AIR T INC
Form DEF 14A
August 12, 2005

SCHEDULE 14A INFORMATION

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

Filed by the Registrant **X**
Filed by a party other than the Registrant

Check the appropriate box:

	Preliminary Proxy Statement
	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
X	Definitive Proxy Statement
	Definitive Additional Materials
	Soliciting Material Under Rule 14a-12

Air T, Inc.

(Name of Registrant as specified in its charter)

(Name of person(s) filing Proxy Statement, if other than Registrant)

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(1)	Amount previously paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing party:
(4)	Date filed:

[Missing Graphic Reference]

AIR T, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 28, 2005

To Our Stockholders:

The annual meeting of stockholders of Air T, Inc. (the Company) will be held at One Independence Center, 101 North Tryon Street, Suite 1900, Charlotte, North Carolina on Wednesday, September 28, 2005 at 10:00 a.m. local time, for the purpose of considering and acting on the following matters:

	1.	To elect nine directors to serve until their successors are duly elected and qualified;
	2.	To ratify the appointment of Dixon Hughes PLLC as the independent registered public accountants of the Company for the current fiscal year;
	3.	To approve the Air T, Inc. 2005 Equity Incentive Plan; and
	4.	To transact such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

Only stockholders of record as of the close of business on August 2, 2005 are entitled to notice of and to vote at the annual meeting and adjournments thereof. You may examine a list of those stockholders at our principal executive offices at 3524 Airport Road, Maiden, North Carolina 28650, during the 10-day period preceding the annual meeting. Each share of our outstanding common stock will entitle the holder to one vote on each matter that properly comes before the annual meeting.

The accompanying proxy statement provides you with a summary of the proposals on which our stockholders will vote at the annual meeting. We encourage you to read this entire document before voting.

Your vote is important no matter how large or small your holdings may be. To ensure your representation at the meeting, please complete, sign, date and return your enclosed proxy card as soon as possible in the postage-paid envelope provided. If your shares are held in street name by your broker or other nominee, only that holder can vote your shares, and the vote cannot be cast unless you provide instructions to your broker. You should follow instructions provided by your broker regarding how to instruct your broker to vote your shares. If you choose to attend the annual meeting, you may revoke your proxy and personally cast your votes at the annual meeting.

The annual report of the Company also accompanies this notice.

By Order of the Board of Directors

John J. Gioffre
Secretary

August 15, 2005

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[Missing Graphic Reference]**Air T, Inc.**

3524 Airport Road
Maiden, North Carolina 28650
Telephone (704) 377-2109

PROXY STATEMENT

The enclosed proxy is solicited on behalf of the Board of Directors of Air T, Inc. (referred to as the Company) in connection with the annual meeting of stockholders of the Company to be held on Wednesday, September 28, 2005 at 10:00 a.m. at One Independence Center, 101 North Tryon Street, Suite 1900, Charlotte, North Carolina. The proxy is for use at the meeting if you do not attend or if you wish to vote your shares by proxy even if you do attend. You may revoke your proxy at any time before it is exercised by

- giving a written notice of revocation to the Secretary of the Company,
- submitting a proxy having a later date, or
- appearing at the meeting and requesting to vote in person

All shares represented by valid proxies and not revoked before they are exercised will be voted as specified. If no specification is made, proxies will be voted "FOR" electing all nominees for director listed on the proxy in Item 1, "FOR" ratifying Dixon Hughes PLLC as the Company s independent registered public accountants for the 2006 fiscal year and FOR approval of the Air T, Inc. 2005 Equity Incentive Plan (the Proposed Equity Incentive Plan). The Board of Directors knows of no matters, other than those stated above, to be presented for consideration at the annual meeting. If, however, other matters properly come before the annual meeting or any adjournment thereof, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with their best judgment on any such matters. The persons named in the accompanying proxy may also, if it is deemed advisable, vote such proxy to adjourn the annual meeting from time to time, including if there is not a quorum on the date set for the annual meeting.

This proxy statement, the enclosed proxy card and 2005 Annual Report to Stockholders are being first mailed to our stockholders on or about August 15, 2005. The Annual Report does not constitute "soliciting material and is not to be deemed "filed" with the Securities and Exchange Commission.

