AIR T INC
Form 10-Q
February 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2017
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____to _____

Commission File Number 001-35476

Air T, Inc.

(Exact name of registrant as specified in its charter)

Delaware	52-1206400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5930 Balsom Ridge Road, Denver, North Carolina 28037

(Address of principal executive offices, including zip code)

(828) 464 – 8741

(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 No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at January 31, 2018
Common Shares, par value of $.25 per share	2,042,789

AIR T, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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Item 1. Financial Statements

AIR T, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Operating Revenues:				
Overnight air cargo	$18,028,688	$17,099,640	$52,851,936	$50,888,019
Ground equipment sales	12,911,101	5,400,258	34,376,866	20,743,323
Ground support services	8,643,267	7,579,661	26,557,666	21,417,854
Printing equipment and maintenance	905,860	2,653,899	5,340,163	6,941,883
Commercial jet engines and parts	3,930,510	2,998,165	21,781,095	4,293,272
Corporate	47,957	-	47,957	-
Leasing	33,863	37,547	104,426	501,062
	44,501,246	35,769,170	141,060,109	104,785,413
Operating Expenses:				
Overnight air cargo	15,538,554	15,221,098	46,020,254	44,929,504
Ground equipment sales	10,578,846	4,345,727	28,606,906	16,521,728
Ground support services	7,337,862	6,449,260	21,738,525	17,604,562
Printing equipment and maintenance	265,054	948,008	2,848,861	8,072,739
Commercial jet engines and parts	2,143,540	1,672,092	15,534,775	2,459,631
Leasing	-	-	-	49,460
Research and development	-	107,598	195,653	858,480
General and administrative	7,252,381	4,960,263	21,114,626	15,932,655
Depreciation, amortization and impairment	815,590	411,798	1,743,955	2,755,071
Gain on sale of property and equipment, net	17,739	13,909	16,648	13,909
	43,949,566	34,129,753	137,820,203	109,197,739
Operating Income (Loss)	551,680	1,639,417	3,239,906	(4,412,326)
Non-operating Income (Expense):				
Gain on sale of marketable securities	72,145	9,965	72,145	582,910
Foreign currency gain (loss)	(11,797)	235,670	(260,903)	360,556
Other-than-temporary impairment loss on investments	(788,799)	-	(1,559,972)	(1,502,239)
Other investment income, net	50,485	66,082	123,286	157,044
Interest expense and other	(538,459)	(136,842)	(1,010,177)	(278,219)
Gain on asset retirement obligation	-	-	562,500	-
Bargain purchase acquisition gain, net of tax	-	-	501,880	-
Unrealized loss on interest rate swap	(199,122)	-	(199,122)	-
Equity in income of associated company	89,426	-	119,363	-

	(1,326,121)	174,875	(1,651,000)	(679,948)
Income (Loss) Before Income Taxes	(774,441)	1,814,292	1,588,906	(5,092,274)
Income Taxes Expense (Benefit)	(60,000)	149,000	595,000	152,000
Net Income (Loss)	(714,441)	1,665,292	993,906	(5,244,274)
Net (Income) Loss Attributable to Non-controlling Interests	$42,502	$(445,255)	$(275,755)	$1,796,942
Net Income (Loss) Attributable to Air T, Inc. Stockholders	$(671,939)	$1,220,037	$718,151	$(3,447,332)
Earnings (Loss) Per Share:				
Basic	$(0.33)	$0.60	$0.35	$(1.60)
Diluted	$(0.33)	$0.60	$0.35	$(1.60)
Weighted Average Shares Outstanding:				
Basic	2,042,789	2,042,789	2,042,789	2,152,301
Diluted	2,042,789	2,047,637	2,047,547	2,152,301

See notes to condensed consolidated financial statements.

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AIR T, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss)	$(714,441)	$1,665,292	$993,906	$(5,244,274)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	22,067	(179,015)	255,433	(368,958)
Unrealized net gains (losses) on marketable securities	(322,214)	139,531	(1,456,359)	(307,224)
Tax effect of net unrealized (gains) losses on marketable securities	21,000	(50,715)	282,115	110,601
Reclassification due to the Tax Cuts and Jobs Act	42,475	-	42,475	-
Total unrealized net gain (loss) on marketable securities, net of tax	(258,739)	88,816	(1,131,769)	(196,623)
Reclassification of other-than-temporary impairment losses on marketable securities included in net income (loss), net of losses (gains) on sale of marketable securities	716,654	(9,965)	1,487,827	919,329
Tax effect of reclassification	-	4,071	(277,622)	(330,475)
Reclassification adjustment, net of tax	716,654	(5,894)	1,210,205	588,854
Total Other Comprehensive Income (Loss)	479,982	(96,093)	333,869	23,273
Total Comprehensive Income (Loss)	(234,459)	1,569,199	1,327,775	(5,221,001)
Comprehensive Loss (Income) Attributable to Non-controlling Interests	80,472	(386,177)	(279,997)	1,918,700
Comprehensive Income (Loss) Attributable to Air T, Inc. Stockholders	$(153,987)	$1,183,022	$1,047,778	$(3,302,301)

See notes to condensed consolidated financial statements.

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AIR T, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2017 (Unaudited)	March 31, 2017 *
ASSETS		
Current Assets:		
Cash and cash equivalents (Delphax $240,468 and $328,327)**	$7,985,088	$2,763,365
Marketable securities	1,363,540	2,130,544
Restricted cash	890,369	890,369
Accounts receivable, less allowance for doubtful accounts of $976,000 and $979,000 (Delphax $661,749 and $1,728,411)**	16,718,738	18,923,787
Notes and other receivables-current	1,183,002	2,297,007
Income tax receivable	1,006,531	402,688
Inventories, net (Delphax $169,048 and $1,941,729)**	19,667,205	19,778,843
Prepayments and other (Delphax $508,980 and $932,794)**	1,435,265	1,672,475
Total Current Assets	50,249,738	48,859,078
Investments in Available-For-Sale Securities	2,268,072	2,463,123
Property and equipment, net (Delphax $0 and $8,007)**	18,138,660	5,324,488
Cash surrender value of life insurance policies	2,369,704	2,251,450
Notes and other receivables-long-term	-	66,771
Deferred income taxes	155,302	204,000
Investments in funds	227,000	-
Other assets	1,028,783	371,975
Intangible assets, net	1,156,987	1,376,699
Goodwill	4,417,605	4,417,605
Total Assets	$80,011,851	$65,335,189
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable (Delphax $2,283,154 and $2,482,578)**	$9,575,439	$11,571,156
Accrued expenses and other current liabilities (Delphax $3,111,124 and $3,602,162)**	8,112,945	8,672,815
Short-term debt	2,500,000	25,000
Total Current Liabilities	20,188,384	20,268,971
Long-term debt	32,304,523	18,412,521
Deferred income taxes	-	8,000
Other non-current liabilities	2,375,349	3,039,402
Total Liabilities	54,868,256	41,728,894
Redeemable non-controlling interest	1,997,559	1,443,901

Commitments and Contingencies (Notes 2, 8 and 12)

Equity:		
Air T, Inc. Stockholders' Equity:		
Preferred stock, $1.00 par value, 50,000 shares authorized	-	-
Common stock, $.25 par value; 4,000,000 shares authorized, 2,042,789 shares issued and outstanding	510,696	510,696
Additional paid-in capital	4,163,436	4,205,536
Retained earnings	19,137,023	18,461,347
Accumulated other comprehensive loss	117,580	(212,047)
Total Air T, Inc. Stockholders' Equity	23,928,735	22,965,532
Non-controlling Interests	(782,699)	(803,138)
Total Equity	23,146,036	22,162,394
Total Liabilities and Equity	$80,011,851	$65,335,189

* Derived from audited consolidated financial statements

** Amounts related to Delphax as of December 31, 2017 and March 31, 2017, respectively.

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$993,906	$(5,244,274)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of marketable securities	(72,145)	(582,910)
Gain on sale of property and equipment	16,648	13,909
Change in accounts receivable and inventory reserves	(71,953)	1,409,575
Depreciation, amortization and impairment	1,743,955	2,755,071
Change in cash surrender value of life insurance	(118,254)	(164,632)
Gain on asset retirement obligation	(562,500)	-
Gain on bargain purchase, net of tax	(501,880)	-
Deferred income taxes	(102,566)	-
Warranty reserve	53,092	(66,869)
Other-than-temporary impairment loss on investments	1,559,972	1,502,239
Unrealized loss on interest rate swap	199,122	-
Change in operating assets and liabilities:		
Accounts receivable	3,011,203	(1,350,470)
Notes receivable and other non-trade receivables	1,053,846	(669,943)
Inventories	4,223,445	(8,569,464)
Prepaid expenses and other assets	145,640	450,498
Accounts payable	(2,294,265)	1,615,448
Accrued expenses	(538,232)	(317,093)
Income taxes payable/ receivable	(603,843)	(873,557)
Non-current liabilities	165,039	(580,110)
Total adjustments	7,306,324	(5,428,308)
Net cash provided by (used in) operating activities	8,300,230	(10,672,582)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(1,007,071)	(2,505,519)
Proceeds from sale of marketable securities	537,826	5,781,001
Net cash used for business combinations and equity investments	(2,900,000)	(4,573,700)
Capital expenses	(15,247,244)	(1,518,007)
Proceeds from sale of property and equipment	1,861	6,281
Net cash used in investing activities	(18,614,628)	(2,809,944)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	86,949,125	52,462,391
Payments on lines of credit	(88,817,034)	(34,103,649)

Payment on line of credit - Delphax	-	(700,558)
Proceeds from term loan	20,841,000	-
Payments on term loan	(2,436,225)	-
Payments of deferred financing costs	(156,115)	-
Contribution from non-controlling member	252,000	-
Earnout payments	(1,100,000)	-
Repurchase of common stock	-	(7,917,009)
Net cash provided by financing activities	15,532,751	9,741,175
Effect of foreign currency exchange rates on cash and cash equivalents	3,370	17,786
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,221,723	(3,723,565)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,763,365	5,345,455
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$7,985,088	$1,621,890
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:		
Finished goods inventory transferred to equipment leased to customers	$-	$321,345
SUPPLEMENTAL DISCLOSURE OF INVESTING ACTIVITIES:		
Non-controlling interest in acquired business	$-	$1,072,161
Acquired business earnout contract	-	3,075,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$690,859	$158,100
Income taxes	1,457,518	1,028,457

See notes to condensed consolidated financial statements.

AIR T, INC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

	Equity Air T, Inc. Stockholders' Equity						
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Non-controlling	Total
	Shares	Amount	Capital	Earnings	Income (Loss)	Interests	Equity
Balance, March 31, 2016	2,372,527	$593,131	$4,956,171	$28,821,825	$(140,519)	$1,040,922	$35,271,530
Repurchase of common stock	(329,738)	(82,435)	(687,635)	(7,146,939)	-	-	(7,917,009)
Net loss*	-	-	-	(3,447,332)	-	(1,851,798)	(5,299,130)
Net change from marketable securities, net of tax	-	-	-	-	392,232	-	392,232
Foreign currency translation loss	-	-	-	-	(247,200)	(121,758)	(368,958)
Balance, December 31, 2016	2,042,789	$510,696	$4,268,536	$18,227,554	$4,513	$(932,634)	$22,078,665

	Equity Air T, Inc. Stockholders' Equity						
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Non-controlling	Total
	Shares	Amount	Capital	Earnings	Income (Loss)	Interests*	Equity
Balance, March 31, 2017	2,042,789	$510,696	$4,205,536	$18,461,347	$(212,047)	$(803,138)	$22,162,394
Net income*	-	-	-	718,151	-	16,197	734,348
	-	-	-	-	35,961	-	35,961

Net change from marketable securities, net of tax							
Foreign currency translation gain	-	-	-	-	251,191	4,242	255,433
Redeemable non-controlling interest	-	-	(42,100)	-	-	-	(42,100)
Reclassification due to the Tax Cuts and Jobs Act	-	-	-	(42,475)	42,475	-	-
Balance, December 31, 2017	2,042,789	$510,696	$4,163,436	$19,137,023	$ 117,580	$(782,699)	$23,146,036

*Excludes amount attributable to redeemable non-controlling interest in Contrail Aviation.

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Financial Statement Presentation

The condensed consolidated financial statements of Air T, Inc. ("AirT", the "Company", "we", "us" or "our") have been prepared, without audit (except as it relates to the condensed consolidated balance sheet as of *March 31, 2017* which have been derived from audited financial statements), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented *not* misleading. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the results for the periods presented have been made.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form *10*-K for the year ended *March 31, 2017.* The results of operations for the *three* and *nine*-month periods ended *December 31* are *not* necessarily indicative of the operating results for the full year.

New Accounting Pronouncements

In *May 2014,* the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *2014-09, Revenue from Contracts with Customers (Topic 606).* ASU *2014-09* is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU *2014-09* also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU *2014-09* is effective for annual reporting periods beginning after *December 15, 2017 (*our fiscal year *2019*), including interim reporting periods within that reporting year, with earlier adoption permitted for reporting periods beginning after *December 15, 2016.* ASU *2014-09 may* be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but *not* for prior years. Under the latter method, entities would recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for

contracts that still require performance by the entity, and disclose all line items in the year of adoption as if they were prepared under the old revenue guidance.

We expect to adopt this guidance when effective using the modified retrospective transition method. Our implementation approach included performing a detailed study of the various types of revenue streams and agreements that we have with our customers and assessing conformance of our current accounting practices with the new standard. We are in the process of completing our assessment and contract review under the new guidance and are in the final stages of determining the impact of the new guidance which should be completed by March 31, 2018.

In *July 2015,* the FASB issued ASU *2015-11, Simplifying the Measurement of Inventory (Topic 330)*. This standard amends existing guidance to simplify the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The amendment in ASU *2015-11* is for fiscal years beginning after *December 15, 2016,* and interim periods within fiscal years beginning after *December 15, 2017.* The amendment should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does *not* expect the impact of adopting ASU *2015-11* to be material to the Company's consolidated financial statements and related disclosures.

In *November 2015,* the FASB issued ASU *2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740)*. This standard eliminates the current requirement to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Under this new guidance, entities will be required to classify all deferred tax assets and liabilities as noncurrent. This guidance is effective for interim and annual reporting periods beginning after *December 15, 2016* with earlier adoption permitted. We adopted this amendment with the quarter ended *June 30, 2017.*

In *January 2016,* the FASB issued ASU *2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities*, that amends the guidance on the classification and measurement of financial instruments (Subtopic *825-10*). ASU *2016-01* becomes effective in fiscal years beginning after *December 15, 2017,* including interim periods therein. ASU *2016-01* removes equity securities from the scope of Accounting Standards Codification ("ASC") Topic *320* and creates ASC Topic *321, Investments – Equity Securities*. Under the new guidance, all equity securities with readily determinable fair values are measured at fair value on the statement of financial position, with changes in fair value recorded through earnings. The update eliminates the option to record changes in the fair value of equity securities through other comprehensive income. The Company is evaluating the impact of the adoption of the standard on its consolidated financial statements. The Company currently has investments in available for sale securities and the fair value changes of such securities are, other than in the case of possible other-than-temporary impairments, currently reflected in other comprehensive income. Provided that the Company continues to hold available for sale securities after adoption of the amended guidance, earnings are likely to become more volatile.

In *February 2016,* the FASB issued ASU *2016-02, Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than *12* months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Similarly, lessors will be required to classify leases as either sales-type, finance or operating, with classification affecting the pattern of income recognition. Classification for both lessees and lessors will be based on an assessment of whether risks and rewards as well as substantive control have been transferred through a lease contract. The new standard is effective for fiscal years beginning after *December 15, 2018,* including interim periods within those fiscal years, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Company is evaluating the impact of the adoption of the standard on its consolidated financial statements.

In *March 2016,* the FASB issued ASU *2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which addresses several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU *2016-09* is effective for annual reporting periods beginning after *December 15, 2016* and earlier adoption is permitted. The new standard requires that an entity recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement as discrete items in the reporting period in which they occur. Under the previous standard, excess tax benefits are recognized in additional paid-in capital and tax deficiencies are recognized either as an offset to accumulated excess tax benefits, or in the income statement. This accounting guidance became effective for the Company beginning with the *June 30, 2017* quarter.

In *June 2016,* the FASB issued ASU *2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are *not* measured at fair value through net income, including trade receivables. The standard requires an entity to estimate its lifetime "expected credit loss" for such assets at inception, and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. Early adoption is permitted for annual periods

beginning after *December 15, 2018,* and interim periods therein. The Company is currently evaluating the impact of the adoption of the standard on its consolidated financial statements and disclosures.

In *August 2016,* the FASB issued ASU *2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU *2016-15* clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2017,* with early adoption permitted. The update requires retrospective application to all periods presented but *may* be applied prospectively if retrospective application is impracticable. The Company is currently evaluating the impact of the adoption of the standard on its consolidated financial statements and disclosures.

In *November 2016,* the FASB issued ASU *2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.* ASU *2016-18* requires that the statement of cash flows explain the changes in the combined total of restricted and unrestricted cash balance. Amounts generally described as restricted cash or restricted cash equivalents will be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period balances on the statement of cash flows. Further, the ASU requires a reconciliation of balances from the statement of cash flows to the balance sheet in situations in which the balance sheet includes more than *one* line item of cash, cash equivalents, and restricted cash. Companies will also be disclosing the nature of the restrictions. ASU *2016-18* is effective for financial statements issued for fiscal years beginning after *December 15, 2017.* The Company is currently evaluating the impact of the standard on its consolidated financial statements and disclosures.

In *January 2017,* the FASB issued ASU *2017-01, Clarifying the Definition of a Business (Topic 805).* This ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for fiscal years that begin after *December 15, 2017* and is to be applied prospectively. The adoption of this standard is *not* expected to have a material impact on the Company's consolidated financial statements.

In *January 2017,* the FASB issued ASU *2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This ASU simplifies how an entity is required to test goodwill for impairment by eliminating Step Two from the goodwill impairment test. Step Two measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this standard, an entity will recognize an impairment charge for the amount by which the carrying value of a reporting unit exceeds its fair value. The standard is effective for any interim goodwill impairment tests in fiscal years beginning after *December 15, 2019* and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after *January 1, 2017.* The Company is currently evaluating the effects that the adoption of this ASU will have on its consolidated financial statements.

In *May 2017,* the FASB issued ASU *2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*, which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. This update is effective for all entities for fiscal years beginning after *December 15, 2017,* and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of this ASU will have on its consolidated financial statements. The Company has *not* yet concluded how the new standard will impact the consolidated financial statements.

In *August 2017,* the FASB issued ASU *2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which provides guidance on hedge accounting for both financial and commodity risks. The provisions in this standard create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes, for investors and analysts. The standard is effective for public companies for fiscal years beginning after *December 15, 2018.* Early adoption is permitted in any interim period or fiscal years before the effective date of the standard. The adoption of this standard is *not* expected to have a material

impact on the Company's consolidated financial statements.

In January 2018, the FASB released guidance relating to the reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The Company has opted to early adopt this pronouncement by retrospective application to each period (or periods) in which the effect of the change in the tax rate under the Tax Cuts and Jobs Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings is approximately $42,000 and was recorded as of December 31, 2017.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are *not* expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. Acquisitions

Acquisition of Interests in Contrail Aviation

On *July 18, 2016 (*the "Contrail Closing Date"), pursuant to an asset purchase agreement (the "Asset Purchase Agreement") between Contrail Aviation Support, LLC ("Contrail Aviation"), a subsidiary of the Company, Contrail Aviation Support, Inc. (the "Seller" or "Contrail") and Joseph Kuhn, the sole shareholder of the Seller, Contrail Aviation completed the purchase of all of the assets owned, used or usable by the Seller, other than cash, equity in the Seller's IC-DISC subsidiary and certain other specified excluded assets. Pursuant to the Asset Purchase Agreement, Contrail Aviation also assumed certain liabilities of the Seller. Prior to this acquisition, the Seller, based in Verona, Wisconsin, engaged in the business of acquiring surplus commercial jet engines and components and supplying surplus and aftermarket commercial jet engine components. In connection with the acquisition, Contrail Aviation offered employment to all of the Seller's employees and Mr. Kuhn was appointed Chief Executive Officer of Contrail Aviation.

The acquisition consideration consisted of (i) *$4,033,367* in cash, (ii) equity membership units in Contrail Aviation representing *21%* of the total equity membership units in Contrail Aviation, and (iii) and contingent additional deferred consideration payments which are more fully described below. In addition to the net assets of the Seller, beginning equity of Contrail included cash of approximately *$904,000.*

Pursuant to the Asset Purchase Agreement, Contrail Aviation agreed to pay as contingent additional deferred consideration up to a maximum of *$1,500,000* per year and *$3,000,000* in the aggregate (collectively, the “Earnout Payments” and each, an “Earnout Payment”), calculated as follows:

(i) if Contrail Aviation generates EBITDA (as defined in the Asset Purchase Agreement) in any Earnout Period (as defined below) less than *$1,500,000, no* Earnout Payment will be payable with respect to such Earnout Period;

(ii) if Contrail Aviation generates EBITDA in any Earnout Period equal to or in excess of *$1,500,000,* but less than *$2,000,000,* the Earnout Payment for each such Earnout Period will be an amount equal to the product of (*x*) the EBITDA generated with respect to such Earnout Period minus *$1,500,000,* and (y) *two* (*2*);

(iii) if Contrail Aviation generates EBITDA in any Earnout Period equal to or in excess of *$2,000,000,* but less than *$4,000,000,* the Earnout Payment for each such Earnout Period will be equal to *$1,000,000;*

(iv) if Contrail Aviation generates EBITDA in any Earnout Period equal to or in excess of *$4,000,000,* the Earnout Payment for each such Earnout Period will be equal to *$1,500,000;* and

(v) if, following the *fifth* Earnout Period, Contrail Aviation has generated EBITDA equal to or in excess of *$15,000,000* in the aggregate during all Earnout Periods, but the Seller has received or is owed less than *$3,000,000* in aggregate Earnout Payments pursuant to clauses (i) through (iv), above, Contrail Aviation will make an additional Earnout Payment to the Seller in an amount equal to the difference between *$3,000,000* and the aggregate Earnout Payments already received or payable pursuant to clauses (i) through (iv), above.

