy, and by PricewaterhouseCoopers LLP. On August 9, 2005, the court preliminarily approved the settlement and set a fairness hearing on November 18, 2005 to consider final approval of the settlement. The settlement is subject to final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

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

On July 11, 2005, the plaintiffs voluntarily dismissed their claims against William Parker, a former director of the Company. On July 25, 2005, all parties filed a Stipulation of Settlement to settle the Franzitta Suit (the Franzitta Stipulation). The settlement provides the Company appoint a new independent director to its board and grant standing authority to the Company s Audit Committee to investigate any matters it deems appropriate. The settlement also provides for a payment of up to $75,000 in attorney s fees and costs to plaintiff s counsel, none of which is required to be paid by the Company. On August 16, 2005, the court preliminarily approved the settlement and set a final fairness hearing on November 21, 2005. The settlement is subject to final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

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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 $1,040,000 when compared to the second quarter of fiscal year 2005. Increases in core instrument revenues of approximately $1,853,000 were offset by decreases in revenues from repairs and spare parts of approximately $298,000, and continuing slower progress on the Joint Strike Fighter (**JSF**) development program of approximately $515,000.

Revenues for the six months ended July 29, 2005 increased approximately $3,019,000 when compared to the six months ended July 30, 2004. Increases in core instrument revenues of approximately $4,071,000 were offset by decreases in revenues from repairs and spare parts of approximately $224,000, and continuing slower progress on the JSF development program of approximately $828,000.

Gross profit for the three months ended July 29, 2005 increased by approximately 11%, or approximately $294,000, when compared to the second quarter of fiscal year 2005. Approximately $356,000 of this change is due to an increase in volume, with an offset of approximately $62,000 due to changes in the revenue mix due to revenue increases in core instruments and revenue reductions in repairs and spare parts that yield higher margins.

Gross profit for the six months ended July 29, 2005 increased by approximately 17%, or approximately $811,000, when compared to the six months ended July 30, 2004. A volume-related increase in gross profit margin of approximately $949,000 was partially offset by a decrease in gross profit margin of approximately $138,000 due to changes in the revenue mix.

Selling, general and administrative expenses for the second quarter decreased approximately $98,000 when compared to the three months ended July 30, 2004. This decrease is primarily attributable to the reductions in outside engineering costs of approximately $126,000 and reductions in compensation expense of approximately $32,000. These decreases were partially offset by an increase in insurance costs of approximately $26,000, an increase in advisory fees of approximately $22,000 and loan amortization costs of approximately $12,000.

Selling, general and administrative expenses for the six months ended July 29, 2005 decreased approximately $64,000 when compared to the six months ended July 30, 2004. This decrease is primarily attributable to the reductions in outside engineering costs of approximately $106,000 and reductions in corporate governance expenses of approximately $55,000. These decreases were partially offset by an increase in insurance costs of approximately $52,000 as well as an increase in advisory fees of approximately $45,000.

Interest expense decreased approximately $16,000 for the three months ended July 29, 2005 when compared to the three months ended July 30, 2004. This decrease is due to lower average debt balances.

Interest expense increased approximately $21,000 for the six months ended July 29, 2005 when compared to the six months ended July 30, 2004. This increase is partially due to higher interest rates and is partially offset by lower average debt balances.

Miscellaneous income decreased approximately $1,073,000 for the three months ended July 29, 2005 when compared to the three months ended July 30, 2004. The Company received a non-recurring insurance settlement in the second quarter of fiscal year 2005 of approximately $997,000. The remainder of the difference results from the strengthening of the U.S. Dollar against the British Pound versus a weakening of the dollar against the pound during the three months ended July 29, 2005.

Miscellaneous income decreased approximately $1,139,000 for the six months ended July 29, 2005 when compared to the six months ended July 30, 2004. This decrease 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 decreased approximately $244,000 for the three months ended July 29, 2005 when compared to the three months ended July 30, 2004. The decrease was due to lower taxable income for the current period.

Income tax expense decreased approximately $104,000 for the six months ended July 29, 2005 when compared to the six months ended July 30, 2004. The decrease was due to lower taxable income for the current period.

Liquidity and Capital Resources

Cash provided by operating activities was approximately $2,246,000 for the six months ended July 29, 2005 an increase of approximately $3,093,000 when compared to cash provided during the six months ended July 30, 2004. This increase in cash provided is primarily attributable to:

An increase due to accounts payable of approximately $2,233,000 as the Company withheld a payment to a vendor of approximately $685,000 pending the settlement of a dispute. In addition, significant one-time payments of professional fees in fiscal year 2005 did not recur.

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An increase due to the reduction of costs less estimated losses in excess of billings of approximately $1,751,000 resulting from the achievement of milestones for the JSF program as well as a reduced rate of revenue recognition for the program.

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An increase due to accrued expenses and other liabilities of approximately $749,000 primarily due to the Company s recording of its anticipated settlement of its class action litigation of approximately $800,000.

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An increase due to allowances for doubtful accounts of approximately $140,000 as the charge that was incurred during fiscal year 2005 did not recur.

These increases in cash provided were partially offset by:

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A decrease in net income of approximately $181,000.

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A decrease due to accrued compensation and benefits of approximately $237,000.

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A decrease of approximately $986,000 due to a comparative period-over-period increase in accounts receivable that resulted from higher revenue.

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A decrease of approximately $348,000 due to a comparative period-over-period increase in inventory accumulation, as a result of higher volume.

Cash used in investing activities increased approximately $51,000 due to higher investment in Machinery and Equipment.

Cash used by financing activities increased approximately $279,000 as the Company reduced its outstanding debt.