The Company will pay the costs of preparing this proxy statement and of soliciting proxies in the enclosed form. Our employees may solicit proxies, either personally, by letter or by telephone. Our employees will not be specifically compensated for these services. The Company has retained The Altman Group, Inc., 60 East 42nd Street, Suite 405, New York, New York 10165, to assist in soliciting proxies from stockholders, including brokers, custodians, nominees and fiduciaries, and will pay that firm fees estimated at $4,500 for its services, plus the firm s expenses and disbursements.

VOTING SECURITIES

Only stockholders of record at the close of business on August 2, 2005 will be entitled to vote at the annual meeting or any adjournment or adjournments thereof. The number of outstanding shares entitled to vote at the stockholders meeting is 2,671,293. The presence of a majority of the outstanding shares of the Company s Common Stock, par value $.25 per share (the Common Stock), represented in person or by proxy at the meeting will constitute a quorum necessary to conduct business at the meeting. Directors will be elected by a plurality of the votes cast. Cumulative voting is not allowed. Accordingly, abstentions and broker non-votes will not affect the outcome of the election of directors. The ratification of independent registered public accountants and approval of the Proposed Equity Incentive Plan, and any other business coming before the meeting, requires the affirmative vote of a majority of the shares present or represented at the meeting and entitled to vote. On such matters, an abstention will have the same effect as a negative vote but, because shares held by brokers will not be considered entitled to vote on matters as to which the brokers withhold authority, a broker non-vote will have no effect on votes on these matters.

CERTAIN BENEFICIAL OWNERS OF COMMON STOCK

The following table sets forth information regarding the beneficial ownership of shares of Common Stock (determined in accordance with Rule 13d-3 of the Securities and Exchange Commission) of the Company as of June 1, 2005 by each person that beneficially owns five percent or more of the shares of Common Stock. Each person named in the table has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned, except as otherwise set forth in the notes to the table.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Ownership as of June 1, 2005	Percent Of Class
Common Stock, par value $.25 per share	Walter Clark	162,922(1)	6.1%

(1) Includes 102,000 shares controlled by Mr. Clark as one of the executors of the estate of David Clark.

PROPOSAL 1 -- ELECTION OF DIRECTORS

Under the Company s Certificate of Incorporation and bylaws, directors are elected at each annual meeting and hold office until their respective successors are elected and have qualified. The number of directors constituting the Board of Directors has been set at nine by a resolution adopted by the Board of Directors pursuant to the Company s Bylaws. Accordingly, up to nine directors may be elected at the annual meeting. All of the incumbent directors were elected by the stockholders at the last annual meeting.

The following sets forth certain information with respect to the individuals who have been nominated by the Board of Directors, upon recommendation of its Nominating Committee, for election to the Board of Directors at the annual meeting. Each of the following is currently a director of the Company, other than J. Bradley Wilson.

The Board of Directors recommends a vote FOR all of the nominees listed below for election as directors (Item 1 on the enclosed proxy card).

Walter Clark, age 48, has served as a director, Chairman of the Board of Directors of the Company and Chief Executive Officer since April 1997. Mr. Clark also serves as a director of Mountain Air Cargo, Inc. (MAC) and CSA Air, Inc. (CSA) and as the Chief Executive Officer of MAC, Executive Vice President of Global Ground Support, LLC (Global), President of CSA and Executive Vice President of MAC Aviation Services, LLC (MACAS). Mr. Clark was elected a director of the Company in April 1996. Mr. Clark was self-employed in the real estate development business from 1985 until April 1997.

John J. Gioffre, age 61, has served as Vice President-Finance and Chief Financial Officer of the Company since April 1984 and as Secretary/Treasurer of the Company since June 1983. He has served as a director of the Company since March 1987. Mr. Gioffre also serves as Vice-President, Secretary/Treasurer and a director of MAC and CSA, as Chief Financial Officer of MAC and Global and as Vice President-Finance, Treasurer and Secretary of Global and MACAS.

William H. Simpson, age 58, has served as Executive Vice President of the Company since June 1990, as Vice President from June 1983 to June 1990, and as a director of the Company since June 20, 1985. Mr. Simpson is also the President and a director of MAC, the Chief Executive Officer and a director of CSA and an Executive Vice President of Global.

Claude S. Abernethy, Jr., age 78, was elected as director of the Company in June 1990. For the past five years, Mr. Abernethy has served as a Senior Vice President of Wachovia Securities, Inc., a securities brokerage and investment banking firm, and its predecessor. Mr. Abernethy is also a director of Wellco Enterprises, Inc.

