AIR T INC
Form 10-Q
October 26, 2017
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 June 30, 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 August 31, 2017
Common Shares, par value of $.25 per share	2,042,789

AIR T, INC. AND SUBSIDIARIES
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Item 1. Financial Statements

AIR T, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended June 30,	
	2017	2016
Operating Revenues:		
Overnight air cargo	$16,742,175	$16,637,165
Ground equipment sales	5,949,656	4,254,188
Ground support services	9,113,073	6,800,042
Printing equipment and maintenance	3,131,381	2,560,088
Commercial jet engines and parts	12,725,341	-
Leasing	35,747	241,770
	47,697,373	30,493,253
Operating Expenses:		
Overnight air cargo	14,562,143	14,420,469
Ground equipment sales	4,754,215	3,416,324
Ground support services	7,418,393	5,392,668
Printing equipment and maintenance	1,501,056	6,007,767
Commercial jet engines and parts	10,069,850	-
Research and development	195,653	510,960
General and administrative	6,585,759	5,828,946
Depreciation, amortization and impairment	398,827	1,989,601
Gain on sale of property and equipment	(1,091)	-
	45,484,805	37,566,735
Operating Income (Loss)	2,212,568	(7,073,482)
Non-operating Income (Expense):		
Gain on sale of marketable securities	-	143,869
Foreign currency gain (loss), net	(188,624)	91,790
Other-than-temporary impairment loss on investments	(771,173)	(1,502,239)
Other investment income, net	30,651	42,693
Interest expense and other	(149,519)	(64,011)
Bargain purchase acquisition gain, net of tax	501,880	-
Equity in loss of associated company	(31,903)	-
	(608,688)	(1,287,898)
Income (Loss) Before Income Taxes	1,603,880	(8,361,380)

Income Taxes	374,000	(372,000)
Net Income (Loss)	1,229,880	(7,989,380)
Net (Income) Loss Attributable to Non-controlling Interests	$(261,491)	$2,237,909
Net Income (Loss) Attributable to Air T, Inc. Stockholders	$968,389	$(5,751,471)
Income (Loss) Per Share:		
Basic	$0.47	$(2.42)
Diluted	$0.47	$(2.42)
Weighted Average Shares Outstanding:		
Basic	2,042,789	2,372,527
Diluted	2,047,623	2,372,527

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30, 2017	2016
Net income (loss)	$1,229,880	$(7,989,380)
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	134,789	(150,312)
Unrealized net loss on marketable securities	(920,309)	(981,370)
Tax effect of unrealized net loss on marketable securities	331,761	353,293
Total unrealized net loss on marketable securities, net of tax	(588,548)	(628,077)
Reclassification of other-than-temporary impairment loss on investments, net of gains on sale of marketable securities, included in income (loss) before income taxes	771,173	1,358,370
Tax effect of reclassification	(277,622)	(489,012)
Reclassification adjustment, net of tax	493,551	869,358
Total Other Comprehensive Income	39,792	90,969
Total Comprehensive Income (Loss)	1,269,672	(7,898,411)
Comprehensive (Income) Loss Attributable to Non-controlling Interests	(260,646)	2,285,699
Comprehensive Income (Loss) Attributable to Air T, Inc. Stockholders	$1,009,026	$(5,612,712)