As used in the Asset Purchase Agreement, “Earnout Period” means each of the *first five twelve*-full-calendar-month periods following the closing of the acquisition. The Company has estimated its liability with respect to the Earnout Payment of *$2,900,000,* which amount was included in the “Other non-current liabilities” in the consolidated balance sheet at *March 31, 2017.* As a result of the EBITDA of Contrail Aviation being approximately *$2.1* million for the *first* Earnout Period, the Earnout Payment with respect to that Earnout Period is *$1,000,000,* which amount was paid in *October 2017.* The remaining liability of *$1,900,000* is included in the “Other non-current liabilities” in the

consolidated balance sheet at *December 31, 2017*.

On the Contrail Closing Date, Contrail Aviation and the Seller entered into an Operating Agreement (the “Operating Agreement”) providing for the governance of and the terms of membership interests in Contrail Aviation and including put and call options (“Put/Call Option”) permitting, at any time after the *fifth* anniversary of the Contrail Closing Date, Contrail Aviation at its election to purchase from the Seller, and permitting the Seller at its election to require Contrail Aviation to purchase from the Seller, all of the Seller’s equity membership interests in Contrail Aviation at a price to be agreed upon, or failing such an agreement to be determined pursuant to *third*-party appraisals in a process specified in the Operating Agreement.

The following table summarizes the fair values of assets acquired and liabilities assumed by Contrail Aviation as of the Contrail Closing Date:

	July 18, 2016
ASSETS	
Accounts receivable	$*1,357,499*
Inventories	*2,118,475*
Prepaid expenses	*30,121*
Property and equipment	*33,095*
Intangible assets - non-compete	*69,700*
Intangible assets - tradename	*322,000*
Intangible assets - certification	*47,000*
Intangible assets - customer relationship	*451,000*
Goodwill	*4,227,205*
Total assets	$*8,656,095*
LIABILITIES	
Accounts payable	$*366,575*
Accrued expenses	*43,652*
Earnout liability	*2,900,000*
Total liabilities	$*3,310,227*
Net Assets	$*5,345,868*

The Company's purchase accounting reflects the estimated net fair value of the Seller's assets acquired and liabilities assumed as of the Contrail Closing Date. Purchase accounting also reflects the Company's current estimate that the Earnout Payments will be due at the above-specified maximum level. The Contrail Closing Date balance sheet information disclosed above reflects the present value of such estimated Earnout Payments.

The Company has finalized its Contrail Aviation acquisition accounting.

The Put/Call Option specifies a fair value strike price as of the exercise date. As such, the Company assigned no value to the Put/Call Option for purposes of purchase accounting. Because the Put/Call Option permits the Seller to require Contrail Aviation to purchase all of the Seller's equity membership interests in Contrail Aviation, the Company has presented this redeemable non-controlling interest in Contrail Aviation between the liabilities and equity sections of the accompanying condensed consolidated balance sheets. For the nine-month period ended December 31, 2017, the redeemable non-controlling interest balance was increased by the Seller's proportionate share of Contrail Aviation's net earnings. The redeemable non-controlling interest balance was also increased by a portion of the estimated change in

Contrail Aviation's fair value between March 31, 2017 and December 31, 2017 and the additional capital contribution of $252,000 made by the non-controlling member in the third quarter (the Company funded an additional $948,000 as well to maintain the current ownership percentages). The total increase in the redeemable non-controlling interest balance was approximately $554,000 from March 31, 2017 to December 31, 2017.

Pro forma financial information is *not* presented as the results are *not* material to the Company's condensed consolidated financial statements.

Acquisition of AirCo Assets

On *May 2, 2017* and *May 31, 2017,* our newly formed subsidiaries, AirCo, LLC and AirCo Services, LLC (collectively, "AirCo") acquired the inventory and principal business assets, and assumed specified liabilities, of Aircraft Instrument and Radio Company, Incorporated, and Aircraft Instrument and Radio Services, Inc. (collectively, the "AirCo Sellers"). The acquired business, which is based in Wichita, Kansas, distributes and sells airplane and aviation parts and maintains a license under Part *145* of the regulations of the Federal Aviation Administration. The consideration paid for the acquired business was *$2,400,000.*

The following table summarizes the provisional fair values of assets acquired and liabilities assumed by AirCo as of *May 2, 2017,* the date of the completion of the acquisition (the "AirCo Closing Date"):

	May 2, 2017
Assets acquired and liabilities assumed at fair value:	
Accounts receivables	$ *748,936*
Inventories	*3,100,000*
Property and equipment	*26,748*
Accounts payable	*(313,117*)
Accrued expenses	*(382,687*)
Net assets acquired	$ *3,179,880*
Net assets acquired	*3,179,880*
Consideration paid	*2,400,000*
Bargain purchase gain	$ *779,880*

The Company's purchase price accounting reflects the estimated net fair value of the AirCo Sellers assets acquired and liabilities assumed as of the AirCo Closing Date. The Company's initial accounting for this acquisition is incomplete as of the date of this report. Therefore, as permitted by applicable accounting guidance, the foregoing amounts are provisional.

The tax impact related to the bargain purchase gain was to record a deferred tax liability and record tax expense against the bargain purchase gain of approximately *$278,000.* The resulting net bargain purchase gain after taxes was approximately *$502,000.*

Pro forma financial information is *not* presented as the results are *not* material to the Company's condensed consolidated financial statements.

Other Acquisitions and Business Investments

On *October 3, 2016,* a newly formed subsidiary of the Company, Stratus Aero Partners LLC, acquired *100%* of the outstanding equity interests of Jet Yard, LLC ("Jet Yard") from the holder thereof. The cash purchase price was *$15,000* and there are *no* contractual provisions, such as an earn-out, which could result in an increase to this price. Jet Yard is registered to operate a repair station under Part *145* of the regulations of the Federal Aviation Administration and its principal asset on the acquisition date was a contract with Pinal County, Arizona to lease approximately *48.5* acres of

land at the Pinal Air Park in Marana, Arizona. Jet Yard was organized in *2014,* entered into the lease in *June 2016* and had maintained de minimus operations from formation through the acquisition date. The lease expires in *May 2046* with an option to renew for an additional *30*-year period (though the lease to a *2.6*-acre parcel of the leased premises *may* be terminated by Pinal County upon *90* days' notice). The lease provides for an initial annual rent of *$27,000,* which rental rate escalates based on a schedule in annual increments during the *first seven* years of the lease (at which time the annual rental rate would be *$152,000*), and increases by an additional *five* percent for each *three*-year period thereafter. Because the rental expense will be accounted for on a straight-line basis over the term of the lease, the rental expense in the initial years will exceed the corresponding cash payments. The lease agreement permits Pinal County to terminate the lease if Jet Yard fails to make substantial progress toward the construction of facilities on the leased premises in phases in accordance with a specified timetable, which includes, as the initial phase, the construction of a demolition pad to be completed by *March 31, 2017* and, as the final and most significant phase, the construction of an aircraft maintenance hangar large enough to house a Boeing *B777-300* by the *first* quarter of *2021.* The construction of the demolition pad required by *March 31, 2017* under the lease has *not* been completed and Jet Yard and Pinal County are in discussions with respect to improvements on the leased premises.

The acquired Jet Yard business is included in the Company's commercial jet engine segment. The Company has finalized its Jet Yard acquisition accounting.

Pursuant to an Asset Purchase Agreement signed on *October 31, 2016,* GAS acquired, effective as of *October 1, 2016,* substantially all of the assets of D&D which was in the business of marketing, selling and providing aviation repair, equipment, parts, and maintenance sales services and products at the Fort Lauderdale airport. The total amount paid at closing in connection with this acquisition was *$400,000.* Additionally, *$100,000* was due within *30* days after closing and an additional *$100,000* is payable in equal monthly installments of *$16,667* commencing on *November 1, 2016.* Earn-out payments of *$100,000* were payable based on specified performance for the *twelve*-month period ending *September 30, 2017.* For purposes of purchase accounting, the Company estimated that the above-mentioned earn-out will be paid in full. Therefore, the Company estimated the total purchase consideration at approximately *$700,000.* The Company allocated the purchase consideration to identifiable tangible and intangible assets. *No* liabilities were assumed in the acquisition. The estimated fair value of identifiable tangible and intangibles assets was approximately *$200,000* and *$300,000,* respectively. The *$200,000* excess of the purchase consideration over the estimated fair value of identifiable assets was recorded as goodwill. The basis of the acquired assets will be "stepped up" for income tax purposes. As such, *no* deferred taxes were recognized in purchase accounting.

The acquired D&D business is operated by GAS and included in the Company's ground support services segment. The Company has finalized its D&D acquisition accounting. Based on actual revenue earned by D&D through *September 30, 2017,* the earnout payment with respect to the purchase agreement was *$100,000,* which amount was paid in *October 2017.*

On *June 7, 2017,* the Company's Space Age Insurance Company subsidiary ("SAIC") invested *$500,000* for a *40%* interest in TFS Partners LLC ("TFS Partners"), a single-purpose investment entity organized by SAIC and other investors for the purpose of making an investment in a limited liability company, The Fence Store LLC ("Fence Store LLC"), organized for the purpose of acquiring substantially all of the assets of The Fence Store, Inc. ("Fence Store Inc."). TFS Partners acquired a *60%* interest in Fence Store LLC, which has completed the purchase of substantially all of the assets of Fence Store Inc. Prior to this transaction, Fence Store Inc. operated a business under the tradename "Town and Country Fence" selling and installing residential and commercial fencing in the greater Twin Cities, Minnesota area. Fence Store LLC intends to continue this business. The Company accounts for its investment in TFS Partners using the equity method of accounting.

On December 15, 2017, BCCM, Inc. ("BCCM"), a newly-formed, wholly-owned subsidiary of the Company, completed the acquisition of Blue Clay Capital Management, LLC ("Blue Clay Capital"), an investment management firm based in Minneapolis, Minnesota. In connection with the transaction, BCCM acquired the assets of, and assumed certain liabilities of, Blue Clay Capital in return for payment to Blue Clay Capital of $1.00, subject to adjustment for Blue Clay Capital's net working capital as of the closing date. The fair value of the assets acquired and liabilities assumed in connection with the transaction are provisional. Gary S. Kohler, a director of the Company, was the sole owner of Blue Clay Capital. In connection with the transaction, (i) BCCM replaced Blue Clay Capital as the managing general partner of certain investment funds managed by Blue Clay Capital (Blue Clay Capital Partners, LP, Blue Clay Capital Partners CO I, LP, Blue Clay Capital Partners CO III, LP and Blue Clay Capital SMid-Cap LO, LP); (ii) Mr. Kohler entered into an employment agreement with BCCM to serve as its Chief Investment Officer in return for an annual salary of $50,000 plus variable compensation based on the management and incentive fees to be paid to the subsidiary by certain of these investment funds and eligibility to participate in discretionary annual bonuses; and (iii) David Woodis, President of Blue Clay Capital, entered into an employment agreement with BCCM to serve as its Chief

Operating Officer and Chief Financial Officer in return for an annual salary of $125,000 plus revenue sharing and eligibility to participate in discretionary annual bonuses.

In connection with the Blue Clay Capital acquisition, a Partnership Interest Conversion and General Partner Admittance Agreement (“Conversion Agreement”) was entered into effective December 31, 2017 between Blue Clay Capital, BCCM, BCCM Advisors, LLC (“BCCM Advisors”), a wholly-owned subsidiary of BCCM, and various Blue Clay Capital investment funds. Per the Conversion Agreement, Blue Clay Capital sold to BCCM Advisors, and BCCM Advisors purchased from Blue Clay, the general partnership interests in certain investment funds previously managed by Blue Clay Capital (as specified above) for a purchase price equal to, with respect to each general partnership, of (i) one percent (1%) of the aggregate capital accounts of each fund as valued on December 31, 2017 and (ii) $100,000 (or $10,000 in the case of Blue Clay Capital SMid-Cap LO, LP). Upon acquisition of each of the general partnership interests, BCCM Advisors was admitted as the general partner of each fund. Blue Clay Capital retained the incentive allocations associated with Blue Clay Capital Partners CO I, LP and Blue Clay Capital Partners CO III. BCCM Advisors will receive all future incentive allocations accruing as of January 1, 2018 and thereafter associated with Blue Clay Capital Partners, LP which is the onshore feeder fund to the Blue Clay Capital Master Fund Ltd. Management determined that the price paid of $227,000 for the combined general partnership interests approximates the fair value of those interests. The portion of the purchase price paid for the general partnership interest in Blue Clay Capital Partners, LP is allocated as an equity interest in the Blue Clay Capital Master Fund, Ltd.

Additionally, effective December 31, 2017, BCCM Advisors entered into an Investment Management Agreement in which it agreed to manage the investments of the following funds: Blue Clay Capital Master Fund Ltd., Blue Clay Capital Fund Ltd. and Blue Clay Capital Partners LP. In connection with the effective date of the Investment Management Agreement, BCCM Advisors became the Incentive Allocation Shareholder of the Blue Clay Capital Master Fund Ltd.

Pro forma financial information is *not* presented for the above acquisitions as the results are *not* material to the Company’s condensed consolidated financial statements.

3. Income Taxes

The Tax Cuts and Jobs Act (TCJA) was signed into law by the President on Friday *December 22, 2017.* The TCJA includes the reduction in the corporate tax rate from a top rate of *35%* to a flat rate of *21%,* changes in business deductions, and many international provisions. The drop in the corporate rate is effective for tax years beginning after *December 31, 2017.* IRC Section *15* indicates that "if any rate of tax imposed…changes, and if the taxable year includes the effective date of the change…, then tentative taxes shall be computed by applying the rate for the period before the effective date of the change, and the rate for the period on and after such date, to the taxable income for the entire taxable year, and the tax for such taxable year shall be the sum of that proportion of each tentative tax which the number of days in each period bears to the number of days in the entire taxable year." (*§15*(a)). As the Company is a fiscal year taxpayer, they will receive a partial benefit for the drop in the federal corporate tax rate for their fiscal year ended *March 31, 2018.* The weighted average federal tax rate computed in accordance with IRC Section *15* is *30.79%* for the current fiscal year.

Based on the drop in the corporate tax rate to a flat *21%,* the Company revalued each of their deferred tax assets and liabilities in the current period using the new corporate tax rate. The net impact from this revaluing resulted in a tax expense recognized in the current period of *$119,000.*

The TCJA also repealed the corporate alternative minimum tax and made any minimum tax credit carryforwards to the extent *not* utilized refundable for tax years beginning after *December 31, 2017.* As a result, Delphax will be able to receive a refund of its minimum tax credit carryforward of *$311,000* beginning in their fiscal year ended *September 30, 2019.* Previously, a valuation allowance was established against the minimum tax credit carryforward. As a result of the TCJA relating to the refundability of the minimum tax credit carryforward, an income tax benefit was recognized by the Company during the current period and a long-term income tax receivable was established.

Income taxes have been provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

During the *nine*-month period ended *December 31, 2017,* the Company recorded $*595,000* in income tax expense at an effective rate of *37.45%.* The Company records income taxes using an estimated annual effective tax rate for interim reporting. The individually largest factor contributing to the difference between the federal statutory rate of *30.79%* and the Company's effective tax rate for the *nine*-month period ended *December 31, 2017* was the change in valuation allowance relating to the other than temporary impairment of available for sale securities included in the

pretax activity in the period. Additionally, the estimated annual effective tax rate differs from the U. S. federal statutory rate due to the benefit for the Section *831*(b) income exclusion for SAIC, the benefit for the federal domestic production activities deduction, the change in the valuation allowance related to the activity of Delphax, and state income tax expense. As a result of tax reform, the rate was also impacted by the recognition of the minimum tax credit carryforward and the expense relating to the revaluing of the deferred tax asset and liability balances to the new federal statutory rate. During the *nine*-month period ended *December 31, 2016,* the Company recorded *$152,000* in income tax expense which resulted in an effective tax rate of (*2.99%*). The individually largest factor contributing to the difference between the federal statutory rate and the Company's effective tax rate for the period ending *December 2016* was the recognition of a valuation allowance against Delphax's pretax activity in the period. The income tax provision for the *nine*-month period ended *December 31, 2016* differs from the federal statutory rate due also in part to the effect of state income taxes and the federal domestic production activities deduction. Additionally, the rate for the period ended *December 31, 2016* includes the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary afforded under Section *831*(b).

As described in Note *9,* effective on *November 24, 2015,* Air T, Inc. purchased equity and debt interests in Delphax Technologies, Inc. ("Delphax") and its subsidiary Delphax Technologies Canada Limited ("Delphax Canada"). With an equity investment level by the Company of approximately *38%,* Delphax is required to continue filing a separate United States corporate tax return. Furthermore, Delphax has *three* foreign subsidiaries located in Canada, France, and the United Kingdom which file tax returns in those jurisdictions. With few exceptions, Delphax is *no* longer subject to examinations by income tax authorities for tax years before *2012.*

Delphax maintains a *September 30* fiscal year. As of *September 30, 2016,* Delphax and its subsidiaries had estimated foreign and domestic tax loss carryforwards of *$6.3* million and *$13.2* million, respectively. As of that date, they had estimated foreign research and development credit carryforwards of *$4.3* million, which are available to offset future income tax. The credits and net operating losses expire in varying amounts beginning in the year *2023.* Domestic alternative minimum tax credits of approximately *$311,000* will be refundable beginning in the fiscal year ending *September 30, 2019.* Should there be an ownership change for purposes of Section *382* or any equivalent foreign tax rules, the utilization of the previously mentioned carryforwards *may* be significantly limited. As a result of the bankruptcy proceedings involving Delphax Canada (see Note *9*), any remaining tax attributes *not* utilized during the fiscal year ended *September 30, 2017,* including net operating losses and credit carryforwards in Canada will be lost. The tax attributes in Canada that will be lost to the extent *not* utilized include, but are *not* limited to, *$4.0* million of net operating losses and *$4.3* million of foreign credits. The Company has recorded an outside basis difference in stock of these entities of *$2.9* million which is the estimated loss that will be recognized in the United States upon their liquidation. See additional information regarding Delphax Canada in Note *9.* The returns for the fiscal year ended *September 30, 2017* have *not* yet been filed.

The provisions of ASC *740* require an assessment of both positive and negative evidence when determining whether it is more-likely-than-*not* that deferred tax assets will be recovered. In accounting for the Delphax acquisition on *November 24, 2015,* the Company established a full valuation allowance against Delphax's net deferred tax assets of approximately *$11,661,000.* The corresponding valuation allowance at *December 31, 2017* and *December 31, 2016* was approximately *$11,125,000* and *$12,352,000* respectively. The cumulative losses incurred by Delphax in recent years was the primary basis for the Company's determination that a valuation allowance should be established. As previously noted, the TCJA repealed the corporate alternative minimum tax and made any minimum tax credit carryforwards to the extent *not* utilized refundable for tax years beginning after *December 31, 2017.* As a result, Delphax will be able to receive a refund of its minimum tax credit carryforward of *$311,000* beginning in the fiscal year ended *September 30, 2019.* Previously, a valuation allowance was established against the minimum tax credit carryforward. As a result of the TCJA relating to the refundability of the minimum tax credit carryforward, an income tax benefit was recognized by the Company during the current period and a long-term income tax receivable was established.

As described in Note *2,* effective on *July 18, 2016,* Air T, Inc. through its subsidiary, Contrail Aviation, acquired substantially all of the assets of the Seller for payment to the Seller of cash and equity membership units representing *21%* of the total equity of Contrail Aviation. The acquisition was treated as an asset acquisition for tax purposes, with Air T, Inc. receiving a step up on the *79%* interest deemed to be acquired. Contrail Aviation, a limited liability company, is taxed as a partnership with Air T, Inc. and the Seller recognizing on a pass-through basis the taxable income or loss of Contrail Aviation in proportion to their relative equity interests. Air T, Inc. will recognize deferred taxes as applicable on the outside basis difference of the investment.

As described in Note *2,* on *May 2, 2017* and *May 31, 2017,* AirCo acquired the inventory and principal business assets, and assumed specified liabilities, of the AirCo Sellers. The acquired business, which is based in Wichita, Kansas, distributes and sells airplane and aviation parts and maintains a license under Part *145* of the regulations of the Federal Aviation Administration. The consideration paid for the acquired business was *$2,400,000.* A bargain purchase gain was recognized on the acquisition of approximately *$780,000.* The tax impact related to the bargain

purchase gain was to record a deferred tax liability of approximately *$278,000* and record tax expense against the bargain purchase gain line of approximately *$278,000.* The resulting net bargain purchase gain after taxes was approximately *$502,000.*

4. Net Earnings Per Share

Basic earnings per share has been calculated by dividing net income (loss) attributable to Air T, Inc. stockholders by the weighted average number of common shares outstanding during each period. For purposes of calculating diluted earnings per share, shares issuable under stock options were considered potential common shares and were included in the weighted average common shares unless they were anti-dilutive. Because there was a net loss attributable to Air T stockholders for the *three*-months ended *December 31, 2017* and the *nine*-months ended *December 31, 2016,* the effect of options was excluded for computing earnings per share because the effect was anti-dilutive.