Sam Chesnutt, age 71, was elected a director of the Company in August 1994. Mr. Chesnutt serves as President of Sam Chesnutt and Associates, an agribusiness consulting firm. From November 1988 to December 1994, Mr. Chesnutt served as Executive Vice President of AgriGeneral Company, L.P., an agribusiness firm.

Allison T. Clark, age 49, has served as a director of the Company since May 1997. Mr. Clark has been self-employed in the real estate development business since 1987. Allison Clark and Walter Clark are brothers.

George C. Prill, age 82, has served as a director of the Company since June 1982, as Chief Executive Officer and Chairman of the Board of Directors from August 1982 until June 1983, and as President from August 1982 until spring 1984. Mr. Prill has served as an Editorial Director for General Publications, Inc., a publisher of magazines devoted to the air transportation industry, from November 1992 until 2001. From 1979 to 1990, Mr. Prill served as President of George C. Prill & Associates, Inc., of Charlottesville, Virginia, which performed consulting services for the aerospace and airline industry. Mr. Prill has served as President of Lockheed International Company, as Assistant Administrator of the FAA, as a Senior Vice President of the National Aeronautic Association and Chairman of the Aerospace Industry Trade Advisory Committee.

Dennis A. Wicker, age 53, has served as a director of the Company since October 2004. Mr. Wicker is a member of the law firm of Helms, Mulliss & Wicker PLLC, which he joined in 2001 following eight years of service as Lieutenant Governor of the State of North Carolina. He is a member of the boards of directors of Coca-Cola Bottling Co. Consolidated and First Bancorp.

J. Bradley Wilson, age 52, has been nominated by the Nominating Committee to join the Board of Directors. Mr. Wilson serves as Executive Vice President, Chief Administrative Officer and Corporate Secretary of Blue Cross and Blue Shield of North Carolina, a health benefits company. He joined Blue Cross and Blue Shield of North Carolina in December 1995 and served as Senior Vice President and General Counsel until his appointment as Executive Vice President and Chief Administrative Officer in February 2005. Prior to joining Blue Cross and Blue Shield of North Carolina, Mr. Wilson served as General Counsel to Governor James B. Hunt, Jr. of North Carolina and in private practice as an attorney in Lenoir, North Carolina. Mr. Wilson also serves as Chairman of the Board of Directors of the North Carolina Railroad Company and as Chairman of the Board of Governors of the University of North Carolina.

Director Compensation

During the first two months of the fiscal year ended March 31, 2005, each director received a director s fee of $500 per month and an attendance fee of $500 paid to outside directors for each meeting of the board of directors or a committee thereof. Commencing in June 2004, each non-employee director received a director s fee of $1,000 per month and an attendance fee of $500 for each meeting of the Board of Directors or a committee thereof and each employee director continued to receive a director s fee of $500 per month. Pursuant to the Company s 1998 Omnibus Securities Award Plan (the 1998 Plan) each director who was not an employee of the Company at the time of stockholder approval of the 1998 Plan received an option to purchase 1,000 shares of Common Stock at an exercise price equal to the closing bid price per share on the date of stockholder approval of the 1998 Plan. The 1998 Plan provides for a similar option award to any director first elected to the board after the date the stockholders approved the 1998 Plan, with the exercise price per share of such options being the fair market value of a share Common Stock on the date the director is elected. Such options vest one year after being granted and expire ten years after the date they were granted. The Proposed Equity Incentive Plan includes similar provisions providing for awards to non-employee directors of options to purchase 2,500 shares of Common Stock. For a discussion of these provisions of the Proposed Equity Incentive Plan, see Proposal 3 - Approval of Air T, Inc. 2005 Equity Incentive Plan - Awards - Options to Non-employee Directors.