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Unaudited)	March 31, 2017 *
ASSETS		
Current Assets:		
Cash and cash equivalents (Delphax $312,016 and $328,327)**	$1,888,824	$2,763,365
Marketable securities	1,979,686	2,130,544
Restricted cash	890,369	890,369
Accounts receivable, less allowance for doubtful accounts of $958,000 and $979,000 (Delphax $2,593,290 and $1,728,411)**	20,795,360	18,923,787
Notes and other receivables-current (Delphax $38,043 and $0)	1,487,884	2,297,007
Income tax receivable	47,501	402,688
Inventories, net (Delphax $1,563,494 and $1,941,729)**	25,352,376	19,778,843
Prepayments and other (Delphax $831,321 and $932,794)**	1,432,000	1,672,475
Total Current Assets	53,874,000	48,859,078
Investments in Available-For-Sale Securities	1,724,175	2,463,123
Property and equipment, net (Delphax $3,316 and $8,007)**	5,359,386	5,324,488
Cash surrender value of life insurance policies	2,265,785	2,251,450
Notes and other receivables-long-term	-	66,771
Deferred income taxes	-	204,000
Other assets	786,228	371,975
Intangible assets, net	1,300,890	1,376,699
Goodwill	4,417,605	4,417,605
Total Assets	$69,728,069	$65,335,189
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable (Delphax $2,398,194 and $2,482,578)**	$10,828,717	$11,571,156
Accrued expenses and other current liabilities (Delphax $3,556,390 and $3,602,162)**	8,820,775	8,672,815
Short-term debt	2,225,000	25,000
Total Current Liabilities	21,874,492	20,268,971
Long-term debt	20,863,922	18,412,521
Deferred income taxes	27,887	8,000
Other non-current liabilities	2,085,801	3,039,402
Total Liabilities	44,852,102	41,728,894
Redeemable non-controlling interest	1,712,153	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	4,180,536	4,205,536
Retained earnings	19,429,736	18,461,347
Accumulated other comprehensive loss, net	(171,410)	(212,047)
Total Air T, Inc. Stockholders' Equity	23,949,558	22,965,532
Non-controlling Interests	(785,744)	(803,138)
Total Equity	23,163,814	22,162,394
Total Liabilities and Equity	$69,728,069	$65,335,189

* Derived from audited consolidated financial statements
** Amounts related to Delphax as of June 30, 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)

	Three Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$1,229,880	$(7,989,380)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain on sale of marketable securities	-	(143,869)
Gain on sale of property and equipment	(1,091)	-
Change in inventory reserves	(405,302)	2,434,837
Change in accounts receivable reserves	(20,950)	(86,049)
Depreciation, amortization and impairment	398,827	1,989,601
Change in cash surrender value of life insurance	(14,335)	(18,571)
Bargain purchase acquisition gain, net of tax	(501,880)	-
Warranty reserve	27,706	39,001
Other-than-temporary impairment loss on investments	771,173	1,502,239
Change in operating assets and liabilities:		
Accounts receivable	(1,071,687)	1,117,413
Notes receivable	811,207	(406,552)
Inventories	(1,896,441)	(5,704,755)
Prepayments and other assets	380,030	534,759
Accounts payable	(1,047,556)	1,864,793
Accrued expenses and other current liabilities	(1,206,518)	744,233
Income taxes payable/receivable	355,186	(428,132)
Non-current liabilities	47,240	(207,494)
Total adjustments	(3,374,391)	3,231,454
Net cash used in operating activities	(2,144,511)	(4,757,926)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(30,476)	(924,623)
Proceeds from sale of marketable securities	-	1,215,105
Business combinations	(2,900,000)	-
Capital expenditures	(489,995)	(519,569)
Proceeds from sale of property and equipment	1,861	-
Increase in restricted cash	-	(3,411)
Net cash used in investing activities	(3,418,610)	(232,498)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	17,002,765	12,047,913
Payments on lines of credit	(14,520,242)	(8,727,210)
Proceeds from term loan	2,400,000	
Payments on term loan	(200,000)	-
Proceeds from line of credit - Delphax	-	313,692

Net cash provided by financing activities	4,682,523	3,634,395
Effect of foreign currency exchange rates on cash and cash equivalents	6,057	(19,450)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(874,541)	(1,375,479)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,763,365	5,345,455
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,888,824	$3,969,976
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:		
Finished goods inventory transferred to property and equipment	$-	$321,345
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$160,191	$2,319
Income taxes	18,814	56,133

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
Net loss	-	-	-	(5,751,471)	-	(2,237,909)	(7,989,380)
Net change from marketable securities, net of tax	-	-	-	-	241,281	-	241,281
Foreign currency translation loss	-	-	-	-	(102,522)	(47,790)	(150,312)
Balance, June 30, 2016	2,372,527	$593,131	$4,956,171	$23,070,354	$ (1,760)	$(1,244,777)	$27,373,119

	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*	-	-		968,389	-	18,239	986,628
Net change from marketablesecurities, net of tax	-	-	-	-	(94,997)	-	(94,997)
Foreign currency translation gain (loss)	-	-	-	-	135,634	(845)	134,789

Redeemable non-controlling interest	-	-	(25,000)	-	-	-	(25,000)
Balance, June 30, 2017	2,042,789	$510,696	$4,180,536	$19,429,736	$(171,410)	$(785,744)	$23,163,814

*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.

It is suggested that these condensed consolidated financial statements 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 periods ended June 30 are not necessarily indicative of the operating results for the full year.