The computation of basic and diluted earnings per common share is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss) attributable to Air T, Inc. Stockholders	$(671,939)	$1,220,037	$718,151	$(3,447,332)
Income (Loss) Per Share:				
Basic	$(0.33)	$0.60	$0.35	$(1.60)
Diluted	$(0.33)	$0.60	$0.35	$(1.60)
Weighted Average Shares Outstanding:				
Basic	2,042,789	2,042,789	2,042,789	2,152,301
Diluted	2,042,789	2,047,637	2,047,547	2,152,301

5. Marketable Securities

Investments in available-for-sale marketable securities at *December 31, 2017* consisted of investments in publicly traded companies and had a fair market value of *$3,632,000,* an aggregate cost basis of *$3,312,000,* gross unrealized gains aggregating *$323,000* and gross unrealized losses aggregating *$3,200.* Marketable securities at *March 31, 2017* consisted of investments with a fair value of *$4,594,000,* an aggregate cost basis of *$4,331,000,* gross unrealized gains aggregating *$279,000* and gross unrealized losses aggregating *$16,000.* Excluding the Company’s investment in Oxbridge Re Holdings Limited which is discussed below, securities that had been in a continuous loss position for less than *12* months as of *December 31, 2017* had an aggregate fair market value and unrealized loss of *$454,000* and *$3,200,* respectively.

At *December 31, 2017,* the Company held approximately *1.9* million shares of common stock of Insignia Systems, Inc. (NASDAQ: ISIG) (“Insignia”), representing approximately *16%* of Insignia’s outstanding shares, which shares were acquired commencing in our fiscal year ended *March 31, 2015.* Any investment with a fair value of less than its cost basis is assessed for possible “other-than-temporary” impairment regularly and at each reporting date. Other-than-temporary impairments of available-for-sale marketable equity securities are recognized in the consolidated statement of income (loss). On the basis of its *June 30, 2016, March 31, 2017* and *June 30, 2017* assessments, the Company concluded that it had suffered an other-than-temporary impairment in its investment in the common stock of Insignia. Consistent with the applicable accounting guidance, the Company’s cost basis in the Insignia investment was lowered from *$5,106,000* to *$3,604,000* at *June 30, 2016* and then to *$2,463,000* at *March 31, 2017* and to *$1,724,000* at *June 30, 2017* after the acquisition during the quarter of shares having a cost basis of *$32,000,* reflecting, in the aggregate, an other-than-temporary impairment of *$3,414,000.* On *January 6, 2017,* Insignia paid a special dividend of *$0.70* per share to stockholders owning Insignia shares on that date which resulted in a dividend of approximately $1.2 million to the Company. The receipt of such special dividend is included in the other investment income (loss) in the Company’s consolidated statements of income (loss) for the fiscal year ended

March 31, 2017. During the *fourth* quarter of the *2017* fiscal year, we recognized an additional investment loss of approximately *$112,000* principally due to an other-than-temporary decline in fair value of other investment securities that had been in a continuous loss position for more than *12* months.

At *December 31, 2017,* the Company held *338,000* shares of common stock of Oxbridge Re Holdings Limited (NASDAQ: OXBR) (Oxbridge). On the basis of its *December 31, 2017* "other-than-temporary" impairment assessment, the Company concluded that it had suffered an other-than-temporary impairment in its investment in the common stock of Oxbridge. The Company's cost basis in its Oxbridge investment was lowered from *$1,516,000* to *$727,000* at *December 31, 2017* which represents an other-than temporary impairment of *$789,000.*

All securities are priced using publicly quoted market prices and are considered Level *1* fair value measurements.

6. Inventories

Inventories consisted of the following:

	December 31, 2017	March 31, 2017
Ground support service parts	$*2,534,770*	$*2,447,395*
Ground equipment manufacturing:		
Raw materials	*3,018,153*	*1,452,201*
Work in process	*2,203,132*	*832,635*
Finished goods	*2,747,129*	*10,001,193*
Printing equipment and maintenance		
Raw materials	2,737,534	*3,325,142*
Work in process	-	*324,949*
Finished goods	599,579	*790,345*
Commercial jet engines and parts	*8,167,600*	*3,407,339*
Total inventories	22,007,897	*22,581,199*
Reserves	(2,340,692)	*(2,802,356*)
Total, net of reserves	$*19,667,205*	$*19,778,843*

7. Stock Based Compensation

Air T, Inc. maintains a stock option plan for the benefit of certain eligible employees and directors, though *no* awards *may* be granted under the plan after *July 29, 2015.* In addition, Delphax maintains a number of stock option plans. Compensation expense is recognized over the requisite service period for stock options which are expected to vest based on their grant-date fair values. The Company uses the Black-Scholes option pricing model to value stock options granted under the Air T, Inc. plan and the Delphax plans. The key assumptions for this valuation method include the expected term of the option, stock price volatility, risk-free interest rate and dividend yield. Many of these assumptions are judgmental and highly sensitive in the determination of compensation expense.

No options were exercised under Air T, Inc.'s stock option plan during the *three*-month and *nine*-month periods ended *December 31, 2017* and *2016.* Stock-based compensation expense with respect to this plan in the amount of *$0* was recognized for the *three*-month and *nine*-month periods ended *December 31, 2017* and *2016,* respectively. At *December 31, 2017,* there was *no* unrecognized compensation expense related to the Air T Inc. stock options.

No options were granted or exercised during the *December 2017* quarter under any of Delphax's stock option plans. Delphax did *not* recognize any stock-based compensation expense during the *December 2017* quarter.

8. Financing Arrangements

On *December 21, 2017,* the Company refinanced its previously existing financing arrangement with Branch Banking and Trust Company ("BB&T) by entering into a Credit Agreement ("MBT Credit Agreement") with Minnesota Bank & Trust ("MBT"), pursuant to which MBT extended to the Company an aggregate of *$26,900,000* in financing in the form of a floating-rate, *$10,000,000* revolving credit facility, and three, fixed-rate amortizing term loans in the amounts of *$10,000,000* ("Term Loan A"), *$5,000,000* ("Term Loan B") and *$1,900,000* ("Term Loan C"), respectively. The interest rate on the *$10,000,000* revolving note floats at a rate equal to the prime rate plus *one* percent (*1%*); the interest rate on Term Note A floats at the one month LIBOR rate plus *two* percent (*2%*); the interest rate on Term Note B is fixed at *four* and *one*-half percent (*4.50%*); and, the interest on Term Note C floats at a rate equal to prime minus *one* percent (*1%*), subject to a floor of *three* and *one* quarter percent (*3.25%*). In connection with the financing, the Company entered into a swap agreement to fix the interest rate on Term Note A at *four* and *56/100ths* percent (*4.56%*). The revolving note is due on *November 30, 2019,* Term Loan A and Term Loan B mature in *ten* years from the date of issuance, and Term Loan C matures on *January 1, 2019* although there are *no* amounts outstanding on this loan as of December 31, 2017. The loans are guaranteed by certain subsidiaries of the Company, secured by a *first* lien on all personal property of the Company and the guaranteeing subsidiaries. The Company applied a portion of the proceeds from the financing to refinance the obligations of the Company and certain of its subsidiaries under its Prior Revolving Credit Facility (as defined below) with BB&T.

On *December 21, 2017,* the Company entered into an interest rate swap pursuant to an International Swap Dealer's Association, Inc. Master Agreement with MBT. The effective date of the swap was *January 1, 2018* and the termination date of the swap agreement is *January 1, 2028.* As of *January 1, 2018,* the notional amount was *$10,000,000,* which amount adjusts each month consistent with the amortization schedule of Term Note A. The purpose of the swap is to fix the interest rate on the Company's *$10,000,000* Term Note A at *four* and *56/100ths* percent (*4.56%*), thereby mitigating the interest rate risk inherent in Term Note A. The fair value of the interest rate swap as of *December 31, 2017* was a liability of *$199,000.* The interest rate swap was *not* designated as a hedging instrument. The change in the fair value of the swap from the trade date to *December 31, 2017* is recorded in the condensed consolidated statements of income (loss). The interest rate swap is considered a Level *2* fair value measurement.

The MBT Credit Agreement contains affirmative and negative covenants, including covenants requiring compliance certificates and borrowing base certificates, notices of events of default or other events deemed to have a material adverse effect on the Company, as defined in the credit agreement, and limitations on certain types of additional debt and certain types of investments. The MBT Credit Agreement also contains financial covenants applicable to the Company and the obligation subsidiaries, including either the maintenance of a Debt Service Coverage Ratio of *1.25* to *1.00* or an Asset Coverage Ratio of *1.50* to *1.00.*

The MBT Credit Agreement contains events of default, as defined therein, including, without limitation, nonpayment of principal, interest or other obligations, violation of covenants, cross-default to other debt, bankruptcy and other insolvency events, actual or asserted invalidity of loan documentation, or material adverse changes in the Company's or the guaranteeing subsidiaries' financial condition. At *December 31, 2017,* the Company and the subsidiaries were in compliance with all applicable covenants under this credit facility.

As of *December 31, 2017,* long-term debt under the financing arrangements with MBT is as follows:

Term Note A	$ *10,000,000*
Term Note B	*5,000,000*
Term Note C	-
Revolving credit facility	*7,248,489*
Total	*22,248,489*
Current portion of long-term debt	*2,500,000*
Long-term debt, less current portion	*19,748,489*
Less: Unamortized deferred financing costs	*(143,813*)
	$ *19,604,676*

Prior to *December 21, 2017,* the Company had a senior secured revolving credit facility of *$25.0* million with BB&T with a maturity date of *April 1, 2019 (*the "Prior Revolving Credit Facility"). Initially, borrowings under the Prior Revolving Credit Facility bore interest (payable monthly) at an annual rate of *one*-month LIBOR plus an incremental

amount ranging from *1.50%* to *2.00%* based on a consolidated leverage ratio. In addition, a commitment fee accrued with respect to the unused amount of the Prior Revolving Credit Facility at an annual rate of *0.15%.* The Company included the commitment fee expense within the interest expense and other line item of the accompanying condensed consolidated statements of income. Amounts applied to repay borrowings under the Prior Revolving Credit Facility could be reborrowed, subject to the terms of the facility.

On *May 2, 2017,* the Company and certain of its subsidiaries entered into an amendment to the agreement governing the Prior Revolving Credit Facility to establish a separate *$2.4* million term loan facility under that agreement. Each of the Company and such subsidiaries were obligors with respect to the term loan, which matured on *May 1, 2018,* with equal *$200,000* installments of principal due monthly, commencing *June 1, 2017.* Interest on the term loan was payable monthly at a per annum rate equal to *25* basis points above the interest rate applicable to the Prior Revolving Credit Facility. The proceeds of the term loan were used to fund the acquisition of the AirCo business. The term loan was secured by the existing collateral securing borrowings under the Prior Revolving Credit Facility, including such acquired assets.

Effective as of *June 28, 2017,* the Company and certain of its subsidiaries agreed to amend the Prior Revolving Credit Facility to provide that the interest rates on the revolving loans and the above-referenced term loan under the Prior Revolving Credit Facility were each increased by an additional *0.25%* per annum from the date of the amendment until the *second* business day after delivery of a compliance certificate for the quarter ended *March 31, 2017* or any subsequent fiscal quarter end showing compliance with the financial covenants required under the Prior Revolving Credit Facility, other than with respect to covenants as to which compliance had been waived. The compliance certificate for the quarter ended *June 30, 2017,* was so delivered on *October 26, 2017* and accordingly, the additional *0.25%* per annum additional interest ceased to accrue commencing on *October 26, 2017.*

The Prior Revolving Credit Facility contained a number of affirmative and negative covenants as well as financial covenants. Revisions to the terms of the Prior Revolving Credit Facility and waiver of compliance with certain covenants by the lender occurred pursuant to a number of amendments to the facility.

On *October 31, 2016,* the Company and its subsidiaries, MAC, GGS, CSA, GAS, ATGL, Jet Yard and Stratus Aero Partners, LLC, entered into a loan agreement dated as of *October 31, 2016, (*the "Construction Loan Agreement") with the Prior Revolving Credit Facility lender to borrow up to *$1,480,000* to finance the acquisition and development of the Company's new corporate headquarters facility located in Denver, North Carolina. Under the Construction Loan Agreement, the Company was permitted to make monthly drawings to fund construction costs until *October 2017.* Borrowings under the Construction Loan Agreement bore interest at the same rate charged under the Revolving Credit Facility. Monthly interest payments began in *November 2016.* Monthly principal payments (based on a *25*-year amortization schedule) commenced in *November 2017,* with the final payment of the remaining principal balance due in *October 2026.* Borrowings under the Construction Loan Agreement were secured by a mortgage on the new headquarters facility and a collateral assignment of the Company's rights in life insurance policies with respect to certain former executives, as well as the same collateral securing borrowings under the Revolving Credit Facility. The Construction Loan included the same covenants as in the Prior Revolving Credit Facility.

All of the obligations of the Company and its subsidiaries under the Prior Revolving Credit Facility including the Construction Loan Agreement referenced above were repaid in full with proceeds of the MBT Credit Agreement, and the Prior Revolving Credit Facility was terminated effective as of *December 21, 2017.*

On *May 5, 2017,* Contrail Aviation Support, LLC ("Contrail Aviation"), a partially owned subsidiary of the Company, entered into a Business Loan Agreement with Old National Bank ("ONB Loan Agreement"). The ONB Loan Agreement provides for revolving credit borrowings by Contrail Aviation in an amount up to *$15,000,000* and replaces the revolving credit facility that Contrail Aviation had entered into with BMO Harris Bank N.A on *July 18, 2016.* Borrowings under the ONB Loan Agreement will bear interest at an annual rate equal to *one*-month LIBOR plus *3.00%.* At *December 31, 2017, $9,353,000* of aggregate borrowings were outstanding under the ONB Loan Agreement and *$5,647,000* was available for borrowing.

The obligations of Contrail Aviation under the ONB Loan Agreement are secured by a *first*-priority security interest in substantially all of the assets of Contrail Aviation and are also guaranteed by the Company, with such guaranty limited in amount to a maximum of *$1,600,000* plus interest on such amount at the rate of interest in effect under the ONB Loan Agreement, plus costs of collection.

The ONB Loan Agreement contains affirmative and negative covenants, including covenants that restrict Contrail Aviation's ability to make acquisitions or investments, make certain changes to its capital structure, and engage in any business substantially different than it presently conducts. The ONB Loan Agreement also contains financial covenants applicable to Contrail Aviation, including maintenance of a Cash Flow Coverage Ratio of *2.0* to *1.0,* a

Tangible Net Worth of *not* less than *$3,500,000,* and a Debt Service Coverage Ratio of *1.1* to *1.0,* as such terms are defined in the ONB Loan Agreement.

The ONB Loan Agreement contains Events of Default, as defined, including, without limitation, nonpayment of principal, interest or other obligations, violation of covenants, if both Contrail Aviation's current chief executive officer and chief financial officer cease to oversee day-to-day operations of Contrail Aviation, cross-default to other debt, bankruptcy and other insolvency events, actual or asserted invalidity of loan documentation, or material adverse changes in Contrail Aviation's financial condition. At *December 31, 2017,* Contrail Aviation was in compliance with these covenants.

On October 27, 2017 AirCo 1, LLC, a wholly-owned subsidiary of AirCo, LLC, closed a loan in the amount of $3,441,000 from Minnesota Bank & Trust in order to finance, in part, the purchase of a 737-800 airframe for the purpose of disassembling the plane and selling it for parts. The plane will be disassembled by Jet Yard, LLC, an affiliate, and the parts will be sold on consignment to AirCo, LLC, which will market them to third parties. AirCo 1, LLC is a special purpose entity formed for the purpose of this transaction. Borrowings under this loan agreement will bear interest at an annual rate of 7.25%. Beginning on November 1, 2017, monthly installments of accrued interest are due. The principal balance on the loan and any remaining unpaid interest being due on March 26, 2019. At December 31, 2017, the outstanding balance on this loan was approximately $3,347,000, which is reported net of deferred financing costs of $58,000 on the consolidated balance sheet.

The loan contains affirmative and negative covenants and is secured by a security interest in all of AirCo *1,* LLC's assets, a collateral assignment of the purchase agreement for the plane, assignments of the disassembly contract and the consignment agreement, and bailee agreements with Jet Yard, LLC and AirCo, LLC. AirCo, LLC is a wholly-owned subsidiary of Stratus Aero Partners LLC. The loan is not guaranteed by the Company.

The Company assumes various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements such as debt and lease agreements.

9. Variable Interest Entities

A variable interest entity ("VIE") is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support, or (ii) has equity investors who lack the characteristics of a controlling financial interest. Under ASC *810 - Consolidation*, an entity that holds a variable interest in a VIE and meets certain requirements would be considered to be the primary beneficiary of the VIE and required to consolidate the VIE in its consolidated financial statements. In order to be considered the primary beneficiary of a VIE, an entity must hold a variable interest in the VIE and have both:

the power to direct the activities that most significantly impact the economic performance of the VIE; and

the right to receive benefits from, or the obligation to absorb losses of, the VIE that could be potentially significant to the VIE.

Consolidated Variable Interest Entity

Pursuant to a Securities Purchase Agreement dated as of *October 2, 2015 (*the "Securities Purchase Agreement") among the Company, Delphax Technologies, Inc. and its subsidiary, Delphax Technologies Canada Limited, on *November 24, 2015 (*the "Closing Date"), the Company purchased (i) at face value a *$2,500,000* principal amount Five-Year Senior Subordinated Promissory Note (the "Senior Subordinated Note") issued by Delphax Canada for a combination of cash and the surrender of outstanding principal of *$500,000* and accrued and unpaid interest thereunder, and cancellation of, a *90*-Day Senior Subordinated Note purchased at face value by the Company from Delphax Canada on *October 2, 2015* pursuant to the Securities Purchase Agreement and (ii) for *$1,050,000* in cash a total of *43,000* shares of Delphax's Series B Preferred Stock (the "Series B Preferred Stock") and a Stock Purchase Warrant (the "Warrant") to acquire an additional *95,600* shares of Series B Preferred Stock at a price of *$33.4728* per share (subject to adjustment for specified dilutive events).

Principal under the Senior Subordinated Note is due on *October 24, 2020* and bears interest at an annual rate of *8.5%.* Interest is to be paid in kind until, in the absence of specified events, *November 24, 2017.* Thereafter, interest is to be paid in cash. Interest in kind is to be paid monthly, while interest payable in cash is to be paid quarterly. The Senior Subordinated Note is guaranteed by Delphax and is secured by security interests granted by Delphax and Delphax Canada in their respective inventories, equipment, accounts receivable, cash, deposit accounts, contract rights and other specified property, as well as a pledge by Delphax of the outstanding capital stock of its subsidiaries, including Delphax Canada. Pursuant to the terms of a subordination agreement (the "Subordination Agreement") entered into on *October 2, 2015* by Delphax, Delphax Canada, the Company and the senior lender (the "Senior Lender") that then provided a revolving credit facility under an agreement with Delphax and Delphax Canada (the "Delphax Senior Credit Agreement"), the Company's rights with respect to payment under and enforcement of the Senior Subordinated Note, and enforcement of its security interests were subordinated to the rights of the Senior Lender under the Delphax Senior Credit Agreement.

Each share of Series B Preferred Stock is convertible into *100* shares of common stock of Delphax, subject to anti-dilution adjustments, and has *no* liquidation preference over shares of common stock of Delphax. *No* dividends are required to be paid with respect to the shares of Series B Preferred Stock, except that ratable dividends (on an as-converted basis) are to be paid in the event that dividends are paid on the common stock of Delphax. Based on the number of shares of Delphax common stock outstanding and reserved for issuance under Delphax's employee stock option plans at the Closing Date, the number of shares of common stock underlying the Series B Preferred Stock purchased by the Company represent approximately *38%* of the shares of Delphax common stock that would be outstanding assuming conversion of Series B Preferred Stock held by the Company.

Pursuant to the terms of the Series B Preferred Stock, for so long as amounts are owed to the Company under the Senior Subordinated Note or the Company continues to hold a specified number of the Series B Preferred Stock and interests in the Warrant sufficient to permit it to acquire up to *50%* of the number of shares of Series B Preferred Stock initially purchasable under the Warrant (or holds shares of Series B Preferred Stock acquired in connection with the exercise of the Warrant equal to *50%* of the number of shares of Series B Preferred Stock initially purchasable under the Warrant), then

holders of the Series B Preferred Stock, voting as a separate class, would be entitled to elect (and exercise rights of removal and replacement) with respect to *three*-sevenths of the board of directors of Delphax, and after *June 1, 2016* the holders of the Series B Preferred Stock, voting as a separate class, would be entitled to elect (and to exercise rights of removal and replacement of) with respect to *four*-sevenths of the members of the board of directors of Delphax; and

without the written consent or waiver of the Company, Delphax *may not* enter into specified corporate transactions.

Pursuant to the provision described above, beginning on *November 24, 2015, three* designees of the Company were elected to the board of directors of Delphax, which had a total of *seven* members following their election.

The Warrant expires on *November 24, 2021.* In the event that Delphax were to declare a cash dividend on its common stock, the Warrant provides that the holder of the Warrant would participate in the dividend as if the Warrant had been exercised in full and the shares of Series B Preferred Stock acquired upon exercise had been fully converted into Delphax common stock. The Warrant provides that, prior to any exercise of the Warrant, the holder of the Warrant must *first* make a good faith written tender offer to existing holders of Delphax common stock to purchase an aggregate amount of common stock equal to the number of shares of common stock issuable upon conversion of the Series B Preferred Stock that would be purchased upon such exercise of the Warrant. The Warrant requires that the per share purchase price to be offered in such tender offer would be equal to the then-current exercise price of the Warrant divided by the then-current conversion rate of the Series B Preferred Stock. To the extent that shares of common stock are purchased by the holder in the tender offer, the amount of shares of Series B Preferred Stock purchasable under the Warrant held by such holder is to be ratably reduced. The Warrant is to provide that it *may* be exercised for cash, by surrender of principal and interest under the Senior Subordinated Note equal to *0.95* times the aggregate exercise price or by surrender of a portion of the Warrant having a value equal to the aggregate exercise price based on the difference between the Warrant exercise price per share and an average market value, measured over a *20*-trading day period, of Delphax common stock that would be acquired upon conversion of *one* share of Series B Preferred Stock.