Committees

The Board of Directors has four standing committees: the Audit Committee, the Compensation Committee, the Nominating Committee and the Executive Committee. The Audit Committee consists of Messrs. Abernethy, Chesnutt and Prill, with Mr. Abernethy serving as chairman. The Audit Committee met nine times during the fiscal year. On May 18, 2000, the Board of Directors adopted a charter for the Audit Committee. The Charter was re-approved by the Board of Directors on June 20, 2002 and July 29, 2003 and was revised and approved on August 3, 2004 and subsequently re-approved on July 29, 2005. A copy of the current Charter is included with this Proxy Statement as Annex A and additional copies will be provided to stockholders upon written request to the Secretary of the Company. The principal functions of the Audit Committee, included in the charter, are to select and retain the firm of independent registered public accountants to serve the Company each fiscal year, to review and approve the scope, fees and results of the audit performed by the independent registered public accountants, to review the adequacy of the Company s system of internal accounting controls and the scope and results of internal auditing procedures, to review and periodically discuss with the independent registered public accountants all significant relationships that may affect the auditor s independence, to meet at least quarterly to review the Company s financial results with management and the independent registered public accountants prior to the release of quarterly financial information, to prepare and issue to the Board of Directors annually a summary report suitable for submission to the stockholders and to establish procedures for the receipt, retention and treatment of complaints regarding accounting internal controls and auditing matters, including confidential, anonymous submissions by employees. A copy of the Audit Committee s report for the fiscal year ended March 31, 2005 is included in this Proxy Statement. The Company has certified to NASDAQ the Company s compliance with NASDAQ s audit committee charter requirements and compliance with the audit committee structure and composition requirements.

The Compensation Committee consists of Messrs. Abernethy, Chesnutt and Prill, with Mr. Chesnutt serving as chairman. The functions of the Compensation Committee include establishing policies for the compensation of the Company s executive officers and determining the types and amounts of remuneration to be paid to the Company s executive officers. The Compensation Committee met three times during the fiscal year.

The Nominating Committee consists of Messrs. Abernethy, Chesnutt and Wicker, with Mr. Wicker serving as chairman. The Nominating Committee is responsible for evaluating potential nominees for election as directors and recommending nominees to the Board of Directors, as well as recommending the functions and the membership of the committees of the Board of Directors and leading the Board of Directors in an annual self-evaluation. A copy of the charter of the Nominating Committee is attached as Annex B to this proxy statement and additional copies will be provided to stockholders upon written request to the Secretary of the Company. The charter of the Nominating Committee is not available on the Company s website. Mr. Wilson, the only nominee for election to the Board of

Directors who is not currently a director of the Company, was recommended to the Nominating Committee by an independent director. The Nominating Committee met once during the fiscal year.

The Executive Committee consists of Messrs. Walter Clark, Abernethy, Chesnutt and Prill, with Mr. Clark serving as chairman. The Executive Committee is authorized to exercise the powers of the Board of Directors between meetings of the Board of Directors to the extent permitted by Delaware law and not otherwise specifically delegated to another committee. The Executive Committee met twice during the fiscal year.

Director Independence

The Board of Directors has determined that none of the nominees for election to the Board of Directors other than Messrs. Walter Clark, Gioffre and Simpson (all members of management) and Mr. Allison Clark (who is Mr. Walter Clark s brother) has any relationship that, in the Board s opinion, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and that each of these individuals is independent within the meaning of rules of the Nasdaq Small Cap Market that take effect as of the upcoming annual meeting. All of the members of the Company s Audit Committee, Compensation Committee and Nominating Committee are independent directors under these standards. In addition, the Board of Directors has determined that the members of the Audit Committee meet the heightened standards of independence applicable to members of an audit committee.

Attendance of Meetings

During the fiscal year ended March 31, 2005, the Board of Directors met six times. Each of the directors attended all of the meetings of the Board of Directors and committees thereof on which such director served during such period. The Company does not have a policy with respect to attendance of members of the Board of Directors at the annual meeting of stockholders. Historically, few, if any, stockholders have attended the Company s annual meeting of stockholders other than stockholders who are also officers of the Company. At the annual meeting of stockholders held in 2004, two members of the Board of Directors, who are also officers of the Company, attended the annual meeting of stockholders.

Director Qualifications and Nominations

The Nominating Committee has adopted a policy that candidates nominated for election or re−election to the Board of Directors generally should meet the following qualifications:

· candidates should possess broad training and experience at the policy−making level in business, government, education, technology or philanthropy;

· candidates should possess expertise that is useful to the Company and complementary to the background and experience of other members of the Board of Directors, so that an optimum balance in Board membership can be achieved and maintained;

· candidates should be of the highest integrity, possess strength of character and the mature judgment essential to effective decision−making;

· candidates should be willing to devote the required amount of time to the work of the Board of Directors and one or more of its committees;

· candidates should be willing to serve on the Board of Directors over a period of several years to allow for the development of sound knowledge of the Company and its principal operations; and

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candidates should be without any significant conflict of interest or legal impediment with regard to service on the Board of Directors.