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

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

Critical Accounting Policies

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

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

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

Revenue Recognition

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

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

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

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

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

Accounts Receivable Allowance for Doubtful Accounts and Credit Losses

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

Provisions for Excess and Obsolete Inventory Losses and Residual Value Losses

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

Work In Process Inventories

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

Manufacturing Overhead Cost Application

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

Deferred Tax Asset Valuation Allowance

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

Long-Lived Assets

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

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

Other Accounts Affected by Management Estimates

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

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than One Year**	**1 - 3 years**	**4 - 5 years**	**> 5 years**
Purchase commitments	$ 4,741,000	$ 4,579,000	$ 145,000	$ 17,000	$ -
Long-term debt	2,909,000	230,000	460,000	460,000	1,759,000
Operating leases	618,000	393,000	225,000	-	-
Total	$ 8,268,000	$ 5,202,000	$ 830,000	$ 477,000	$ 1,759,000

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 6 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 29, 2005, Aerosonic s Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Aerosonic s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) and concluded that such disclosure controls and procedures were effective as of such date.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Class Action Litigation

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

Shortly after the Gaeta Suit was filed, two other putative class actions (the **"Pratsch Suit"** and **"Suarez Suit"**) were filed against the same defendants as in the Gaeta Suit and predicated upon alleged violations of the same securities laws, asserting that plaintiffs purchased the Company s stock at artificially inflated prices during the Class Period and have been damaged thereby. The Pratsch Suit and Suarez Suit assert a Class Period from May 3, 1999 through March 17, 2003. At a February 27, 2004 hearing, plaintiffs in the Suarez Suit voluntarily withdrew their complaint. On February 27, 2004, the Court entered an order consolidating the Gaeta Suit and Pratsch Suit into one case entitled "In re Aerosonic Corporation Securities Litigation" (the **Federal Class Action**), appointing Lead Plaintiffs (the "Miville Group") and 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 Norstrud, a former employee of the Company. On June 28, 2004, the Company responded to the amended complaint by filing a motion to dismiss, and each of the other defendants also moved to dismiss the amended complaint. On August 27, 2004 Lead Plaintiffs filed a memorandum of law as a comprehensive opposition to the motion to dismiss.

On April 1, 2005, the Company and the other named defendants in the Federal Class Action filed a Notice of Settlement with the court. On July 13, 2005, all parties filed a Stipulation of Settlement (the Stipulation) to settle the Federal Class Action. The Stipulation provides for a payment by or on behalf of the defendants to the plaintiffs of approximately $5.35 million. Of this amount, the Company is obligated to pay $800,000, which has been accrued in the accompanying consolidated financial statements as of July 29, 2005 and January 31, 2005. The balance of the settlement is expected to be paid by Zurich American Insurance Company on behalf of the Company and the individual defendants under the Company s directors and officers insurance policy, and by PricewaterhouseCoopers LLP. On August 9, 2005, the court preliminarily approved the settlement and set a fairness hearing on November 18, 2005 to consider final approval of the settlement. The settlement is subject to final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

Derivative Suit

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

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

On July 11, 2005, the plaintiffs voluntarily dismissed their claims against William Parker, a former director of the Company. On July 25, 2005, all parties filed a Stipulation of Settlement to settle the Franzitta Suit (the Franzitta Stipulation). The settlement provides the Company appoint a new independent director to its board and grant standing authority to the Company s Audit Committee to investigate any matters it deems appropriate. The settlement also provides for a payment of up to $75,000 in attorney s fees and costs to plaintiff s counsel, none of which is required to be paid by the Company. On August 16, 2005, the court preliminarily approved the settlement and set a final fairness hearing on November 21, 2005. The settlement is subject to final court approval, as well as certain other conditions that may cause the settlement not to be consummated.

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. UNREGISTERED SALE OF SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.	**Description of Exhibit**
31.1	Section 302 Certifications
31.2	Section 302 Certifications
32 1	Section 906 Certifications
32.2	Section 906 Certifications

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:

August 26, 2005

AEROSONIC CORPORATION

/s/ David A. Baldini

David A. Baldini, President and Chief Executive Officer

Date:

August 26, 2005

AEROSONIC CORPORATION

/s/ Gary E. Colbert

Gary E. Colbert, Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, David A. Baldini, certify that:

1.

I have reviewed this Quarterly report on Form 10-Q of Aerosonic Corporation;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c)

Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5.

The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors:

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date:

August 26, 2005

/s/ David A. Baldini

David A. Baldini

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Gary E. Colbert, certify that:

1.

I have reviewed this Quarterly report on Form 10-Q of Aerosonic Corporation;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c)

Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5.

The registrant s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors:

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date:

August 26, 2005

/s/ Gary E. Colbert

Gary E. Colbert

Chief Financial Officer

Exhibit 32.1

AEROSONIC CORPORATION

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aerosonic Corporation (the **registrant**) on Form 10-Q for the period ending July 29, 2005 as filed with the Securities and Exchange Commission on the date hereof (the **report**), I, David A. Baldini, Chief Executive Officer of the registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1)

The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934: and

(2)

The information contained in the report fairly presents, in all material respects, the financial condition and result of operations of the registrant.

Date:

August 26, 2005

/s/ David A. Baldini

David A. Baldini

President and Chief Executive Officer

Exhibit 32.2

AEROSONIC CORPORATION

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aerosonic Corporation (the **registrant**) on Form 10-Q for the period ending July 29, 2005 as filed with the Securities and Exchange Commission on the date hereof (the **report**), I, Gary E. Colbert, Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1)

The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934: and

(2)

The information contained in the report fairly presents, in all material respects, the financial condition and result of operations of the registrant.

Date:

August 26, 2005

/s/ Gary E. Colbert

Gary E. Colbert

Chief Financial Officer