In accordance with ASC *810,* the Company evaluated whether Delphax was a VIE as of *November 24, 2015.* Based principally on the fact that the Company granted Delphax subordinated financial support, the Company determined that Delphax was a VIE on that date. Therefore, it was necessary for the Company to assess whether it held any “variable interests”, as defined in ASC *810,* in Delphax. The Company concluded that its investments in Delphax’s

equity and debt, and its investment in the Warrant, each constituted a variable interest. Based on its determination that it held variable interests in a VIE, the Company was required to assess whether it was Delphax's "primary beneficiary", as defined in ASC *810.*

After considering all relevant facts and circumstances, the Company concluded that it became the primary beneficiary of Delphax on *November 24, 2015.* While various factors informed the Company's determination, the Company assigned considerable weight to both *1*) the shortness of time until *June 1, 2016* when the Company would become entitled to elect *four*-sevenths of the members of the board of directors of Delphax and *2*) the anticipated financial significance of Delphax's activities in the periods subsequent to *June 1, 2016.* Since the Company became Delphax's primary beneficiary on *November 24, 2015,* the Company consolidated Delphax in its consolidated financial statements beginning on that date.

The following table sets forth the carrying values of Delphax's assets and liabilities as of *December 31, 2017* and *March 31, 2017:*

	December 31, 2017 (Unaudited)	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$240,468	$328,327
Accounts receivable, net	661,749	2,036,221
Inventories	169,048	1,941,729
Other current assets	508,980	1,145,274
Total current assets	1,580,245	5,451,551
Property and equipment	-	8,007
Total assets	$1,580,245	$5,459,558
LIABILITIES		
Current liabilities:		
Accounts payable	$2,283,154	$2,482,578
Income tax payable	11,312	11,312
Accrued expenses	3,099,812	3,627,162
Short-term debt	2,460,670	4,714,257
Total current liabilities	7,854,948	10,835,309
Net Assets	$(6,274,703)	$(5,375,751)

The short-term debt is comprised of amounts due from Delphax to Air T, Inc. Those amounts have been eliminated in consolidation. As of *December 31, 2017,* the outstanding principal amount of the Senior Subordinated Note was approximately *$1,675,000* (*$2,500,000* as of *March 31, 2017)* and the outstanding borrowings under the Delphax Senior Credit Agreement were *$0* (*$1,541,000* as of *March 31, 2017).* Short-term debt as reflected in the above table includes approximately *$786,000* and *$388,000* of accrued interest, due to the Company from Delphax Technologies, Inc. under the Senior Subordinated Note as of *December 31, 2017* and *March 31, 2017,* respectively. Short term debt as of *March 31, 2017* also includes approximately *$112,000* of accrued interest, due to the Company from Delphax Canada and Delphax Technologies, Inc. under the Delphax Senior Credit Agreement. As a result of the foreclosure completed by the Company on *August 10, 2017,* the amount secured by the Delphax Senior Credit Agreement was satisfied.

The assets of Delphax can only be used to satisfy the obligations of Delphax.

On *January 6, 2017,* the Company acquired all rights, and assumed all obligations, of the Senior Lender under the Delphax Senior Credit Agreement with Delphax and Delphax Canada providing for a *$7.0* million revolving senior

secured credit facility, subject to a borrowing base of North American accounts receivable and inventory, including obligations, if any, to fund future borrowings under the Delphax Senior Credit Agreement. In connection with this transaction, the Company paid to the Senior Lender an amount equal to the approximately *$1.26* million outstanding borrowing balance, plus accrued and unpaid interest and fees. Also in connection with this transaction, the Company, Delphax and Delphax Canada entered into an amendment to the Delphax Senior Credit Agreement to reduce the maximum amount of borrowings permitted to be outstanding under the Delphax Senior Credit Agreement from *$7.0* million to *$2.5* million, to revise the borrowing base to include in the borrowing base *100%* of purchase orders from customers for products up to *$500,000,* to provide that the interest rate on all borrowings outstanding until all loans under the Delphax Senior Credit Agreement are repaid in full will be a default rate equal to *2.5%* per month to be paid monthly, and to provide for the payment to the Company from Delphax Canada and Delphax of fees equal to *$25,000* upon execution of the amendment and of *$50,000* upon repayment in full of all loans under the Delphax Senior Credit Agreement. On *January 6, 2017,* the Company notified Delphax and Delphax Canada of certain “Events of Default” (as defined under the Delphax Senior Credit Agreement) existing under the Delphax Senior Credit Agreement and that the Company was reserving all rights to exercise remedies under the Delphax Senior Credit Agreement and that *no* delay in exercising any such remedy is to be construed as a waiver of any of its remedies. Also, on *January 6, 2017,* the Company and Delphax Canada entered into a Forbearance and Amendment Agreement dated as of *January 6, 2017,* which amended the Senior Subordinated Note to increase the default rate of interest from an annual rate of *10.5%* to an annual rate of *18%,* to be in effect until all amounts under the Senior Subordinated Note are paid in full, and which provides that so long as *no* Event of Default (as defined in the Senior Subordinated Note) occurs under the Senior Subordinated Note, other than Events of Default that existed as of *January 6, 2017,* the Company agreed to forbear from exercising its remedies under the Senior Subordinated Note until *May 31, 2017* and further provided for the payment by Delphax Canada to the Company of a forbearance fee equal to approximately *$141,000.* Notwithstanding the existence of events of default, during the *first six* calendar months of *2017,* the Company permitted additional borrowings under the Delphax Senior Credit Agreement to, among other things, fund a final production run by Delphax Canada of consumable products for its legacy printing systems, which production run was primarily completed over that period. Delphax Canada was Delphax's sole manufacturing subsidiary.

During the quarter ended *June 30, 2016,* Delphax was informed by its largest customer that the customer had decided to accelerate its plans for removing Delphax legacy printing systems from production and that Delphax should, as a consequence, expect the future volume of legacy product orders from the customer to decline markedly from prior forecasts. Furthermore, the future timeframe over which orders could be expected from this customer was being sharply curtailed. In addition to this specific customer communication, Delphax also experienced a broad-based decline in legacy product customer demand during the *first* quarter. Sales of Delphax's new élan printer system also had *not* materialized to expectations.

The adverse business developments during the quarter ended *June 30, 2016* and the significantly deteriorated outlook for future orders of legacy and élan product caused the Company to reevaluate the recoverability of Delphax's assets, both tangible and intangible. Based on this reevaluation, which involved material estimation and subjectivity (including with respect to the recovery on assets in an operating liquidation), the Company concluded that a significant increase to inventory reserves was necessary. In addition, the Company concluded that Delphax related intangible assets, both amortizable assets and goodwill, should be fully impaired. The Company also recorded a partial impairment of Delphax related long-lived tangible assets. Furthermore, there was an assessment regarding whether, at *June 30, 2016,* future severance actions under existing Delphax employee benefit plans were both probable and estimable. This assessment led to the Company establishing an estimated accrual for future severance actions. The effects of these various adjustments, which aggregated to approximately *$5,610,000,* were reflected in the operating results of Delphax for the quarter ended *June 30, 2016.*

The Company concluded that Delphax related intangible assets, both amortizable assets and goodwill, should be fully impaired. The Company recorded goodwill of approximately *$375,000* in connection with its investment in Delphax. The Company estimated a subsequent impairment of this goodwill during the fiscal year ended *March 31, 2016* of *$100,000* and an additional impairment of *$275,000* during the quarter ended *June 30, 2016.* These impairment losses are reflected on the consolidated statement of income (loss) within the "depreciation, amortization and impairment" line item.

Intangible assets of Delphax had a net book value of approximately *$1.4* million as of *March 31, 2016.* During the quarter ended *June 30, 2016,* the Company recognized an impairment charge which resulted in the remaining net book value of Delphax intangible assets being fully written off. The Company estimated and recorded a tradename and patent impairment charge related to Delphax in the amount of approximately *$1,385,000* during the quarter ended *June 30, 2016.* An impairment charge in the amount of *$50,000* was recorded during the fiscal year *2016.* These impairment losses are reflected on the consolidated statement of income (loss) within the "depreciation, amortization and impairment" line item.

The above described adverse business developments drove significant negative operating results and led to severe liquidity constraints for Delphax. In addition to other measures intended to respond to developments, Delphax engaged an outside advisory firm to assist with operations, cost reductions and expense rationalization, and to provide an objective assessment and recommendations regarding Delphax's business outlook and alternative courses of action. During the quarter ended *June 30, 2016,* a number of Delphax employees were either severed or furloughed. For most

of fiscal year *2017,* Delphax's operations were maintained at a significantly curtailed level.

In light of continuing events of default under the Delphax Senior Credit Agreement and the conclusion of final production run by Delphax Canada of consumable products for Delphax's legacy printing systems, on *July 13, 2017,* the Company delivered a demand for payment and Notice of Intention to Enforce Security to Delphax Canada. On *August 10, 2017,* the Company foreclosed on all personal property and rights to undertakings of Delphax Canada. The Company foreclosed as a secured creditor with respect to amounts owed to it by Delphax Canada under the Delphax Senior Credit Agreement. The Company provided notice of its intent to foreclose to Delphax Canada and its secured creditors and shareholder on *July 26, 2017.* The outstanding amount owed to the Company by Delphax Canada under the Delphax Senior Credit Agreement on *July 26, 2017* was approximately *$1,510,000.* The Company also submitted an application to the Ontario Superior Court of Justice in Bankruptcy and Insolvency (the "Ontario Court") seeking that Delphax Canada be adjudged bankrupt. On *August 8, 2017,* the Ontario Court issued an order adjudging Delphax Canada to be bankrupt. The recipients of the foreclosure notice did *not* object to the foreclosure or redeem. As a result, the foreclosure was completed on *August 10, 2017,* and the Company accepted the personal property and rights to undertakings of Delphax Canada in satisfaction of the amount secured by the Delphax Senior Credit Agreement.

With its being adjudged bankrupt on *August 8, 2017,* Delphax Canada ceased to have capacity to deal with its property. The property of Delphax Canada vested in the trustee in bankruptcy of Delphax Canada subject to the rights of secured creditors. The Company's rights under Delphax Senior Credit Agreement permitted it to foreclose upon the personal property and rights of undertakings of Delphax Canada. Since the Company foreclosed on Delphax Canada's assets within very close time proximity to the commencement of bankruptcy proceedings and because the bankruptcy and foreclosure were undertaken in contemplation of *one* another, the Company treated these as *one* single financial reporting event. In accordance with applicable accounting guidance, the Company considered whether Delphax Canada was still a business post-bankruptcy and foreclosure of the assets by the Company and concluded that Delphax Canada *no* longer constituted a business as it is defined by accounting principles generally accepted in the United States of America and, accordingly, derecognition of Delphax Canada's liabilities will occur when Delphax Canada is legally released as the primary obligor with respect to the liabilities in the bankruptcy proceedings. As of *December 31, 2017,* the bankruptcy proceedings were ongoing in accordance with Canadian law and, therefore, Delphax Canada was still the primary obligor of its liabilities.

The intercompany balances under the Delphax Senior Subordinated Note as of *December 31, 2017* are eliminated in the presentation of the condensed consolidated financial statements. The effect of interest expense arising under the Senior Subordinated Note and, from *January 6, 2017* to *August 10, 2017,* under the Delphax Senior Credit Agreement, and other intercompany transactions, are reflected in the attribution of Delphax net income or loss to non-controlling interests because Delphax is a variable interest entity.

Delphax's revenues and expenses are included in our consolidated financial statements beginning *November 24, 2015* through *December 31, 2017.* Revenues and expenses prior to the date of initial consolidation were excluded. We have determined that the attribution of Delphax net income or loss should be based on consideration of all of Air T's investments in Delphax and Delphax Canada. The Warrant provides that in the event that dividends are paid on the common stock of Delphax, the holder of the Warrant is entitled to participate in such dividends on a ratable basis as if the Warrant had been fully exercised and the shares of Series B Preferred Stock acquired upon such exercise had been converted into shares of Delphax common stock. This provision would have entitled Air T, Inc. to approximately *67%* of any Delphax dividends paid, with the remaining *33%* paid to the non-controlling interests. We concluded that this was a substantive distribution right which should be considered in the attribution of Delphax net income or loss to non-controlling interests. We furthermore concluded that our investment in the debt of Delphax should be considered in attribution. Specifically, Delphax's net losses are attributed *first* to our Series B Preferred Stock and Warrant investments and to the non-controlling interest (*67%/33%*) until such amounts are reduced to zero. Additional losses are then fully attributed to our debt investments until they too are reduced to zero. This sequencing reflects the relative priority of debt to equity. Any further losses are then attributed to Air T and the non-controlling interests based on the initial *67%/33%* share. Delphax net income is attributed using a backwards-tracing approach with respect to previous losses.

As a result of the application of the above-described attribution methodology, for the *nine* months ended *December 31, 2017,* the attribution of Delphax net income to non-controlling interests was *3.19%* and for the *nine* months ended *December 31, 2016,* the attribution of Delphax net loss to non-controlling interests was *33%.*

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The following table sets forth the revenue and expenses of Delphax, prior to intercompany eliminations, that are included in the Company’s condensed consolidated statements of income (loss) for the nine months ended *December 31, 2017* and *2016.*

	Nine Months Ended December 31,	
	2017	2016
	(Unaudited)	(Unaudited)
Operating Revenues	$5,324,763	$7,648,724
Operating Expenses:		
Cost of sales	2,860,159	8,671,905
General and administrative	1,213,885	2,295,255
Research and development	195,653	858,480
Depreciation, amortization and impairment	8,007	1,713,322
	4,277,704	13,538,962
Operating Income (Loss)	1,047,059	(5,890,238)
Non-operating Income (Expense), net	(540,076)	103,966
Income (Loss) Before Income Taxes	506,983	(5,786,272)
Income Taxes	-	-
Net Income (Loss)	$506,983	$(5,786,272)

Non-operating income (expense), net, includes interest expense of approximately *$567,000* associated with the Senior Subordinated Note and the Delphax Senior Credit Agreement for the *nine* months ended *December 31, 2017* and approximately *$172,000* associated with the Senior Subordinated Note for the *nine* months ended *December 31, 2016.* This interest expense was eliminated for purposes of net income (loss) presented in the Company’s accompanying consolidated statements of income (loss) and comprehensive income (loss) for the *nine* months ended *December 31, 2017* and *2016,* though the effect of intercompany interest under the Senior Subordinated note and the Delphax Senior Credit Agreement is reflected in the attribution of Delphax net income or losses attributed to non-controlling interests.

Unconsolidated Variable Interest Entities and Other Entities

As discussed in Note 2, BCCM Advisors holds equity interests in certain investment funds as of December 31, 2017. The Company determined that the equity interest it holds as the general partner in the following funds are variable interests based on the applicable GAAP guidance: Blue Clay Capital Partners CO I LP, Blue Clay Capital Partners CO III LP and Blue Clay Capital SMid-Cap LO LP. However, the Company further determined that these funds should

not be consolidated as BCCM Advisors is not the primary beneficiary of these variable interest entities. The Company determined that its equity interest in the Blue Clay Capital Master Fund Ltd. is not a variable interest and should not be consolidated based on the applicable GAAP guidance. The Company’s total investment within these investment funds at December 31, 2017 is valued at $227,000, consistent with the purchase price of the general partnership and equity interests disclosed in Note 2. The Company’s exposure to loss is limited to its initial investment.

10. Geographical information

Total property and equipment, net of accumulated depreciation, located in the United States, (the Company's country of domicile), and that held outside the United States are summarized in the following table as of *December 31, 2017* and *March 31, 2017:*

	December 31, 2017	March 31, 2017
United States, the Company’s country of domicile	$ *11,577,515*	$ *5,323,471*
Foreign	*6,561,145*	*1,017*
Total property and equipment, net	$ *18,138,660*	$ *5,324,488*

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Total revenue, in and outside the United States is summarized in the following table for the *nine*-month periods ended *December 31, 2017* and *December 31, 2016:*

	December 31, 2017	December 31, 2016
United States, the Company's country of domicile	$ *127,425,254*	$ *96,223,786*
Foreign	*13,634,855*	*8,561,627*
Total revenue	$ *141,060,109*	$ *104,785,413*

11. Segment Information

The Company has *seven* business segments. The overnight air cargo segment, composed of the Company's Mountain Air Cargo, Inc. ("MAC") and CSA Air, Inc. ("CSA") subsidiaries, operates in the air express delivery services industry. The ground equipment sales segment, composed of the Company's Global Ground Support, LLC ("GGS") subsidiary, manufactures and provides mobile deicers and other specialized equipment products to passenger and cargo airlines, airports, the U.S. military and industrial customers. The ground support services segment, composed of the Company's Global Aviation Services, LLC ("GAS") subsidiary, provides ground support equipment maintenance and facilities maintenance services to domestic airlines and aviation service providers. The printing equipment and maintenance segment is composed of Delphax and its subsidiaries, which was consolidated for financial accounting purposes beginning *November 24, 2015,* along with the newly formed subsidiary, Delphax Solutions, Inc. ("Delphax Solutions"). Delphax sells advanced digital print production equipment, maintenance contracts, spare parts, supplies and consumable items for these systems. The equipment is sold through Delphax and its subsidiaries located in the United Kingdom and France. Air T has contributed certain of the assets acquired in foreclosure to a newly formed subsidiary, Delphax Solutions, which has contracted with Delphax to supply legacy parts and consumables, as well as to serve as a fulfilment provider to Delphax for logistics and sales order processing. In addition, Delphax Solutions intends to pursue market success for the élan printer system, as Delphax is *no* longer actively selling its product lines. Delphax Solutions has entered into an agreement with Delphax for a license for intellectual property and rights to the élan printing system and technologies in return for royalties based on sales. Delphax Solutions intends pursue sales of the élan printing system and related product lines both directly and through qualified resellers and agents.

In *July 2016,* the Company's majority owned subsidiary, Contrail Aviation Support, LLC ("Contrail Aviation"), acquired the principal assets of a business based in Verona, Wisconsin engaged in acquiring surplus commercial jet engines or components and supplying surplus and aftermarket commercial jet engine component. In *October 2016,* the Company, through a wholly-owned subsidiary, acquired *100%* of the outstanding equity interests of Jet Yard, LLC ("Jet Yard") to provide commercial aircraft storage, storage maintenance and aircraft disassembly/part-out services at facilities leased at the Pinal Air Park in Marana, Arizona. In *May 2017,* our newly formed subsidiaries AirCo, LLC and AirCo Services, LLC, acquired the inventory and principal assets of a business based in Wichita, Kansas that distributes and sells airplane and aviation parts. AirCo *1,* LLC was formed in *September 2017* as a wholly-owned subsidiary of AirCo, LLC (collectively considered "AirCo" with AirCo, LLC and AirCo Services, LLC). Contrail Aviation, Jet Yard and AirCo comprise the commercial jet engines and parts segment of the Company's operations. This segment, formerly referred to as the commercial jet engines segment, was renamed to reflect its broader product and service offerings.

The Company's leasing segment, comprised of the Company's Air T Global Leasing, LLC ("ATGL") subsidiary, provides funding for equipment leasing transactions, which *may* include transactions for the leasing of equipment manufactured by GGS and Delphax and transactions initiated by *third* parties unrelated to equipment manufactured by the Company or any of its subsidiaries. ATGL commenced operations during the quarter ended *December 31, 2015.*

In March 2014, the Company formed Space Age Insurance Company ("SAIC"), a captive insurance company licensed in Utah. SAIC insures risks of the Company and its subsidiaries that were not previously insured by the various Company insurance programs (including the risk of loss of key customers and contacts, administrative actions and regulatory changes); and may from time to time underwrite third-party risk through certain reinsurance arrangements. On December 15, 2017, BCCM, Inc. ("BCCM"), a newly-formed, wholly-owned subsidiary of the Company, completed the acquisition of Blue Clay Capital. BCCM also has two wholly-owned subsidiaries, BCCM Advisors, LLC and BCCM Services, LLC. The activity of SAIC and BCCM, including the wholly-owned subsidiaries, is included in the Corporate segment noted below.

Each business segment has separate management teams and infrastructures that offer different products and services. We evaluate the performance of our business segments based on operating income. For the quarters ended *December 31, 2017* and *2016,* the premiums paid to SAIC by the Company were allocated among the operating segments based on segment revenue and certain identified corporate expense were allocated to the segments based on the relative benefit of those expenses to each segment.