When a vacancy exists on the Board of Directors, the Nominating Committee seeks out appropriate candidates, principally by canvassing current directors for suggestions. The Nominating Committee evaluates candidates on the basis of the above qualifications and other criteria that may vary from time to time. The Nominating Committee does not have a formal policy on the consideration of director candidates recommended by stockholders. The Board of Directors believes that such a formal policy is unnecessary and that the issue is more appropriately dealt with on a case–by–case basis.

Under the Company s bylaws, nominations of persons for election to the Board of Directors may be made at an annual meeting of stockholders. Following the conclusion of the annual meeting to be held on September 28, 2005, such a nomination may be made by a stockholder only if the stockholder complies with the advance notice provisions of the bylaws. These advance notice provisions are discussed elsewhere in this Proxy Statement under the caption Stockholder Proposals and Nominations for 2006 Meeting.

Director and Executive Officer Stock Ownership

The following table sets forth information regarding the beneficial ownership of shares of Common Stock of the Company by each director of the Company and by all directors, nominees and executive officers of the Company as a group as of June 1, 2005. Each person named in the table has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned, except as otherwise set forth in the notes to the table.

SECURITY OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

		Shares and Percent of Common Stock Beneficially Owned as of June 1, 2005	
Name	Position with Company	No. of Shares	Percent
Walter Clark	Chairman of the Board of Directors and Chief Executive Officer	162,922 (1)	6.1%
John J. Gioffre	Vice President-Finance, Chief Financial Officer, Secretary and Treasurer, Director	-	-
William H. Simpson	Executive Vice President, Director	-	-
Claude S. Abernethy, Jr.	Director	-	-
Sam Chesnutt	Director	-	-
Allison T. Clark	Director	-	-
George C. Prill	Director	1,000 (2)	*

Dennis A. Wicker	Director	1,000 (2)	*
J. Bradley Wilson	Nominee	-	-
All directors and executive officers as a group (8 persons)	N/A	164,922(3)	6.2%

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*	Less than one percent.
(1)	Includes 102,000 shares controlled by Mr. Clark as one of the executors of the estate of David Clark.
(2)	Includes 1,000 shares under options granted by the Company.
(3)	Includes an aggregate of 2,000 shares of Common Stock members of such group have the right to acquire within 60 days.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To the Company s knowledge, based solely on review of the copies of reports under Section 16(a) of the Securities Exchange Act of 1934 that have been furnished to the Company and written representations that no other reports were required, during the fiscal year ended March 31, 2005 all executive officers, directors and greater than ten-percent beneficial owners have complied with all applicable Section 16(a) filing requirements, except that Mr. Allison Clark was late in filing two reports with respect to two sales of Common Stock in the aggregate amount of 3,222 shares, Mr. Simpson was late in filing a report with respect to his sale of 109 shares, Mr. Abernethy was late in filing a report with respect to his sale of 3,611 shares and Mr. Wicker was late in filing his initial report upon his election as a director and in filing a report with respect to the automatic grant pursuant to the 1998 Plan of an option to purchase 1,000 shares upon his election as a director. During the fiscal year ended March 31, 2005, the Company s executive officers, directors and greater than ten-percent beneficial owners filed a total of 50 reports under Section 16(a).

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

The following graph compares the Company s cumulative total shareholder return at the end of the five most recent fiscal years, assuming an investment on March 31, 1999 of $100 in Common Stock and reinvestment of all dividends in Common Stock, along with the cumulative total returns determined on the same basis of a broad-based equity market index -- The Center for Research in Securities Prices (CRSP) Total Return Index for the Nasdaq Stock Market (U.S. Companies) -- and a peer index the CRSP Nasdaq Trucking & Transportation Index.

[Missing Graphic Reference]

March 31,					
2000	2001	2002	2003	2004	2005

Company	$100.0	$124.7	$106.5	$44.5	$167.2	$566.6
Nasdaq	$100.0	$ 40.0	$ 40.3	$29.6	$ 43.7	$ 44.0
Nasdaq Trucking & Transportation	$100.0	$ 76.7	$106.3	$93.9	$134.8	$164.6

EXECUTIVE COMPENSATION

Compensation Committee Report

The Compensation Committee of the Board of Directors is charged with establishing the compensation paid to the Company s executive officers and approving incentive compensation awards pursuant to the Company s incentive compensation programs.

Executive Officer Compensation

The Compensation Committee has historically sought to establish compensation policies that provide appropriate rewards to the Company s executive officers commensurate with their service with the Company and to provide incentives for superior performance. As described elsewhere in this Proxy Statement, the Company s executive officers other than the Chief Executive Officer are parties to employment agreements entered into in 1996, which specify an annual salary rate, which may be increased upon annual review by the Compensation Committee, and annual incentive bonus compensation based on the amount of the Company s consolidated earnings before income taxes and extraordinary items as reported by the Company in its Annual Report on Form 10-K. The Compensation Committee had not made any adjustment in the salary paid to these executive officers for several years, and increased the annual salary of these executive officers by approximately six percent during the fiscal year ended March 31, 2005. The Committee used its subjective evaluation of these executives performance and responsibilities, the Company s overall performance and the Chief Executive Officer s recommendations in setting the annual salary for these executive officers. The Compensation Committee has not used any compensation consultant in setting executive salaries, or in determining other components of executive compensation, nor does it seek to benchmark the compensation of the Company s executive officers against compensation paid by other companies to their executives.

The Company has historically provided for an annual cash bonus to its executive officers equal to an established percentage of the Company s earnings before income taxes and extraordinary items, and the employment agreements for the executive officers other than the Chief Executive Officer provide for annual incentive compensation on that basis. This incentive compensation permits a substantial portion of compensation of these executive officers to be tied directly to the Company s overall financial performance. Because of the Company s reported loss for its 2003 fiscal year, no incentive compensation was paid to executive officers for that fiscal year.

The provisions of the Company s 1998 Plan that permitted equity-based incentive compensation awards to employees have expired. The Committee last made awards under the 1998 Plan in 1999, and no awards to employees under the 1998 Plan remain outstanding.

The Compensation Committee has recommended to the Board of Directors the adoption of the Stock Option Plan to permit the Compensation Committee to again use equity-based incentive compensation awards as part of the overall incentive compensation program for executive officers. Historically, members of senior management of the Company have held personally significant holdings in the Company s Common Stock, in part as a result of the exercise of options without any accompanying sales transactions. Beginning in June 2005, the trading volume and price of the Company s Common Stock increased dramatically, providing an opportunity for senior management of the Company to realize value on equity-based compensation awards that had been made many years before. As a result of management realizing value on their share holdings during the fiscal year ended March 31, 2005, the Committee believes that a new equity-based incentive plan would be an appropriate component of incentive compensation to continue to motivate management and further align the interests of management with the interests of the stockholders.

Compensation of Chief Executive Officer

The Committee established Mr. Walter Clark s annual salary at $120,000 in January 1998 and continued that salary rate until the fourth quarter of the fiscal year ended March 31, 2002 when Mr. Clark unilaterally reduced his annual salary to $96,000. During the fiscal year ended March 31, 2005, the Compensation Committee increased Mr. Clark s annual salary to $200,000. In setting Mr. Clark s salary in 1998, the Committee deferred in part to Mr. Clark s request that his compensation be kept relatively low and acceded to his request in subsequent years to keep his salary at a level below what the Committee believed to be appropriate. For fiscal 2005, the Compensation Committee had authorized incentive compensation to Mr. Clark in an amount equal to two percent of the Company s earnings before income taxes and extraordinary items. The Company has historically paid its chief executive officer incentive compensation based on this formula, and the Compensation Committee continues to believe that this incentive compensation program appropriately aligns the interests of the chief executive officer with the stockholders interests. In the second quarter of the fiscal year ended March 31, 2005, Mr. Clark advised the Committee that, in light of proceeds from his personal sales of shares of Common Stock, he would waive his right to receive an incentive compensation payment for fiscal 2005. Had he not unilaterally waived this payment, Mr. Clark would have received an incentive compensation payment of $75,780 for fiscal 2005.

In setting Mr. Clark s annual salary at $200,000 and authorizing his annual incentive compensation award, the Compensation Committee used its subjective evaluation of Mr. Clark s performance and responsibilities and the Company&#1