Segment data is summarized as follows (data by segment is shown pre-intercompany eliminations):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Operating Revenues:				
Overnight Air Cargo	$18,028,688	$17,099,640	$52,851,936	$50,888,019
Ground Equipment Sales:				
Domestic	11,877,589	781,519	32,200,847	16,472,690
International	1,045,318	1,960,841	2,187,825	4,029,235
Total Ground Equipment Sales	12,922,907	2,742,360	34,388,672	20,501,925
Ground Support Services	8,651,138	7,579,661	26,565,537	21,417,854
Printing Equipment and Maintenance:				
Domestic	1,048,793	2,151,030	2,773,103	5,400,433
International	-	538,868	2,709,993	2,248,291
Total Printing Equipment and Maintenance	1,048,793	2,689,898	5,483,096	7,648,724
Commercial Jet Engines and Parts:				
Domestic	6,718,293	1,558,983	17,184,368	2,009,171
International	1,349,852	1,439,182	8,737,037	2,284,101
Total Commercial Jet Engines and Parts	8,068,145	2,998,165	25,921,405	4,293,272
Leasing	33,863	37,547	104,426	501,062
Corporate	338,490	281,926	919,555	845,778
Intercompany	(4,590,777)	2,339,973	(5,174,517)	(1,311,221)
Total	$44,501,246	$35,769,170	$141,060,109	$104,785,413
Operating Income (Loss):				
Overnight Air Cargo	$996,819	$716,356	$2,709,991	$2,136,337
Ground Equipment Sales	1,084,303	(912,893)	2,415,527	672,464
Ground Support Services	(114,064)	(41,199)	518,873	(391,968)
Printing Equipment and Maintenance	(984,465)	1,056,972	(542,651)	(5,890,238)
Commercial Jet Engines and Parts	38,047	491,479	800,227	534,285
Leasing	(8,776)	226,011	2,793	405,426
Corporate	(83,335)	(453,577)	(2,339,114)	(1,917,110)
Intercompany	(376,849)	556,268	(325,740)	38,478
Total	$551,680	$1,639,417	$3,239,906	$(4,412,326)
Capital Expenditures:				
Overnight Air Cargo	$7,076	$43,542	$27,422	$79,582
Ground Equipment Sales	206,603	-	208,861	19,596
Ground Support Services	70,241	119,381	213,525	331,520
Printing Equipment and Maintenance	19,926	-	28,417	9,927
Commercial Jet Engines and Parts	6,639,721	50,154	13,722,702	50,154
Corporate	44,462	-	1,046,317	3,066,500
Leasing	-	393,890	-	1,027,228
Intercompany	-	-	-	(3,066,500)
Total	$6,988,029	$606,967	$15,247,244	$1,518,007

Depreciation, amortization and impairment:				
Overnight Air Cargo	$27,161	$31,866	$88,305	$91,175
Ground Equipment Sales	90,558	359,021	340,937	453,941
Ground Support Services	121,340	103,600	346,596	274,309
Printing Equipment and Maintenance	2,570	(13,082)	10,577	1,713,322
Commercial Jet Engines and Parts	430,366	38,221	627,480	66,627
Leasing	14,810	14,516	44,432	232,806
Corporate	130,109	49,390	289,602	116,175
Intercompany	(1,324)	(171,734)	(3,974)	(193,284)
Total	$815,590	$411,798	$1,743,955	$2,755,071

The elimination of intercompany revenues is related to the sale during the quarter ended *December 31, 2016* of *two* élan printers by Delphax to ATGL during the *nine* months ended *December 31, 2016,* along with the premiums paid to SAIC, and the elimination of intercompany operating income for such period reflects the margins on the sales of those assets, elimination of excess depreciation and amortization related to the margin on those assets, and the premiums paid to SAIC. The sale of élan printers did *not* reoccur during the *nine* months ended *December 31, 2017.*

The elimination of intercompany revenues is primarily related to the sale of an aircraft from Contrail Aviation to AirCo during the quarter ended *December 31, 2017* along with the premiums paid to SAIC. The elimination of intercompany operating income for such period reflects the margins on the sales of those assets.

12. Commitments and Contingencies

The Company is involved in various legal actions and claims arising in the ordinary course of business. Management believes that these matters, if adversely decided, would *not* have a material adverse effect on the Company's results of operations or financial position.

In *July 2016,* pursuant to the Asset Purchase Agreement, Contrail Aviation agreed to pay as contingent additional deferred consideration up to a maximum of *$1,500,000* per year and *$3,000,000* in the aggregate (collectively, the "Earnout Payments" and each, an "Earnout Payment"), calculated as follows:

(i) if Contrail Aviation generates EBITDA (as defined in the Asset Purchase Agreement) in any Earnout Period (as defined below) less than *$1,500,000, no* Earnout Payment will be payable with respect to such Earnout Period;

(ii) if Contrail Aviation generates EBITDA in any Earnout Period equal to or in excess of *$1,500,000,* but less than *$2,000,000,* the Earnout Payment for each such Earnout Period will be an amount equal to the product of (*x*) the EBITDA generated with respect to such Earnout Period minus *$1,500,000,* and (y) *two* (*2*);

(iii) if Contrail Aviation generates EBITDA in any Earnout Period equal to or in excess of *$2,000,000,* but less than *$4,000,000,* the Earnout Payment for each such Earnout Period will be equal to *$1,000,000;*

(iv) if Contrail Aviation generates EBITDA in any Earnout Period equal to or in excess of *$4,000,000,* the Earnout Payment for each such Earnout Period will be equal to *$1,500,000;* and

(v) if, following the *fifth* Earnout Period, Contrail Aviation has generated EBITDA equal to or in excess of *$15,000,000* in the aggregate during all Earnout Periods, but the Seller has received or is owed less than *$3,000,000* in aggregate Earnout Payments pursuant to clauses (i) through (iv), above, Contrail Aviation will make an additional Earnout Payment to the Seller in an amount equal to the difference between *$3,000,000* and the aggregate Earnout Payments already received or payable pursuant to clauses (i) through (iv), above.

As used in the Asset Purchase Agreement, “Earnout Period” means each of the *first five twelve*-full-calendar-month periods following the closing of the acquisition. The Company has estimated its liability with respect to the Earnout Payment of *$2,900,000,* which amount was included in the “Other non-current liabilities” in the consolidated balance sheet at *March 31, 2017.* As a result of the EBITDA of Contrail Aviation being approximately *$2.1* million for the *first* Earnout Period, the Earnout Payment with respect to that Earnout Period is *$1,000,000,* which amount was paid in *October 2017.* The remaining liability of *$1,900,000* is included in the “Other non-current liabilities” in the consolidated balance sheet at *December 31, 2017.*

On the Contrail Closing Date, Contrail Aviation and the Seller entered into an Operating Agreement (the “Operating Agreement”) providing for the governance of and the terms of membership interests in Contrail Aviation and including put and call options (“Put/Call Option”) permitting, at any time after the *fifth* anniversary of the Contrail Closing Date, Contrail Aviation at its election to purchase from the Seller, and permitting the Seller at its election to require Contrail Aviation to purchase from the Seller, all of the Seller’s equity membership interests in Contrail Aviation at a price to be agreed upon, or failing such an agreement to be determined pursuant to *third*-party appraisals in a process specified in the Operating Agreement.

As discussed in Note *8,* Contrail Aviation entered into the Loan Agreement with Old National Bank on *May 5, 2017.* Contrail Aviation’s obligations under the Loan Agreement are guaranteed by the Company, with such guaranty limited in amount to a maximum of *$1,600,000* plus interest on such amount at the rate of interest in effect under the Loan Agreement, plus costs of collection.

A newly organized subsidiary of Air T leases *12,206* square feet of space in a building located in Mississauga, Ontario. The lease commenced on *August 1, 2017* and terminates on *July 31, 2020.* Annual rent under the lease escalates annually, with annual rent of approximately *$94,600* (CDN) for the *first* year and approximately *$97,000* (CDN) in the *third* year. The subsidiary's obligations under the lease have been guaranteed by Air T. The lease of production facilities in Mississauga, Ontario by Delphax Canada has been terminated effective upon removal of the property foreclosed upon by Air T.

The Company currently expects that *none* of Delphax Canada's unsecured creditors will receive payment in connection with the ongoing bankruptcy proceedings. This is because the Company's priority claims under the Delphax Senior Credit Agreement permitted it to foreclose upon all of Delphax Canada's personal property and rights of undertakings. Unsecured creditors of Delphax Canada *may* attempt to advance claims against the Company, whether as direct claims or alleging successor liability in light of the foreclosure. The Company does *not* believe that any such claims will be successfully advanced and therefore expects *no* significant adverse effect on the Company's financial position or results of operations as a result of such possible claims.

The Company has various operating lease commitments for office equipment and its office and maintenance facilities.

13. <u>Related Party Matters</u>

Since *1979* the Company has leased the Little Mountain Airport in Maiden, North Carolina from a corporation whose stock is owned in part by former officers and directors of the Company and an estate of which certain former directors are beneficiaries. The facility consists of approximately *68* acres with *one 3,000*-foot paved runway, approximately *20,000* square feet of hangar space and approximately *12,300* square feet of office space. The operations of Air T, MAC and ATGL are headquartered at this facility. The lease for this facility provides for monthly rent of *$14,862* and expired on *January 31, 2018. Operations* conducted at this facility were relocated to a newly constructed, owned facility on *July 31, 2017.*

Contrail Aviation leases its corporate and operating facilities at Verona, Wisconsin from Cohen Kuhn Properties, LLC, a corporation whose stock is owned equally by Mr. Joseph Kuhn, Chief Executive Officer of Contrail Aviation, and Mrs. Miriam Kuhn, Chief Financial Officer of Contrail Aviation. The facility consists of approximately *21,000* square feet of warehouse and office space. The Company paid aggregate rental payments of $*118,906* to Cohen Kuhn Properties, LLC pursuant to such lease during the period from *April 1, 2017* through *December 31, 2017.* The lease for this facility expires on *June 30, 2021,* though the Company has the option to renew the lease for a period of *five* years on the same terms. The lease agreement provides that the Company shall be responsible for maintenance of the leased facilities and for utilities, taxes and insurance. The Company believes that the terms of such leases are *no* less favorable to the Company than would be available from an independent *third* party.

On December 15, 2017, BCCM, Inc. (“BCCM”), a newly-formed, wholly-owned subsidiary of the Company, completed the previously announced acquisition of Blue Clay Capital Management, LLC (“Blue Clay Capital”), an investment management firm based in Minneapolis, Minnesota. In connection with the transaction, BCCM acquired the assets of, and assumed certain liabilities of, Blue Clay Capital in return for payment to Blue Clay Capital of $1.00, subject to adjustment for Blue Clay Capital’s net working capital as of the closing date. Gary S. Kohler, a director of the Company, was the sole owner of Blue Clay Capital. Mr. Kohler entered into an employment agreement with BCCM to serve as its Chief Investment Officer in return for an annual salary of $50,000 plus variable compensation based on the management and incentive fees to be paid to the subsidiary by certain of these investment funds and eligibility to participate in discretionary annual bonuses. Effective December 27, 2017, Blue Clay Capital Master Fund Ltd., one of the investment funds managed by Blue Clay Capital prior to the conversion to BCCM Advisors on December 31, 2017, sold approximately 52,000 shares of the Company’s stock.

14. Subsequent Events

Management performs an evaluation of events that occur after the balance sheet date but before consolidated financial statements are issued for potential recognition or disclosure of such events in its consolidated financial statements.

On *January 16, 2018,* the Company purchased an additional *1,133,000* shares of Insignia at a price of *$1.25* per share for a total cost of approximately *$1.4* million. After this purchase, the Company owned approximately *26%* of Insignia’s total common stock.

On *January 31, 2018,* Contrail Aviation executed an additional Business Loan Agreement with Old National Bank ("Additional ONB Loan Agreement"). The Additional ONB Loan Agreement provides for borrowings by Contrail Aviation in an amount equal to *$9,920,000* and is in addition to the revolving credit provided under the ONB Loan Agreement previously entered into between Contrail Aviation and Old National Bank on *May 5, 2017,* as further described above in note 8. Borrowings under the Additional ONB Loan Agreement will bear interest at an annual rate equal to *1*-month LIBOR plus *375* basis points and matures on *January 26, 2021.* Pursuant to the Additional ONB Loan Agreement, Contrail Aviation is required to make quarterly payments equal to *$250,000,* plus an additional "excess cash flow payment" equal to *seventy* percent (*70%*) of the gross lease income of the Collateral minus *$250,000.*

The obligations of Contrail Aviation under the Additional ONB Loan Agreement are secured by a *first*-priority security interest in certain assets of Contrail Aviation and are also guaranteed by the Company, with such guaranty limited in amount to a maximum of *$1,600,000* plus interest on such amount at the rate of interest in effect under the Loan Agreement, plus costs of collection.

The Additional ONB Loan Agreement contains affirmative and negative covenants, including covenants that restrict Contrail Aviation's ability to make acquisitions or investments, make certain changes to its capital structure, and engage in any business substantially different than it presently conducts.

The Additional ONB Loan Agreement contains Events of Default, as defined therein, including, without limitation, nonpayment of principal, interest or other obligations, violation of covenants, bankruptcy and other insolvency events, actual or asserted invalidity of loan documentation, death or incompetency of any guarantor or material adverse changes in Contrail Aviation's financial condition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Air T, Inc. (the "Company," "Air T," "we" or "us") is a decentralized holding company with ownership interests in a broad set of operating and financial assets that are designed to expand, strengthen and diversify cash earnings. Our goal is to build on Air T's core businesses, to expand into adjacent industries, and when appropriate, to acquire companies that we believe fit into the Air T family.

We currently operate wholly-owned subsidiaries in three legacy industry segments:

- overnight air cargo, comprised of our Mountain Air Cargo, Inc. ("MAC") and CSA Air, Inc. ("CSA") subsidiaries, which operates in the air express delivery services industry;

- ground equipment sales, comprised of our Global Ground Support, LLC ("GGS") subsidiary, which manufactures and provides mobile deicers and other specialized equipment products for passenger and cargo airlines, airports, the military and industrial customers; and

- ground support services, comprised of our Global Aviation Services, LLC ("GAS") subsidiary, which provides ground support equipment maintenance and facilities maintenance services to domestic airlines and aviation service providers.

In the past two years, we have organized or acquired businesses operating in three other segments. In October 2015, we formed a wholly-owned equipment leasing subsidiary, Air T Global Leasing, LLC ("ATGL"), which comprises our leasing segment. In November 2015 we acquired debt and equity interests in Delphax Technologies, Inc. ("Delphax"), a printing equipment manufacturer and maintenance provider, which comprises our printing equipment and maintenance segment. In July 2016, our majority owned subsidiary, Contrail Aviation Support, LLC ("Contrail Aviation"), acquired the principal assets of a business based in Verona, Wisconsin engaged in acquiring surplus commercial jet engines and components and supplying surplus and aftermarket commercial jet engine components. In October 2016, we acquired 100% of the outstanding equity interests of Jet Yard, LLC ("Jet Yard") to provide commercial aircraft storage, maintenance and aircraft disassembly/part-out services at facilities leased at the Pinal Air Park in Marana, Arizona. In May 2017, our newly formed subsidiaries, AirCo, LLC and AirCo Services, LLC (collectively, "AirCo"), acquired the inventory and principal assets of a business based in Wichita, Kansas that distributes and sells airplane and aviation parts. Contrail Aviation, Jet Yard and AirCo comprise the commercial jet engines and parts segment of the Company's operations. This segment, formerly referred to as the commercial jet engines segment, was renamed to reflect its broader product and service offerings. On December 15, 2017, BCCM, a newly-formed, wholly-owned subsidiary of the Company completed the previously announced acquisition of Blue Clay Capital Management, LLC ("Blue Clay Capital"), an investment management firm based in Minneapolis, Minnesota. BCCM is included within Corporate in the segment information provided below.

Each business segment has separate management teams and infrastructures that offer different products and services. We evaluate the performance of our business segments based on operating income.

Following is a table detailing revenue by segment and by major customer category (numbers were derived from unaudited financial statements for the three and nine-months ended December 31, 2017 and 2016):

(Dollars in thousands)

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2017		2016		2017		2016	
Overnight Air Cargo:								
FedEx	$18,029	41 %	$17,100	48 %	$52,852	37 %	$50,888	49 %
Ground Equipment Sales:								
Military	1,307	3 %	138	0 %	2,367	2 %	3,259	3 %
Commercial - Domestic	10,560	24 %	3,301	9 %	29,823	21 %	13,455	13 %
Commercial - International	1,045	2 %	1,961	5 %	2,187	2 %	4,029	4 %
	12,912	29 %	5,400	15 %	34,377	25 %	20,743	20 %
Ground Support Services	8,643	19 %	7,580	21 %	26,558	19 %	21,418	20 %
Printing Equipment and Maintenance:								
Domestic	1,049	2 %	2,115	6 %	2,773	2 %	4,694	4 %

International	(143)	0 %	539	2 %	2,567	2 %	2,248	2 %
	906	2 %	2,654	7 %	5,340	4 %	6,942	7 %
Commercial Jet Engines and Parts:								
Domestic	2,578	6 %	1,559	4 %	13,043	9 %	2,009	2 %
International	1,351	3 %	1,439	4 %	8,738	6 %	2,284	2 %
	3,929	9 %	2,998	8 %	21,781	15 %	4,293	4 %
Leasing	34	0 %	38	0 %	104	0 %	501	0 %
Corporate	48	0 %	-	0 %	48	0 %	-	0 %
	$44,501	100%	$35,769	100%	$141,060	100%	$104,785	100%

MAC and CSA are two of seven companies in the U.S. that have North American feeder airlines under contract with FedEx. With a relationship with FedEx spanning over 35 years, MAC and CSA operate and maintain Cessna Caravan, ATR-42 and ATR-72 aircraft that fly daily small-package cargo routes throughout the eastern United States, upper Midwest and the Caribbean. MAC and CSA's revenues are derived principally pursuant to "dry-lease" service contracts with FedEx.

On June 1, 2015, MAC and CSA entered into new dry-lease agreements with FedEx which together cover all of the revenue aircraft operated by MAC and CSA and replaced all prior dry-lease service contracts. These dry-lease agreements provide for the lease of specified aircraft by MAC and CSA in return for the payment of monthly rent with respect to each aircraft leased, which monthly rent was increased from the prior dry-lease service contracts to reflect an estimate of a fair market rental rate. These dry-lease agreements provide that FedEx determines the type of aircraft and schedule of routes to be flown by MAC and CSA, with all other operational decisions made by MAC and CSA, respectively. The current dry-lease agreements provide for the reimbursement by FedEx of MAC and CSA's costs, without mark up, incurred in connection with the operation of the leased aircraft for the following: fuel, landing fees, third-party maintenance, parts and certain other direct operating costs. Unlike prior dry-lease contracts, under the current dry-lease agreements, certain operational costs incurred by MAC and CSA in operating the aircraft under the dry-lease agreements are not reimbursed by FedEx at cost, and such operational costs are borne solely by MAC and CSA. Under the dry-lease agreements, MAC and CSA are required to perform maintenance of the leased aircraft in return for a maintenance fee based upon an hourly maintenance labor rate, which has been increased from the rate in place under the prior dry-lease service contracts. Under prior dry-lease service contracts, the hourly maintenance labor rate had not been adjusted since 2008. The dry-lease agreements provide for the payment by FedEx to MAC and CSA of a monthly administrative fee based on the number and type of aircraft leased and routes operated. The amount of the monthly administrative fee under the current dry-lease agreements is greater than under the prior dry-lease service contracts with FedEx, in part to reflect the greater monthly lease payment per aircraft and that certain operational costs are borne by MAC and CSA and not reimbursed. The amount of the administrative fee is subject to adjustment based on the number of aircraft operated, routes flown and whether aircraft are considered to be soft-parked. Since MAC and CSA entered into the current dry-lease agreements in 2015, they have periodically entered into amendments to the agreements with FedEx that have adjusted the administrative fees payable under these agreements. These adjustments, which have generally been made on an annual basis, have resulted in annual period-to-period volatility in MAC and CSA's profitability. MAC and CSA have entered into such an amendment effective as of June 1, 2017 which positively affected MAC and CSA's profitability for the three and nine months ended December 31, 2017 compared to results for the three and nine months ended December 31, 2016.

On June 1, 2016, the current dry-lease agreements were amended to extend the expiration date to May 31, 2020. The dry-lease agreements may be terminated by FedEx or MAC and CSA, respectively, at any time upon 90 days' written notice and FedEx may at any time terminate the lease of any particular aircraft thereunder upon 10 days' written notice. In addition, each of the dry-lease agreements provides that FedEx may terminate the agreement upon written notice if 60% or more of MAC or CSA's revenue (excluding revenues arising from reimbursement payments under the dry-lease agreement) is derived from the services performed by it pursuant to the respective dry-lease agreement, FedEx becomes MAC or CSA's only customer, or MAC or CSA employs fewer than six employees. As of the date of this report, FedEx would have been permitted to terminate each of the dry-lease agreements under this provision. The Company believes that the short-term nature of its agreements with FedEx is standard within the airfreight contract delivery service industry, where performance is measured on a daily basis. FedEx has been a customer of the Company since 1980. Loss of the FedEx contracts would have a material adverse effect on the Company.

Pass-through costs under the dry-lease agreements with FedEx totaled $5,548,000 and $5,663,000 for the three-month periods ended December 31, 2017 and 2016, respectively, and $16,334,000 and $16,474,000 for the nine-month periods ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, MAC and CSA had an aggregate of 81 aircraft under its dry-lease agreements with FedEx. Included within the 81 aircraft, two Cessna Caravan aircrafts are considered soft-parked. Soft-parked aircraft remain covered under our agreements with FedEx although at a reduced administrative fee compared to aircraft that are in operation. MAC and CSA continue to perform maintenance on soft-parked aircraft, but they are not crewed and do not operate on scheduled routes.

GGS manufactures, sells and services aircraft deicers and other specialized equipment on a worldwide basis. GGS manufactures five basic models of mobile deicing equipment with capacities ranging from 700 to 2,800 gallons. GGS also offers fixed-pedestal-mounted deicers. Each model can be customized as requested by the customer, including single operator configuration, fire suppressant equipment, open basket or enclosed cab design, a patented forced-air deicing nozzle and on-board glycol blending system to substantially reduce glycol usage, color and style of the exterior finish. GGS also manufactures five models of scissor-lift equipment, for catering, cabin service and maintenance service of aircraft, and has developed a line of decontamination equipment, flight-line tow tractors, glycol recovery vehicles and other special purpose mobile equipment. GGS competes primarily on the basis of the quality, performance and reliability of its products, prompt delivery, customer service and price.

In July 2009, GGS was awarded a contract to supply deicing trucks to the USAF, which expired in July 2014. On May 15, 2014, GGS was awarded a new contract to continue supplying deicing trucks to the USAF. The initial contract award was for two years through July 13, 2016 with four additional one-year extension options that may be exercised by the USAF, the first two of which were exercised, extending the contract term to July 13, 2018.

In September 2010, GGS was awarded a contract to supply flight-line tow tractors to the USAF. The contract award was for one year commencing September 28, 2010 with four additional one-year extension options exercisable by the USAF. All option periods under the contract were exercised and the contract expired in September 2015, though it continues to govern orders placed under the contract prior to its expiration. Sale of flight-line tow tractors under this contract have been at very low margins. This contract was completed in March 2017, and GGS had no revenues for sales of flight-line tow tractors in the nine months ended December 31, 2017, compared to sales of approximately $2,370,000 for the nine months ended December 31, 2016. Because the USAF is not obligated to purchase a set or minimum number of units under these contracts, the value of these contracts, as well as the number of units to be delivered, depends upon the USAF's requirements and available funding.

GGS contributed approximately $34,377,000 and $20,743,000 to the Company's revenues, net of intercompany eliminations, for the nine-month periods ended December 31, 2017 and 2016, respectively, representing an increase of $13,634,000 (66%).

At December 31, 2017, GGS's order backlog was $17.9 million compared to $20.4 million at September 30, 2017 and $11.2 million at December 31, 2016.

GAS provides aircraft ground support equipment, fleet, and facility maintenance services. At December 31, 2017, GAS was providing ground support equipment, fleet, and facility maintenance services to more than 114 customers at 84 North American airports. During the quarter ended March 31, 2017, GAS entered into new agreements with its principal customer, which replaced certain fixed-price agreements covering certain locations that had been unprofitable. In addition, in December 2016, GAS was awarded a five-year contract to provide a major airline customer with ground support equipment services at 28 locations. In the contract award, which was part of a periodic request-for-bid process, GAS retained 21 of its 22 incumbent locations with the customer covered by the RFP process and added seven new locations.

On October 31, 2016, GAS acquired, effective as of October 1, 2016, substantially all of the assets of D&D GSE Support, Inc. ("D&D"), which was in the business of marketing, selling and providing aviation repair, equipment, parts, and maintenance sales services and products at the Fort Lauderdale airport. The total amount paid at closing in connection with this acquisition was $400,000, with an additional $100,000 paid 30 days after closing and an additional $100,000 payable in equal monthly installments of $16,667 commencing on November 1, 2016. Earn-out payments of up to $100,000 were also be payable based on specified performance for the twelve-month period ending September 30, 2017. Based on actual revenue earned by D&D through September 30, 2017, the earn-out payment under the purchase agreement was $100,000, which was paid in October 2017.

GAS contributed approximately $26,558,000 and $21,418,000 to the Company's revenues for the nine-month periods ended December 31, 2017 and 2016, respectively, representing an increase of $5,140,000 (24%).

As described in Note 9 of the accompanying Notes to Condensed Consolidated Financial Statements (Unaudited), we determined that for accounting purposes we had obtained control over Delphax in conjunction with the acquisition of the equity and debt interests on November 24, 2015, and we have consolidated Delphax in Air T's consolidated financial statements beginning on November 24, 2015. Delphax's business has included the design, manufacture and sale of advanced digital print production equipment (including high-speed, high-volume cut-sheet and continuous roll-fed printers), maintenance contracts, spare parts, supplies and consumable items for these systems. The equipment, spare parts, supplies and consumable items have been manufactured, and maintenance and services have been provided by Delphax Canada and such products and services have been sold through Delphax, Delphax Canada and Delphax subsidiaries located in Canada, the United Kingdom and France. A significant portion of Delphax's net sales has historically been related to service and support provided after the sale, including the sale of consumable items for installed printing systems. Delphax's legacy consumables production business had been expected to generate cash flow while Delphax rolled-out its next generation élan commercial inkjet printer.

As described in Note 9 of the accompanying Notes to Condensed Consolidated Financial Statements (Unaudited), adverse business developments at Delphax during the quarter ended June 30, 2016 and the significantly deteriorated outlook for future orders of Delphax legacy and élan product caused the Company to reevaluate the recoverability of Delphax's assets, both tangible and intangible. Based on this reevaluation, the Company concluded that a significant increase to inventory reserves was necessary. In addition, the Company concluded that Delphax related intangible assets, both amortizable assets and goodwill, should be fully impaired. The Company also recorded a partial impairment of Delphax related long-lived tangible assets. Furthermore, there was an assessment regarding whether, at June 30, 2016, future severance actions under existing Delphax employee benefit plans were both probable and estimable. This assessment led to the Company establishing an estimated accrual for future severance actions. The effects of these various adjustments, which aggregated to approximately $5,610,000, were reflected in the operating results of Delphax for the quarter ended June 30, 2016.

Intangible assets of Delphax had a net book value of approximately $1.4 million as of March 31, 2016. During the quarter ended June 30, 2016, the Company recognized an impairment charge which resulted in the remaining net book value of Delphax intangible assets being fully written off.

The printing equipment and maintenance segment contributed approximately $5,340,000 and $6,942,000 to the Company's revenues for the nine-month periods ended December 31, 2017 and 2016, respectively, representing a decrease of $1,602,000 (23%).

On January 6, 2017, the Company acquired all rights, and assumed all obligations, of a third-party lender under a senior credit agreement (the "Delphax Senior Credit Agreement") with Delphax and Delphax Canada providing for a $7.0 million revolving senior secured credit facility, subject to a borrowing base of North American accounts receivable and inventory, including obligations, if any, to fund future borrowings under the Delphax Senior Credit Agreement. In connection with this transaction, the Company, Delphax and Delphax Canada entered into an amendment to the Delphax Senior Credit Agreement to, among other things, reduce the maximum amount of borrowings permitted to be outstanding under the Delphax Senior Credit Agreement from $7.0 million to $2.5 million and to revise the borrowing base to include in the borrowing base 100% of purchase orders from customers for products up to $500,000. On January 6, 2017, the Company notified Delphax and Delphax Canada of certain "Events of Default" (as defined under the Delphax Senior Credit Agreement) existing under the Delphax Senior Credit Agreement.

Notwithstanding the existence of events of default under the Delphax Senior Credit Agreement, during the first six calendar months of 2017, the Company permitted additional borrowings under the Delphax Senior Credit Agreement to, among other things, fund a final production run by Delphax Canada of consumable products for Delphax's legacy printing systems, which production run was primarily completed over the first six months of calendar 2017.

In light of continuing events of default under the Delphax Senior Credit Agreement and the conclusion of final production run by Delphax Canada of consumable products for Delphax's legacy printing systems, on July 13, 2017, the Company delivered a demand for payment and Notice of Intention to Enforce Security to Delphax Canada. On August 10, 2017, the Company foreclosed on all personal property and rights to undertakings of Delphax Canada. The Company foreclosed as a secured creditor with respect to amounts owed to it by Delphax Canada under the Delphax Senior Credit Agreement. The Company provided notice of its intent to foreclose to Delphax Canada and its secured creditors and shareholder on July 26, 2017. The outstanding amount owed to the Company by Delphax Canada under the Delphax Senior Credit Agreement on July 26, 2017 was approximately $1,510,000. The Company also submitted an application to the Ontario Superior Court of Justice in Bankruptcy and Insolvency (the "Ontario Court") seeking that Delphax Canada be adjudged bankrupt. On August 8, 2017, the Ontario Court issued an order adjudging Delphax Canada to be bankrupt. The recipients of the foreclosure notice did not object to the foreclosure or redeem. As a result, the foreclosure was completed on August 10, 2017, and the Company accepted the personal property and rights to undertakings of Delphax Canada in satisfaction of the amount secured by the Delphax Senior Credit Agreement.

With its being adjudged bankrupt on August 8, 2017, Delphax Canada ceased to have capacity to deal with its property. The property of Delphax Canada vested in the trustee in bankruptcy of Delphax Canada subject to the rights of secured creditors. The Company's rights under Delphax Senior Credit Agreement permitted it to foreclose upon the personal property and rights of undertakings of Delphax Canada. Since the Company foreclosed on Delphax Canada's assets within very close time proximity to the commencement of bankruptcy proceedings and because the bankruptcy and foreclosure were undertaken in contemplation of one another, the Company treated these as a single financial reporting event. In accordance with applicable accounting guidance, the Company considered whether Delphax Canada was still a business post-bankruptcy and foreclosure of the assets by the Company and concluded that Delphax Canada no longer constituted a business as it is defined by accounting principles generally accepted in the United States of America and, accordingly, derecognition of Delphax Canada's liabilities will occur when Delphax Canada is legally released as the primary obligor with respect to the liabilities in the bankruptcy proceedings. As of December 31, 2017, the bankruptcy proceedings were ongoing in accordance with Canadian law and, therefore, Delphax Canada was still the primary obligor of its liabilities.

Air T has contributed certain of the assets acquired in foreclosure to a newly formed subsidiary, Delphax Solutions, Inc. ("Delphax Solutions"), which has contracted with Delphax to supply legacy parts and consumables, as well as to serve as a fulfilment provider to Delphax for logistics and sales order processing. In addition, Delphax Solutions intends to pursue market success for the élan printer system, as Delphax is no longer actively selling its product lines. Delphax Solutions has entered into an agreement with Delphax for a license for intellectual property and rights to the élan printing system and technologies in return for royalties based on sales. Delphax Solutions intends pursue sales of the élan printing system and related product lines both directly and through qualified resellers and agents.

We organized ATGL on October 6, 2015. ATGL provides funding for equipment leasing transactions, which may include transactions for the leasing of equipment manufactured by GGS and Delphax and transactions initiated by third parties unrelated to equipment manufactured by us. On April 4, 2016, ATGL purchased two élan™ 500 printers from Delphax for $650,000 for lease to a third party. One of those acquired printers was subject to an existing lease to a third party which has been assigned to ATGL.

On July 18, 2016, Contrail Aviation, a subsidiary of the Company, completed the purchase of substantially all of the business assets of Contrail Aviation Support, Inc. (the “Contrail Seller”). Prior to the asset sale, the Contrail Seller, based in Verona, Wisconsin, engaged in the business of acquiring surplus commercial jet engines or components and supplying surplus and aftermarket commercial jet engine components. The acquisition consideration paid to the Contrail Seller included equity membership units in Contrail Aviation representing 21% of the total equity membership units in Contrail Aviation. As a result, the Company owns equity membership units in Contrail Aviation representing the remaining 79% of the total equity membership units in Contrail Aviation. In addition, Contrail Aviation has agreed to pay as additional deferred consideration to the Contrail Seller up to a maximum of $1.5 million per year and $3.0 million in the aggregate based on Contrail Aviation’s EBITDA (as defined in the purchase agreement) measured during periods over the five years following the acquisition. Contrail Aviation and the Contrail Seller also entered into put and call options permitting, at any time after the fifth anniversary of the asset sale closing date, Contrail Aviation at its election to purchase from Contrail Seller, and permitting Contrail Seller at its election to require Contrail Aviation to purchase from Contrail Seller, all of Contrail Seller’s equity membership interests Contrail Aviation at price to be agreed upon, or failing such an agreement to be determined pursuant to third-party appraisals in a specified process.

On October 3, 2016, a newly formed subsidiary of the Company, Stratus Aero Partners, LLC (formerly, Global Aviation Partners LLC), acquired 100% of the outstanding equity interests of Jet Yard, LLC (“Jet Yard”). Jet Yard was organized in 2014, entered into the lease in June 2016 and prior our acquisition maintained de minimus operations. The aggregate cash consideration paid in these two acquisition transactions, after closing date adjustments and not including potential deferred payments to the Contrail Seller described above, was approximately $4,048,000.

In May 2017, AirCo acquired the inventory and principal business assets, and assumed specified liabilities, of Aircraft Instrument and Radio Company, Incorporated, and Aircraft Instrument and Radio Services, Inc. (collectively the “AirCo Sellers”). The acquired business, which is based in Wichita, Kansas, distributes and sells airplane and aviation parts and maintains a license under Part 145 of the regulations of the Federal Aviation Administration. The consideration paid for the acquired business was approximately $2,400,000.

The commercial jet engines and parts segment contributed approximately $21,781,000 and $4,293,000 to the Company’s revenues for the nine-month periods ended December 31, 2017 and 2016, respectively, representing a increase of $17,488,000 (407%).

In March 2014, the Company formed Space Age Insurance Company ("SAIC"), a captive insurance company licensed in Utah, and initially capitalized with $250,000. SAIC insures risks of the Company and its subsidiaries that were not previously insured by the Company's insurance programs; and underwrites third-party risk through certain reinsurance arrangements. SAIC is included in the Company's consolidated financial statements.

On June 7, 2017, SAIC invested $500,000 for a 40% interest in TFS Partners LLC ("TFS Partners"), a single-purpose investment entity organized by SAIC and other investors, for the purpose of making an investment in a limited liability company, The Fence Store LLC ("Fence Store LLC"), organized for the purpose of acquiring substantially all of the assets of The Fence Store, Inc. ("Fence Store Inc."). TFS Partners acquired a 60% interest in Fence Store LLC, which has completed the purchase of substantially all of the assets of Fence Store Inc. Prior to this transaction, Fence Store Inc. operated a business under the tradename "Town and Country Fence" selling and installing residential and commercial fencing in the greater Twin Cities, Minnesota area. Fence Store LLC intends to continue this business.

On December 15, 2017, BCCM, Inc. (“BCCM”), a newly-formed, wholly-owned subsidiary of the Company, completed the acquisition of Blue Clay Capital Management, LLC (“Blue Clay Capital”), an investment management firm based in Minneapolis, Minnesota. In connection with the transaction, BCCM acquired the assets of, and assumed certain liabilities of, Blue Clay Capital in return for payment to Blue Clay Capital of $1.00, subject to adjustment for Blue Clay Capital’s net working capital as of the closing date. Gary S. Kohler, a director of the Company, was the sole owner of Blue Clay Capital. In connection with the transaction, (i) BCCM replaced Blue Clay Capital as the managing general partner of certain investment funds managed by Blue Clay Capital (Blue Clay Capital Partners, LP, Blue Clay Capital Partners CO I, LP, Blue Clay Capital Partners CO III, LP and Blue Clay Capital SMid-Cap LO, LP); (ii) Mr. Kohler entered into an employment agreement with BCCM to serve as its Chief Investment Officer in return for an annual salary of $50,000 plus variable compensation based on the management and incentive fees to be paid to the subsidiary by certain of these investment funds and eligibility to participate in discretionary annual bonuses; and (iii) David Woodis, President of Blue Clay Capital, entered into an employment agreement with BCCM to serve as its Chief Operating Officer and Chief Financial Officer in return for an annual salary of $125,000 plus revenue sharing and eligibility to participate in discretionary annual bonuses.

In connection with the Blue Clay Capital acquisition, a Partnership Interest Conversion and General Partner Admittance Agreement (“Conversion Agreement”) was entered into effective December 31, 2017 between Blue Clay Capital, BCCM, BCCM Advisors, LLC (“BCCM Advisors”), a wholly-owned subsidiary of BCCM, and various Blue Clay Capital investment funds. Per the Conversion Agreement, Blue Clay Capital sold to BCCM Advisors, and BCCM Advisors purchased from Blue Clay, the general partnership interests in certain investment funds previously managed by Blue Clay Capital (as specified above) for a purchase price equal to, with respect to each general partnership, of (i) one percent (1%) of the aggregate capital accounts of each fund as valued on December 31, 2017 and (ii) $100,000 (or $10,000 in the case of Blue Clay Capital SMid-Cap LO, LP). Upon acquisition of each of the general partnership interests, BCCM Advisors was admitted as the general partner of each fund. Blue Clay Capital retained the incentive allocations associated with Blue Clay Capital Partners CO I, LP and Blue Clay Capital Partners CO III. BCCM Advisors will receive all future incentive allocations accruing as of January 1, 2018 and thereafter associated with Blue Clay Capital Partners, LP which is the onshore feeder fund to the Blue Clay Capital Master Fund Ltd. Management determined that the price paid of $227,000 for the combined general partnership interests approximates the fair value of those interests. The portion of the purchase price paid for the general partnership interest in Blue Clay Capital Partners, LP is allocated as an equity interest in the Blue Clay Capital Master Fund, Ltd.

Additionally, effective December 31, 2017, BCCM Advisors entered into an Investment Management Agreement in which it agreed to manage the investments of the following funds: Blue Clay Capital Master Fund Ltd., Blue Clay Capital Fund Ltd. and Blue Clay Capital Partners LP. In connection with the effective date of the Investment Management Agreement, BCCM Advisors became the Incentive Allocation Shareholder of the Blue Clay Capital Master Fund Ltd.

At December 31, 2017, the Company held approximately 1.9 million shares of common stock of Insignia Systems, Inc. (NASDAQ: ISIG) (“Insignia”), representing approximately 16% of Insignia’s outstanding shares, which shares were acquired commencing in our fiscal year ended March 31, 2015. Any investment with a fair value of less than its cost basis is assessed for possible “other-than-temporary” impairment regularly and at each reporting date. Other-than-temporary impairments of available-for-sale marketable equity securities are recognized in the

consolidated statement of income (loss). On the basis of its June 30, 2016, March 31, 2017 and June 30, 2017 assessments, the Company concluded that it had suffered an other-than-temporary impairment in its investment in the common stock of Insignia. Consistent with the applicable accounting guidance, the Company's cost basis in the Insignia investment was lowered from $5,106,000 to $3,604,000 at June 30, 2016 and then to $2,463,000 at March 31, 2017 and to $1,724,000 at June 30, 2017 after the acquisition during the quarter of shares having a cost basis of $32,000, reflecting, in the aggregate, an other-than-temporary impairment of $3,414,000. On January 6, 2017, Insignia paid a special dividend of $0.70 per share to stockholders owning Insignia shares on that date. The receipt of such special dividend, approximately $1,200,000, is included in the other investment income (loss) in the Company's consolidated statements of income (loss) for the fiscal year ended March 31, 2017. During the fourth quarter of the 2017 fiscal year, we recognized an additional investment loss of approximately $112,000 principally due to an other-than-temporary decline in fair value of other investment securities that had been in a continuous loss position for more than 12 months.

At December 31, 2017, the Company held 338,000 shares of common stock of Oxbridge Re Holdings Limited (NASDAQ: OXBR) (Oxbridge). On the basis of its December 31, 2017 "other-than-temporary" impairment assessment, the Company concluded that it had suffered an other-than-temporary impairment in its investment in the common stock of Oxbridge. The Company's cost basis in its Oxbridge investment was lowered from $1,516,000 to $727,000 at December 31, 2017 which represents an other-than temporary impairment of $789,000.

Third Quarter Operating Highlights

For the third quarter of fiscal 2018, the Company's revenues, net of intercompany eliminations, increased by $8,732,000 (24%) from the prior year comparable quarter. Operating income, net of intercompany eliminations, decreased by $1,088,000 (66%) compared to the prior year quarter principally due to losses in the current quarter in the printing equipment and maintenance and commercial jet engines and parts segments compared to the prior year comparable quarter which is offset by a large increase in sales volume which improved margins for GGS.

Revenues from the air cargo segment increased by $929,000 (5%) compared to the third quarter of the prior fiscal year, while operating income for the segment increased by $280,000 (39%), due principally to the impact from the June 1, 2017 amendment to the agreements with FedEx that increased the administrative fees payable under these agreements and due to an increase in billable maintenance hours along with an increase in maintenance pass-through costs and the addition of a new contract with another airline.

Revenues for GGS, net of intercompany eliminations, increased by $7,511,000 (139%) compared to the third quarter of the prior fiscal year. The segment's operating income increased by $1,237,000 (804%) to $1,083,000 from a loss of $154,000 in the prior year's comparable quarter. The increases in GGS revenues and operating income are due to an increase in sales volume of deicing trucks to some of the Company's largest customers.

Revenues from our GAS subsidiary increased by $1,064,000 (14%) compared to the third quarter of the prior fiscal year as a result of the GAS's growth in new markets and services offered to new and existing customers. The segment's operating loss increased by $74,000 (179%) to $115,000 from an operating loss of $41,000 in the prior year's comparable quarter as a result of an increase in labor and related expenses associated with increased headcount for new business.

The printing equipment and maintenance segment contributed revenues, net of intercompany eliminations, of $906,000 in the third quarter of fiscal 2018 and operating income, net of intercompany eliminations, of $140,000. In the prior year comparable quarter, this segment contributed revenues, net of intercompany eliminations, of $2,654,000 and an operating income of $1,021,000. The decrease in revenues and decrease in operating income are directly related to lost customers stemming from the events outlined in Note 9 and further described below related to the bankruptcy of Delphax Canada along with the costs incurred in connection with the start-up of Delphax Solutions.

The commercial jet engines and parts segment contributed $3,931,000 of revenues, net of intercompany eliminations, in the quarter ended December 31, 2017, while operating loss, net of intercompany eliminations, was $292,000. The segment was formed through the acquisitions of the businesses of Contrail Aviation, AirCo and Jet Yard. In the prior year comparable quarter, the commercial jet engines and parts segment consisted only of Contrail Aviation and Jet Yard which contributed revenues of $2,998,000 and operating income of $491,000. The increase in revenue is directly attributable to new customers compared to the prior year comparable quarter along with the acquisition of AirCo. The operating loss in the quarter ended December 31, 2017 is primarily driven by the operating results of Contrail Aviation as component sales declined.

Revenues from the leasing segment were approximately $34,000 for the quarter ended December 31, 2017 compared to revenues of $38,000 for the prior year comparable quarter.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are more fully described in Note 1 to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2017. The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions to determine certain assets,

liabilities, revenues and expenses. Management bases these estimates and assumptions upon the best information available at the time of the estimates or assumptions. The Company's estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from estimates. The Company believes that the following are its most significant accounting policies:

Allowance for Doubtful Accounts. An allowance for doubtful accounts receivable is established based on management's estimates of the collectability of accounts receivable. The required allowance is determined using information such as customer credit history, industry information, credit reports, customer financial condition and the collectability of outstanding receivables. The estimates can be affected by changes in the financial strength of the aviation industry, customer credit issues or general economic conditions.

Inventories. The Company's inventories are valued at the lower of cost or net realizable value. Provisions for excess and obsolete inventories are based on assessment of the marketability of slow-moving and obsolete inventories. Historical parts usage, current period sales, estimated future demand and anticipated transactions between willing buyers and sellers provide the basis for estimates. Estimates are subject to volatility and can be affected by reduced equipment utilization, existing supplies of used inventory available for sale, the retirement of aircraft or ground equipment, changes in the financial strength of the aviation industry, and market developments impacting both legacy and next-generation products and services of our printing equipment and maintenance segment.

Warranty Reserves. The Company warranties its ground equipment products for up to a three-year period from date of sale. Product warranty reserves are recorded at time of sale based on the historical average warranty cost and are adjusted as actual warranty cost becomes known. Delphax warranties its equipment for a period of 90 days commencing with installation, except in the European Union, where it is generally one year from product shipment date. Similarly, Delphax warranties spare parts and supplies for a period of 90 days from shipment date. These warranty reserves are reviewed quarterly and adjustments are made based on actual claims experience in order to properly estimate the amounts necessary to settle future and existing claims.

Income Taxes. Income taxes have been provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Revenue Recognition. The Company recognizes revenue when it is earned. This occurs when services have been rendered or products are shipped to the customer in accordance with the terms of an agreement of sale, there is a fixed or determinable selling price, title and risk of loss have been transferred, and collectability is reasonably assured. Revenues from our Overnight Air Cargo segment are generally recognized as flight operation and maintenance services are provided or, in the case of certain pass-through costs for things like maintenance parts and fuel, as the Company incurs the related expenditure. Within the Company's Ground Equipment Sales segment, revenues are generally recognized at the time the related equipment has been shipped to the customer and risk and loss has transferred. In the case of certain contracts with the U.S. Government or related prime contractors, the Company applies contract accounting and uses either the percentage-of-completion or completed contract method, as appropriate. Revenues of our Ground Support Services segment are generally recognized as the contracted services are completed. Substantially all Printing Equipment and Maintenance segment revenues are recognized upon product shipment, which is generally when transfer to the customer or risk of loss occurs. Service revenue is recognized upon completion of services. Similarly, Commercial Jet Engines and Parts segment revenues are recognized upon shipment of parts and transfer of risk of loss or, as applicable, upon completion of services. Leasing revenues are recognized consistent with contract terms and are generally recognized on a straight-line basis due to the operating lease classification of the underlying leases.

Although infrequent, the Company does occasionally enter into customer arrangements that involve the delivery of multiple elements. For any such arrangements, the Company applies the applicable accounting guidance in order to identify the individual accounting elements and to determine the most appropriate revenue recognition model for such elements.

We evaluate gross versus net presentation on revenues from products or services purchased and resold in accordance with the revenue recognition criteria outlined in FASB Codification Section 605-45, *Principal Agent Considerations*.

Business Combinations. The Company accounts for business combinations in accordance with FASB Codification Section 805 ("ASC 805") Business Combinations. Consistent with ASC 805, the Company accounts for each business combination by applying the acquisition method. Under the acquisition method, the Company records the identifiable assets acquired and liabilities assumed at their respective fair values on the acquisition date. Goodwill is recognized for the excess of the purchase consideration over the fair value of identifiable net assets acquired. Included in purchase consideration is the estimated acquisition date fair value of any earn-out obligation incurred. For business combinations where non-controlling interests remain after the acquisition, assets (including goodwill) and liabilities of the acquired business are recorded at the full fair value and the portion of the acquisition date fair value attributable to

non-controlling interests is recorded as a separate line item within the equity section or, as applicable to redeemable non-controlling interests, between the liabilities and equity sections of the Company's condensed consolidated balance sheet.

The acquisition method permits the Company a period of time after the acquisition date during which the Company may adjust the provisional amounts recognized in a business combination. This period of time is referred to as the "measurement period". The measurement period provides an acquirer with a reasonable time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Under accounting standards in effect as of the Company's acquisition of interests in Delphax, the Company had two alternatives available to account for subsequent adjustments to the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Under the first method, which is no longer an available option since the Company's first fiscal 2017 quarter, the Company would retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained. Under the second method, which is the only allowed method beginning with the Company's first fiscal 2017 quarter, the Company is required to recognize adjustments to the provisional amounts, with a corresponding adjustment to goodwill, in the reporting period in which the adjustments to the provisional amounts are determined. Thus, the Company would adjust its consolidated financial statements as needed, including recognizing in its current-period earnings the full effect of changes in depreciation, amortization, or other income effects, by line item, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date. The Company adopted the second of the two above-described methods with respect to its acquisition of interests in Delphax.

Income statement activity of an acquired business is reflected within the Company's consolidated statements of income (loss) commencing with the date of acquisition. Amounts for pre-acquisition periods are excluded.

Acquisition-related costs are costs the Company incurs to effect a business combination. Those costs may include such items as finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees, and general administrative costs. The Company accounts for such acquisition-related costs as expenses in the period in which the costs are incurred and the services are received.

Changes in estimate of the fair value of earn-out obligations subsequent to the acquisition date are not accounted for as part of the acquisition but are rather recognized directly in earnings.

Attribution of Net Income or Loss of Partially-Owned Consolidated Entities. In the case of Delphax, we have determined that the attribution of net income or loss should be based on consideration of all of Air T's investments in Delphax and it subsidiary, Delphax Canada Technologies Limited ("Delphax Canada"). Our investment in the Warrant provides that in the event that dividends are paid on the common stock of Delphax, the holder of the Warrant is entitled to participate in such dividends on a ratable basis as if the Warrant had been fully exercised and the shares of Series B Preferred Stock acquired upon such exercise had been converted into shares of Delphax common stock. This provision would have entitled Air T, Inc. to approximately 67% of any Delphax dividends paid, with the remaining 33% paid to the non-controlling interests. We concluded that this was a substantive distribution right which should be considered in the attribution of Delphax net income or loss to non-controlling interests. We furthermore concluded that our investment in the debt of Delphax should be considered in attribution. Specifically, Delphax's net losses are attributed first to our Series B Preferred Stock and Warrant investments and to the non-controlling interest (67%/33%) until such amounts are reduced to zero. Additional losses are then fully attributed to our debt investments until they too are reduced to zero. This sequencing reflects the relative priority of debt to equity. Any further losses are then attributed to Air T and the non-controlling interests based on the initial 67%/33% share. Delphax net income is attributed using a backwards-tracing approach with respect to previous losses. The effect of interest expense arising under the Senior Subordinated Note and, from January 6, 2017 to August 10, 2017, under the Delphax Senior Credit Agreement, and other intercompany transactions, are reflected in the attribution of Delphax net income or losses attributed to non-controlling interests because Delphax is a variable interest entity. As a result of the application of the above-described attribution methodology, for the quarter ended December 31, 2017, the attribution of Delphax net income to non-controlling interests was 3.19% and for the quarter ended December 31, 2016, the attribution of Delphax net loss to non-controlling interests was 33%.

The above-described attribution methodology applies only to our investments in Delphax. We establish the appropriate attribution methodology on an entity-specific basis. In the case of Contrail Aviation, we concluded that an attribution methodology based solely on equity ownership percentages was appropriate.

Accounting for Redeemable Non-Controlling Interest. As described in Note 2 to the consolidated financial statements, the Company is party to a put/call option agreement concerning the non-controlling ownership interest held in the Company's consolidated subsidiary, Contrail Aviation. The put/call option permits Contrail Aviation, at any time after the fifth anniversary of the Company's acquisition of Contrail Aviation, to purchase the non-controlling interest from the holder of such interest. The agreement also permits the holder of the non-controlling interest to sell such interest to Contrail Aviation. Per the agreement, the price is to be agreed upon by the parties or, failing such agreement, to be determined pursuant to third-party appraisals in a process specified in the agreement. Applicable accounting guidance requires an equity instrument that is redeemable for cash or other assets to be classified outside of permanent equity if it is redeemable (a) at a fixed or determinable price on a fixed or determinable date, (b) at the option of the holder, or (c) upon the occurrence of an event that is not solely within the control of the issuer. Based on this guidance, the Company has classified the Contrail Aviation non-controlling interest between the liabilities and equity sections of the accompanying consolidated balance sheets. If an equity instrument subject to the guidance is currently redeemable, the instrument is adjusted to its maximum redemption amount at the balance sheet date. If the equity instrument subject to the guidance is not currently redeemable but it is probable that the equity instrument will become redeemable (for example, when the redemption depends solely on the passage of time), the guidance permits either of the following measurement methods: (a) accrete changes in the redemption value over the period from the date of issuance (or from the date that it becomes probable that the instrument will become redeemable, if later) to the earliest redemption date of the instrument using an appropriate methodology, or (b) recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period. The amount presented in temporary equity should be no less than the initial amount reported in temporary equity for the instrument. Because the Contrail Aviation equity instrument will become redeemable solely based on the passage of time, the Company determined that it is probable that the Contrail Aviation equity instrument will become redeemable. The Company has elected to apply the first of the two measurement options described above. An adjustment to the carrying amount of a non-controlling interest from the application of the above guidance does not impact net income or comprehensive income in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

Variable Interest Entities. In accordance with the applicable accounting guidance for the consolidation of variable interest entities, the Company analyzes its variable interests to determine if an entity in which we have a variable interest is a variable interest entity. Our analysis includes both quantitative and qualitative reviews to determine if we must consolidate a variable interest entity as its primary beneficiary.

Goodwill. The Company tests goodwill for impairment at least once annually. An impairment test will also be carried out anytime events or changes in circumstances indicate that goodwill might be impaired. Goodwill is tested for impairment at a level of reporting referred to as a reporting unit. The applicable accounting standards provide for two methods to assess goodwill for possible impairment, one qualitative and the other a two-step quantitative method. The Company is permitted to first assess qualitative factors to determine whether it is more likely than not (this is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying value, including goodwill. In qualitatively evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company assesses relevant events and circumstances such as macroeconomic conditions, industry and market developments, cost factors, and the overall financial performance of the reporting unit. If, after assessing these events and circumstances, it is determined that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the quantitative goodwill impairment test are unnecessary. In the first step of the quantitative method, recoverability of goodwill is evaluated by estimating the fair value of the reporting unit’s goodwill using multiple techniques, including a discounted cash flow model income approach and a market approach. The estimated fair value is then compared to the carrying value of the reporting unit. If the fair value of a reporting unit is less than its carrying value, a second step is performed to determine the amount of impairment loss, if any. The second step requires allocation of the reporting unit’s fair value to all of its assets and liabilities using the acquisition method prescribed under authoritative guidance for business combinations. Any residual fair value is allocated to goodwill. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of goodwill over its implied fair value.

Long-lived Assets. Long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Factors which may cause an impairment include extended operating cash flow losses from the assets and management's decisions regarding the future use of assets. To conduct impairment testing, the Company groups assets and liabilities at the lowest level for which identifiable cash is largely independent of cash flows of other assets and liabilities. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with an asset group is less than the carrying value. In the event it is determined that the carrying values of long-lived assets are in excess of the estimated undiscounted cash flows from those assets, the Company then will write-down the value of the assets by such excess. Fair values are determined considering quoted market values, discounted cash flows or internal and external appraisals, as applicable.

Marketable Securities. On a quarterly basis, the Company reviews marketable securities for declines in market value that may be considered other than temporary. Market value declines are considered to be other than temporary based on the length of time and the magnitude of the amount of each security that is in an unrealized loss position. The Company also consider the nature of the underlying investments and other market conditions or when other evidence indicates impairment. If the Company determines that an investment has other than a temporary decline in fair value, the Company recognizes the investment loss in non-operating income, net in the accompanying consolidated statements of comprehensive income (loss).

Going Concern. The Company applies ASC 205-40 Presentation of Financial Statements – Going Concern, which became effective for the Company’s fiscal year ended March 31, 2017. In connection with preparing its consolidated financial statements, Company management evaluates whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after

the date that the consolidated financial statements are available to be issued.

Seasonality

GGS's business has historically been seasonal, with the revenues and operating income typically being lower in the first and fourth fiscal quarters as commercial deicers are typically delivered prior to the winter season. The Company had worked to reduce GGS's seasonal fluctuation in revenues and earnings by increasing military and international sales and broadening its product line to increase revenues and earnings throughout the year. In July 2009, GGS was awarded a contract to supply deicing trucks to the USAF, which expired in July 2014. On May 15, 2014, GGS was awarded a new contract to continue supplying deicing trucks to the USAF. The initial contract award is for two years through July 13, 2016 with four additional one-year extension options that may be exercised by the USAF, the first two of which were exercised, extending the contract term to July 13, 2018. The value of the contract, as well as the number of units to be delivered, depends upon annual requirements and available funding to the USAF. Although GGS has retained the USAF deicer contract, orders under the contract have not been sufficient to offset the seasonal trend for commercial sales. As a result, GGS revenues and operating income have resumed their seasonal nature. Our other reporting segments are not as susceptible to seasonal trends.

Results of Operations

Third Quarter 2018 Compared to Third Quarter 2017

Consolidated revenues, net of intercompany eliminations, increased by $8,732,000 (24%) to $44,501,000 for the three-month period ended December 31, 2017 compared to the equivalent prior year period. Revenues in the overnight air cargo segment increased by $929,000 (5%). Administrative fee revenues increased reflecting the higher administrative fee amount paid under an amendment to the new dry-lease agreements which became effective on June 1, 2017. In addition, the segment's maintenance revenues increased as a result of the higher billable hours compared to the prior year quarter and there was an increase in maintenance pass-through costs along with the addition of a new contract with another airline. Revenues in the ground equipment sales segment, net of intercompany eliminations, increased $7,511,000 (139%) primarily due to increased sales volume of deicing truck units. Revenues in the ground support services segment, net of intercompany eliminations, increased $1,064,000 (14%) primarily as a result of the Company's growth in new markets and services offered to new and existing customers. Revenues in the printing equipment and maintenance segment decreased by $1,748,000 (66%) as a result of lost customers. Revenues in the commercial jet engines and parts segment increased $932,000 (31%) due to the acquisition of AirCo and growth in revenue from Contrail Aviation which is primarily due to new customers.

Operating expenses, net of intercompany eliminations, increased by $9,820,000 (29%) to $43,950,000 in the current year quarter compared to the equivalent prior period. Overnight air cargo operating expenses increased by $649,000 (4%) to $17,032,000 due to increases in operating costs not passed through to the customer. Pass-through costs for the overnight air cargo segment totaled $5,548,000 and $5,663,000 for the three-month periods ended December 31, 2017 and 2016, respectively. Ground equipment sales segment operating expenses, net of intercompany eliminations,

increased $6,274,000 (113%) driven principally by increased sales volume compared to the prior year comparable quarter. Ground support services segment operating costs, net of intercompany eliminations, increased by $1,137,000 (15%) due to increases in labor and related expenses associated with increased headcount for new business. Operating expenses of the commercial jet engines and parts segment, net of intercompany eliminations, increased $1,716,000 (68%) due to the increased sales activity of Contrail Aviation and the acquisition of AirCo. Operating expenses of the printing equipment and maintenance segment, net of intercompany eliminations, decreased $867,000 (53%) due to the declining operations of Delphax in the current year period.

General and administrative expenses increased $2,292,000 (46%) to $7,252,000 for the three-month period ended December 31, 2017 compared to the equivalent prior year period. General and administrative expenses increased due an increase in executive and employee salaries, professional fees, insurance expenses and fees paid to contractors at the Corporate level along with the additional operating expenses from Contrail Aviation and AirCo and the start-up of Delphax Solutions, Inc.

Consolidated operating income, net of intercompany eliminations, for the quarter ended December 31, 2017 was $552,000 compared to operating income of $1,639,000 for the prior year equivalent quarter. Operating income for the air cargo segment increased by $280,000 resulting from the higher administrative fee amount paid under the new dry-lease agreements, as well as maintenance revenue increase as a result of the higher maintenance billable hours during the three months ended December 31, 2017 and the addition of a new contract with another airline. Operating income, net of intercompany eliminations, for the ground equipment segment increased by $1,237,000 (804%) which is driven by a large increase in sales volume which improved margins. Operating results for the ground support services segment decreased by $74,000 (179%) as a result of the increases in labor and related expenses for new business. Operating results of the commercial jet engines and parts segment, net of intercompany eliminations, decreased $783,000 (159%) due to the operating results of Contrail Aviation and Jet Yard which declined due to a decrease in component and parts sales. Operating income for the printing equipment and maintenance segment decreased by $881,000 (86%) to operating income of $140,000 primarily driven by lost customers of Delphax and costs incurred to start-up the operations of Delphax Solutions, Inc.

Net non-operating expense was $1,326,000 for the quarter ended December 31, 2017 compared to non-operating income of $175,000 for the prior period quarter. This change was principally due to the loss associated with the other-than-temporary impairment of the OXBR investment of $789,000 and the unrealized loss on the interest rate swap of $199,000 in the quarter ended December 31, 2017.

During the three-month period ended December 31, 2017, the Company recorded a tax benefit of $60,000 at an effective rate of 7.75%. The Company records income taxes using an estimated annual effective tax rate for interim reporting. The individually largest factor contributing to the difference between the federal statutory rate of 30.79% and the Company's effective tax rate for the nine-month period ended December 31, 2017 was the change in valuation allowance relating to the other than temporary impairment of available for sale securities included in the pretax activity in the period. Additionally, the estimated annual effective tax rate differs from the U. S. federal statutory rate due to the benefit for the Section 831(b) income exclusion for SAIC, the benefit for the federal domestic production activities deduction, the increase in the valuation allowance related to the activity of Delphax, and state income tax expense. As a result of tax reform, the rate was also impacted by the recognition of the minimum tax credit carryforward and the expense relating to the revaluing of the deferred tax asset and liability balances to the new federal statutory rate. During the three-month period ended December 31, 2016, the Company recorded $375,000 in income tax expense which resulted in an effective tax rate of 25.8%. The individually largest factor contributing to the difference between the federal statutory rate and the Company's effective tax rate for the September 2016 quarter was the recognition of a valuation allowance against Delphax's pretax loss in the period. The income tax provision for the three-month period ended December 31, 2016 differs from the federal statutory rate due also in part to the effect of state income taxes and the federal domestic production activities deduction. Additionally, the rate for the period ended December 31, 2016 includes the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary afforded under Section 831(b).

First Nine Months of Fiscal 2018 Compared to First Nine Months of Fiscal 2017

Consolidated revenue increased $36,275,000 (35%) to $141,060,000 for the nine-month period ended December 31, 2017 compared to its equivalent prior period. Revenues in the overnight air cargo segment were $1,964,000 (4%) higher due to the increase in administrative fees payable under an amendment to the dry lease agreements effective June 1, 2017 along with an increase in billable maintenance hours, an increase in maintenance pass-through costs and the addition of a new contract with another airline. Revenues in the ground equipment sales segment, net of intercompany eliminations, increased $13,634,000 (66%) due to the higher volume in commercial domestic deicer sales in the current year. The ground support services segment's revenues, net of intercompany transactions, were up $5,140,000 (24%), resulting from growth in new and existing markets with services to new and existing customers. Revenues in the printing equipment and maintenance segment, net of intercompany transactions, decreased by $1,602,000 (23%) due to loss of customers. Revenues in the commercial jet engines and parts segment, net of intercompany eliminations, increased $17,488,000 (407%) due to significant growth in Contrail Aviation from new customers and the sale of airframes. The increase in this segment is also attributable to the acquisition of AirCo.

Operating expenses, net of intercompany transactions, increased $28,623,000 for the nine-month period ended December 31, 2017 compared to its equivalent prior year period. Overnight air cargo segment operating expenses increased $1,390,000 (3%) primarily due to increases in operating costs such as the flight crew fee not passed through to customers. Of the segment’s $50,142,000 of operating expenses for the nine months ended December 31, 2017, $16,334,000 in costs were passed through to our air cargo customer without markup. Ground equipment sales segment operating costs, net of intercompany eliminations, increased $12,168,000 (61%) due primarily from the increased sales volume. Ground support services segment operating expenses, net of intercompany transactions, increased $4,230,000 (19%) due to the same factors affecting the quarterly comparison discussed above along with the addition of new locations and related start-up expenses. Operating expenses in the printing equipment and maintenance segment, net of intercompany eliminations, decreased $8,231,000 (64%) due to the significant negative operating results for the prior year period and declining operations in the current period. Operating expenses, net of intercompany eliminations, of the commercial jet engines and parts segment increased $17,553,000 (467%) due to the increased sales activity of Contrail Aviation and the acquisition of AirCo. General and administrative expenses increased $5,182,000 (33%) for the nine-month period ended December 31, 2017 compared to its equivalent prior period. The increase was incurred over a variety of categories with the principal components being professional fees incurred in connection with the restatements of financial information reflected in the various amended Form 10-K and Form 10-Q reports filed in October 2017 along with the additional operating expenses from the Contrail Aviation and AirCo acquisitions and the start-up of Delphax Solutions, Inc.

Operating income for the nine-month period ended December 31, 2017, net of intercompany eliminations, was $3,240,000, compared to $4,412,000 operating loss for the prior year comparable period. The overnight air cargo segment saw a $574,000 (27%) increase in the operating income as a result of the impact of the new dry-lease agreements effective June 1, 2017. The ground equipment sales segment experienced a $1,466,000 (155%) increase in its operating income, net of intercompany eliminations, in the nine-month period ended December 31, 2017 compared to the prior year period. This is mainly due to the increase in the volume of deicers sold in the current year period. The ground support services segment saw a $910,000 (232%) increase in operating income for the period from an operating loss in the prior year comparable period, as a result of the same factors affecting the second quarter discussed above. The commercial jet engines and parts segment experienced a $66,000 (12%) decrease in its operating income, net of intercompany eliminations, in the nine-month period ended December 31, 2017 compared to the prior year period as a result of the acquisition of AirCo. The operating income of the printing equipment and maintenance segment, net of intercompany eliminations, was $632,000 for the nine-months ended December 31, 2017 which increased from an operating loss of $5,998,000 in the prior-year period due to significant negative operating results for the prior year period, including related assets impairments described above that did not reoccur in the current-year period.

Net non-operating expense increased by $971,000 for the nine-month period ended December 31, 2017 to $1,651,000 compared to the prior period net non-operating expense of $680,000 principally due to an increase in interest expense and other expenses and the unrealized loss on the interest rate swap.

Pretax earnings increased by $6,681,000 to $1,587,000 for the nine-month period ended December 31, 2017 compared to the pretax loss of $5,092,000 of the prior comparable period due principally to the significant revenue growth in the ground equipment sales segment and Contrail Aviation and the asset impairments at Delphax in the prior-year comparable period that did not reoccur.

During the nine-month period ended December 31, 2017, the Company recorded $595,000 in income tax expense at an effective rate of 37.45%. The Company records income taxes using an estimated annual effective tax rate for interim reporting. The individually largest factor contributing to the difference between the federal statutory rate of 30.79% and the Company’s effective tax rate for the nine-month period ended December 31, 2017 was the change in valuation allowance relating to the other than temporary impairment of available for sale securities included in the pretax activity in the period. Additionally, the estimated annual effective tax rate differs from the U. S. federal statutory rate due to the benefit for the Section 831(b) income exclusion for SAIC, the benefit for the federal domestic production activities deduction, the change in the valuation allowance related to the activity of Delphax, and state income tax expense. As a result of tax reform, the rate was also impacted by the recognition of the minimum tax credit carryforward and the expense relating to the revaluing of the deferred tax asset and liability balances to the new federal statutory rate. During the nine-month period ended December 31, 2016, the Company recorded $152,000 in income tax expense which resulted in an effective tax rate of (2.99%). The individually largest factor contributing to the difference between the federal statutory rate and the Company’s effective tax rate for the period ending December 2016 was the recognition of a valuation allowance against Delphax’s pretax activity in the period. The income tax provision for the nine-month period ended December 31, 2016 differs from the federal statutory rate due also in part to the effect of state income taxes and the federal domestic production activities deduction. Additionally, the rate for the period ended December 31, 2016 includes the estimated benefit for the exclusion of income for the Company’s

captive insurance company subsidiary afforded under Section 831(b).

Liquidity and Capital Resources

As of December 31, 2017, the Company held approximately $7,985,000 in cash and cash equivalents. The Company also held approximately $890,000 in restricted cash with $250,000 in cash held as statutory reserve of SAIC and the remaining $640,000 pledged to secure SAIC's participation in certain reinsurance pools. Of the Company's cash and cash equivalents at December 31, 2017, $289,000 was invested in accounts not insured by the Federal Deposit Insurance Corporation ("FDIC").

As of December 31, 2017, the Company's working capital amounted to $30,061,000, an increase of $1,471,000 compared to March 31, 2017. The Company believes that the cash position, working capital and borrowing facilities described below provide adequate liquidity for the Company's operations over the next twelve months.

On December 21, 2017, the Company refinanced its previously existing financing arrangement with Branch Banking and Trust Company ("BB&T) by entering into a Credit Agreement ("MBT Credit Agreement") with Minnesota Bank & Trust ("MBT"), pursuant to which MBT extended to the Company an aggregate of $26,900,000 in financing in the form of a floating-rate, $10,000,000 revolving credit facility, and three, fixed-rate amortizing term loans in the amounts of $10,000,000 ("Term Loan A"), $5,000,000 ("Term Loan B") and $1,900,000 ("Term Loan C"), respectively. The interest rate on the $10,000,000 revolving note floats at a rate equal to the prime rate plus one percent (1%); the interest rate on Term Note A floats at the one month LIBOR rate plus two percent (2%); the interest rate on Term Note B is fixed at four and one-half percent (4.50%); and, the interest on Term Note C floats at a rate equal to prime minus one percent (1%), subject to a floor of three and one quarter percent (3.25%). In connection with the financing, the Company entered into a swap agreement to fix the interest rate on Term Note A at four and 56/100ths percent (4.56%). The revolving note is due on November 30, 2019, Term Loan A and Term Loan B mature in ten years from the date of issuance, and Term Loan C matures on January 1, 2019 although there are no amounts outstanding on this loan as of December 31, 2017. The loans are guaranteed by certain subsidiaries of the Company, secured by a first lien on all personal property of the Company and the guaranteeing subsidiaries. The Company applied a portion of the proceeds from the financing to refinance the obligations of the Company and certain of its subsidiaries under its Prior Revolving Credit Facility (as defined below) with BB&T.

On December 21, 2017, the Company entered into an interest rate swap pursuant to an International Swap Dealer's Association, Inc. Master Agreement with MBT. The effective date of the swap was January 1, 2018 and the termination date of the swap agreement is January 1, 2028. As of January 1, 2018, the notional amount was $10,000,000, which amount adjusts each month consistent with the amortization schedule of Term Note A. The purpose of the swap is to fix the interest rate on the Company's $10,000,000 Term Note A at four and 56/100ths percent (4.56%), thereby mitigating the interest rate risk inherent in Term Note A.

The MBT Credit Agreement contains affirmative and negative covenants, including covenants providing compliance certificates and borrowing base certificates, notices of events of default or other events deemed to have a material adverse effect on the Company, as defined in the credit agreement, and limitations on certain types of additional debt and certain types of investments. The MBT Credit Agreement also contains financial covenants applicable to the Company and the obligation subsidiaries, including either the maintenance of a Debt Service Coverage Ratio of 1.25 to 1.00 or an Asset Coverage Ratio of 1.50 to 1.00.

The MBT Credit Agreement contains events of default, as defined therein, including, without limitation, nonpayment of principal, interest or other obligations, violation of covenants, cross-default to other debt, bankruptcy and other insolvency events, actual or asserted invalidity of loan documentation, or material adverse changes in the Company's or the guaranteeing subsidiaries' financial condition. At December 31, 2017, the Company and the subsidiaries were in compliance with all applicable covenants under this credit facility.

Prior to December 21, 2017, the Company had a senior secured revolving credit facility of $25.0 million with BB&T with a maturity date of April 1, 2019 (the "Prior Revolving Credit Facility"). Initially, borrowings under the Prior Revolving Credit Facility bore interest (payable monthly) at an annual rate of one-month LIBOR plus an incremental

amount ranging from 1.50% to 2.00% based on a consolidated leverage ratio. In addition, a commitment fee accrued with respect to the unused amount of the Prior Revolving Credit Facility at an annual rate of 0.15%. The Company included the commitment fee expense within the interest expense and other line item of the accompanying condensed consolidated statements of income. Amounts applied to repay borrowings under the Prior Revolving Credit Facility could be reborrowed, subject to the terms of the facility.

On May 2, 2017, the Company and certain of its subsidiaries entered into an amendment to the agreement governing the Prior Revolving Credit Facility to establish a separate $2.4 million term loan facility under that agreement. Each of the Company and such subsidiaries were obligors with respect to the term loan, which matured on May 1, 2018, with equal $200,000 installments of principal due monthly, commencing June 1, 2017. Interest on the term loan was payable monthly at a per annum rate equal to 25 basis points above the interest rate applicable to the Prior Revolving Credit Facility. The proceeds of the term loan were used to fund the acquisition of the AirCo business. The term loan was secured by the existing collateral securing borrowings under the Prior Revolving Credit Facility, including such acquired assets.

Effective as of June 28, 2017, the Company and certain of its subsidiaries agreed to amend the Prior Revolving Credit Facility to provide that the interest rates on the revolving loans and the above-referenced term loan under the Prior Revolving Credit Facility were each increased by an additional 0.25% per annum from the date of the amendment until the second business day after delivery of a compliance certificate for the quarter ended March 31, 2017 or any subsequent fiscal quarter end showing compliance with the financial covenants required under the Prior Revolving Credit Facility, other than with respect to covenants as to which compliance had been waived. The compliance certificate for the quarter ended June 30, 2017, was so delivered on October 26, 2017 and accordingly, the additional 0.25% per annum additional interest ceased to accrue commencing on October 26, 2017.

The Prior Revolving Credit Facility contained a number of affirmative and negative covenants as well as financial covenants. Revisions to the terms of the Prior Revolving Credit Facility and waiver of compliance with certain covenants by the lender occurred pursuant to a number of amendments to the facility.

On October 31, 2016, the Company and its subsidiaries, MAC, GGS, CSA, GAS, ATGL, Jet Yard and Stratus Aero Partners, LLC, entered into a loan agreement dated as of October 31, 2016, (the "Construction Loan Agreement") with the Prior Revolving Credit Facility lender to borrow up to $1,480,000 to finance the acquisition and development of the Company's new corporate headquarters facility located in Denver, North Carolina. Under the Construction Loan Agreement, the Company was permitted to make monthly drawings to fund construction costs until October 2017. Borrowings under the Construction Loan Agreement bore interest at the same rate charged under the Revolving Credit Facility. Monthly interest payments began in November 2016. Monthly principal payments (based on a 25-year amortization schedule) commenced in November 2017, with the final payment of the remaining principal balance due in October 2026. Borrowings under the Construction Loan Agreement were secured by a mortgage on the new headquarters facility and a collateral assignment of the Company's rights in life insurance policies with respect to certain former executives, as well as the same collateral securing borrowings under the Revolving Credit Facility. The Construction Loan included the same covenants as in the Prior Revolving Credit Facility.

All of the obligations of the Company and its subsidiaries under the Prior Revolving Credit Facility including the Construction Loan Agreement referenced above were repaid in full with proceeds of the MBT Credit Agreement, and the Prior Revolving Credit Facility was terminated effective as of December 21, 2017.

On May 5, 2017, Contrail Aviation Support, LLC ("Contrail"), a partially owned subsidiary of the Company, entered into a Business Loan Agreement with Old National Bank ("ONB Loan Agreement"). The ONB Loan Agreement provides for revolving credit borrowings by Contrail in an amount up to $15,000,000 and replaces the revolving credit facility that Contrail had entered into with BMO Harris Bank N.A on July 18, 2016. Borrowings under the ONB Loan Agreement will bear interest at an annual rate equal to one-month LIBOR plus 3.00%. At December 31, 2017, $9,353,000 of aggregate borrowings were outstanding under the ONB Loan Agreement and $5,647,000 was available for borrowing.

The obligations of Contrail under the ONB Loan Agreement are secured by a first-priority security interest in substantially all of the assets of Contrail and are also guaranteed by the Company, with such guaranty limited in amount to a maximum of $1,600,000 plus interest on such amount at the rate of interest in effect under the ONB Loan Agreement, plus costs of collection.

The ONB Loan Agreement contains affirmative and negative covenants, including covenants that restrict Contrail's ability to make acquisitions or investments, make certain changes to its capital structure, and engage in any business substantially different than it presently conducts. The ONB Loan Agreement also contains financial covenants applicable to Contrail, including maintenance of a Cash Flow Coverage Ratio of 2.0 to 1.0, a Tangible Net Worth of not less than $3,500,000, and a Debt Service Coverage Ratio of 1.1 to 1.0, as such terms are defined in the ONB Loan Agreement.

The ONB Loan Agreement contains Events of Default, as defined, including, without limitation, nonpayment of principal, interest or other obligations, violation of covenants, if both Contrail's current chief executive officer and chief financial officer cease to oversee day-to-day operations of Contrail, cross-default to other debt, bankruptcy and other insolvency events, actual or asserted invalidity of loan documentation, or material adverse changes in Contrail's financial condition. At December 31, 2017, Contrail was in compliance with these covenants.

On October 27, 2017 AirCo 1, LLC, a wholly-owned subsidiary of AirCo, LLC, closed a loan in the amount of $3,441,000 from Minnesota Bank & Trust in order to finance, in part, the purchase of a 737-800 airframe for the purpose of disassembling the plane and selling it for parts. The plane will be disassembled by Jet Yard, LLC, an affiliate, and the parts will be sold on consignment to AirCo, LLC, which will market them to third parties. AirCo 1, LLC is a special purpose entity formed for the purpose of this transaction. At December 31, 2017, the outstanding balance on this loan was approximately $3,347,000, which is reported net of deferred financing costs of $58,000 on the consolidated balance sheet.

The loan contains affirmative and negative covenants and is secured by a security interest in all of AirCo 1, LLC's assets, a collateral assignment of the purchase agreement for the plane, assignments of the disassembly contract and the consignment agreement, and bailee agreements with Jet Yard, LLC and AirCo, LLC. AirCo, LLC is a wholly-owned subsidiary of Stratus Aero Partners LLC.

The Company assumes various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements such as debt and lease agreements.

Cash Flows

Following is a table of changes in cash flow for the nine-month periods ended December 31, 2017 and 2016:

	Nine Months Ended December 31,	
	2017	2016
Net Cash Provided by (Used in) Operating Activities	$8,300,000	$(10,673,000)
Net Cash Used in Investing Activities	(18,615,000)	(2,810,000)
Net Cash Provided by Financing Activities	15,533,000	9,741,000
Effect of foreign currency exchange rates on cash and cash equivalents	4,000	18,000
Net Increase (Decrease) in Cash and Cash Equivalents	$5,222,000	$(3,724,000)

Cash provided by operating activities was $18,973,000 more for the nine-month period ended December 31, 2017 compared to the prior year period principally due to the net income generated during the period, the decreases in accounts receivable and inventory, and the decrease in accounts payable.

Cash used in investing activities for the nine-month period ended December 31, 2017 was $15,805,000 more than the comparable prior year period due primarily to capital expenditures of $15,247,000 during the nine-months ended December 31, 2017. The majority of the capital expenditures are concentrated within Contrail Aviation which purchased engines with the intention of leasing those engines to customers.

Cash provided by financing activities for the nine-month period ended December 31, 2017 was $5,792,000 more compared to the prior year period. This was primarily due to proceeds from the refinancing with MBT and the repayment of the previous revolving credit facility.

Impact of Inflation

The Company believes that inflation has not had a material effect on its operations, because increased costs to date have generally been passed on to its customers. Under the terms of its overnight air cargo business contracts the major cost components of its operations, consisting principally of fuel, and certain other direct operating costs, and certain maintenance costs are reimbursed by its customer. Significant increases in inflation rates could, however, have a material impact on future revenue and operating income.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, referred to collectively herein as the Certifying Officers, are responsible for establishing and maintaining our disclosure controls and procedures that are designed to ensure that information relating to the Company required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 240.13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) as of December 31, 2017. As a result of material weaknesses in internal control over financial reporting described below which had not been remediated as of December 31, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, the Company's disclosure controls and procedures were not effective. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our consolidated annual or interim financial statements will not be prevented or detected on a timely basis. Our management has concluded that, as of December 31, 2017, the following material weaknesses existed:

- A weakness with respect to internal controls over revenue recognition. We determined a lack of formalized procedures for the documentation of revenue arrangements at GAS, including a lack of procedures requiring service contracts to be signed by all parties, for documentation of oral service contracts and acceptance of parts and services by customers, and to confirm that invoices are appropriately sent to customers.

Additionally, we identified a weakness in our GGS segment's process to determine both 1) when to apply the completed contract method for certain contracts with the U.S. Government or related prime contractors and 2) when contracts for which we apply the completed contract method are "substantially complete" for revenue recognition purposes;

- A lack of an effective internal control environment at Delphax, including insufficient account reconciliation, financial statement review, and segregation of duties controls, as well as a lack of procedures for the proper maintenance of records to support balances within Delphax's financial statements;

- A lack of effective internal controls for the analysis of the accounting guidance applicable to recognition of our investments. Specifically, our previous conclusions that Delphax was a VIE and that Air T was Delphax's primary beneficiary were based in part on considerations which were not supportable under GAAP. Also, our VIE analysis of the general partnership interests and equity interests in certain investment funds entered into during the quarter ended December 31, 2017;

- An application of an inappropriate methodology for attributing the net income or loss of Delphax to the non-controlling interests. Specifically, our attribution was based solely on our ownership of the Series B Preferred Stock rather than on a methodology that gave appropriate consideration to all of Air T's investments in Delphax and Delphax Canada. As a result of our failure to establish an appropriate attribution methodology it was necessary to restate our fiscal year 2016 consolidated financial statements originally included on Form 10-K for the fiscal year ended March 31, 2016 and our unaudited condensed consolidated financial statements originally included on Form 10-Q for the periods ended December 31, 2015, June 30, 2016, September 30, 2016, and December 31, 2016;

- A weakness with respect to internal controls over monitoring compliance with financial covenants stipulated by our senior secured revolving credit facility; and

- Lack of effective internal control for the analysis of the accounting guidance applicable to the foreclosure and bankruptcy of Delphax Canada.

The Company's Chief Executive Officer and Chief Financial Officer have determined that these material weaknesses had not been remediated as of December 31, 2017. In light of the material weaknesses discussed above, we performed additional analyses and procedures in order to conclude that our consolidated financial statements in this report are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.

The Company's development of its plan to remediate these material weaknesses is ongoing. While such plan has not yet been completed, the Company's plan will include the following elements:

- Establishment of written procedures at GAS for the documentation of revenue arrangements, including procedures for the receipt, retention and review of written agreements including implementation of contract management software for confirming that all customer relationships are indexed by written contracts executed by both parties and review and retention of evidence of delivery of parts and customer acceptance of services, as applicable, and procedures for the confirmation of the timely transmission of customer invoices, active monitoring of aging invoices

and training of GAS accounting personnel with respect to such procedures. Additionally, the formalization of GGS' process of determining both when application of the completed contract method for certain contracts with the U.S. Government or related prime contractors is appropriate and when, for contracts for which we apply the completed contract method, our performance is "substantially complete" for revenue recognition purposes;

- Further engagement of accounting consultants to assist the Company with respect to accounting for complex accounting transactions; and

- Timely consultation with our senior lender, including receipt of associated written confirmation, regarding any points of interpretation with respect to covenant provisions and definitions.

With respect to the deficiencies in internal control over financial reporting at Delphax described above, the Company's plan for remediation will be developed following consultation with Delphax. The Company currently contemplates that such plan will include ensuring sufficient capabilities to permit Delphax to timely comply with audit requests, and implementation of additional controls with respect to access to the Delphax payroll module and controls with respect to appropriate record retention.

There has not been any change in the Company's internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1 A. Risk Factors

Please see the information disclosed in the "Risk Factors" section of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on October 13, 2017.

We may not realize the anticipated benefits of acquisitions and acquisitions may expose us to successor liabilities and other risks.

Recently, we have been an active acquirer of other businesses, as part of our strategy involves acquisitions designed to expand and enhance our businesses. Our ability to benefit from acquisitions involves a number of risks, including our ability to identify suitable prospects, access funding sources on acceptable terms, negotiate favorable transaction terms and successfully consummate and integrate any businesses we acquire. Our acquisition activities may involve unanticipated delays, costs or other problems. If we encounter unexpected problems with one of our acquisitions, our management may be required to divert attention away from other aspects of our businesses to address these problems. Additionally, we may fail to consummate proposed acquisitions, after incurring expenses and devoting substantial resources, including management time, to such transactions.

Acquisitions, including acquisitions structured as asset purchase transactions or acquisitions of assets through foreclosure, also pose the risk that we may be exposed to successor liability relating to actions by an acquired business before the acquisition. Any contractual guarantees or indemnities that we receive from the sellers of acquired businesses may not be sufficient to protect us from, or compensate us for, actual liabilities. A material liability

associated with an acquisition could adversely affect our results of operations and reduce the benefits of the acquisition. Additionally, acquisitions involve other risks, such as differing levels of management and internal control effectiveness at the acquired entities, systems integration risks, the risk of impairment charges relating to goodwill and intangible assets recorded in connection with acquisitions, the risk of significant accounting charges resulting from the completion and integration of a sizeable acquisition, the need to fund increased capital expenditures and working capital requirements, our ability to retain and motivate employees of acquired entities and other unanticipated problems and liabilities.

Item 6. Exhibits

(a) Exhibits

No.	Description
3.1	Amended and Restated By-Laws of Air T, Inc. incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 6, 2017 (Commission File No. 001-35476)
3.2	Amended and Restated By-Laws of Air T, Inc. (marked to show amendments effected on November 1, 2017) incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 6, 2017 (Commission File No. 001-35476)
10.1	Form of Airco 1, LLC Promissory Note with Minnesota Bank & Trust dated October 27, 2017, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 2, 2017 (Commission File No. 001-35476)
10.2	Form of Loan Agreement between Airco 1, LLC as Borrower and Minnesota Bank & Trust as Lender dated October 27, 2017, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 2, 2017 (Commission File No. 001-35476)
10.3	Form of Collateral Assignment of Purchase Agreement between Airco 1, LLC and Minnesota Bank & Trust dated October 27, 2017, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 2, 2017 (Commission File No. 001-35476)
10.4	Form of Assignment and Agreement Regarding Consignment Agreement between Airco 1, LLC and Airco, LLC and Minnesota Bank & Trust dated October 27, 2017, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated November 2, 2017 (Commission File No. 001-35476)
10.5	Asset Purchase Agreement by and among Blue Clay Capital Management, LLC, Gary Kohler and BCCM, Inc. dated November 3, 2017 incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 6, 2017 (Commission File No. 001-35476)
10.6	Form of Employment Agreement between Gary Kohler and BCCM, Inc. incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 6, 2017 (Commission File No. 001-35476)

10.7	Form of Employment Agreement between David Woodis and BCCM, Inc. incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 6, 2017 (Commission File No. 001-35476)
10.8	Form of Credit Agreement between Air T, Inc. and Minnesota Bank & Trust incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)
10.9	Form of Air T, Inc. Term Note A in the principal amount of $10,000,000 to Minnesota Bank & Trust incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)
10.10	Form of Air T, Inc. Term Note B in the principal amount of $5,000,000 to Minnesota Bank & Trust incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)
10.11	Form of Air T, Inc. Term Note C in the principal amount of $1,900,000 to Minnesota Bank & Trust incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)

10.12	Form of Air T, Inc. Revolving Credit Note in the principal amount of $10,000,000 to Minnesota Bank & Trust incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)
10.13	Form of Security Agreement incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)
10.14	Form of Subsidiary Guarantee Agreement incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K dated December 18, 2017 (Commission File No. 001-35476)
31.1	Section 302 Certification of Chief Executive Officer and President
31.2	Section 302 Certification of principal financial officer
32.1	Section 1350 Certifications
101	The following financial information from the Quarterly Report on Form 10-Q for the quarter ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statements of Stockholders Equity, and (v) the Notes to the Condensed Consolidated Financial Statements.

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.

AIR T, INC.

Date: February 14, 2018

/s/ Nick Swenson
Nick Swenson, Chief Executive Officer and Director

/s/ Candice Otey
Candice Otey, Chief Financial Officer

AIR T, INC.

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