Certain reclassifications have been made to the prior period amounts to conform to the current presentation.

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.

The Company is currently evaluating the methods of adoption allowed by the new standard and the effect the standard is expected to have on the Company's consolidated financial position, results of operations or cash flows and related disclosures. Because our evaluation is not complete, we have not yet quantified and, accordingly, are not able to make a reasonable estimate of the impact of the new revenue standard on our consolidated financial statements at this time. We anticipate completing our evaluation during the third or fourth quarter of fiscal year 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 of 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.

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

Acquisitions of Interests in Delphax

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 ("Delphax Canada"), 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 provides 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 are 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.

As a result of the above transactions, the Company determined that it had obtained control over Delphax and it included Delphax in its consolidated financial statements beginning on November 24, 2015. See Note 9.

The following table summarizes the provisional fair values of consolidated Delphax assets and liabilities as of the Closing Date:

	November 24, 2015
ASSETS	
Cash and cash equivalents	$586,061
Accounts receivable	1,740,210
Inventories	3,972,802
Other current assets	693,590
Property and equipment	722,714
Intangible assets - trade name	120,000
Intangible assets - patents	1,090,000
Goodwill	375,408
Total assets	$9,300,785
LIABILITIES	
Accounts payable	$1,663,199
Accrued expenses	1,949,522
Income tax payable	11,312
Debt	3,313,317
Other long-term liabilities	650,500
Total liabilities	$7,587,850
Net Assets	$1,712,935

The Company determined that it was reasonable to use the price which it paid for its equity interest as the basis for estimating the total fair value of Delphax's equity as of the November 24, 2015 acquisition date. The effect of the Company's equity and debt investments of $1,050,000 and $2,500,000, respectively, are not reflected in the above table. As such, the amounts presented reflect the fair values of Delphax's assets and liabilities immediately prior to the Company's investments. The net assets amount presented above is the estimated acquisition date fair value of the non-controlling interests in Delphax.

Delphax's debt immediately prior to the acquisition included approximately $508,000 due under the 90-Day Senior Subordinated Note. The goodwill is not deductible for income tax purposes.

The Company has finalized its Delphax acquisition accounting.

Direct costs relating to the above transactions of $110,000 were expensed as incurred during the year ended March 31, 2016, and are included in the general and administrative expenses in the consolidated statements of income and comprehensive income.

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

On January 6, 2017, the Company acquired all rights, and assumed all obligations, of a third-party 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 such third-party 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. At June 30, 2017, Delphax Canada was not in compliance with financial covenants under the Delphax Senior Credit Agreement. Notwithstanding the existence of events of default, 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 the first six months of calendar 2017. Delphax Canada is Delphax's sole manufacturing subsidiary.

Events of default under the Delphax Senior Credit Agreement persisted. 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.

The intercompany balances under the Delphax Senior Credit Agreement and Senior Subordinated Note as of June 30, 2017 are eliminated in the presentation of the condensed consolidated financial statements. The effect of interest expense arising under the Senior Subordinated Note and, since January 6, 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.

As further discussed in Note 9, the Company recognized significant expenses in the June 30, 2016 quarter associated with Delphax employee benefit costs and write-downs of Delphax inventories, long-lived tangible and intangible assets, and goodwill. The Company concluded that the charges were necessary to reflect changes in market conditions and business outlook during the June 30, 2016 quarter and were not associated with conditions that existed as of the Delphax Closing Date. As such, these adjustments were not accounted for as “measurement period” adjustments.

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 quarter ended June 30, 2017, the attribution of Delphax net income to non-controlling interests was 3.4% and for the quarter ended June 30, 2016, the attribution of Delphax net loss to non-controlling interests was 33%.

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) $4,033,368 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 to be $2,900,000, which amount is included in the “Other non-current liabilities” in the consolidated balance sheet at June 30, 2017, excluding the portion denoted as payable below which has been reclassified to a current liability at June 30, 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 is payable in October 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. The Company estimates that the fair value of Contrail

Aviation increased between March 31, 2017 and June 30, 2017. Therefore, in addition to allocation of the Seller’s proportionate share of Contrail Aviation’s net earnings for the period, the Company has adjusted the redeemable non-controlling interest by a portion of the estimated fair value increase.

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 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 are also 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.

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.

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

3. 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.

During the three-month period ended June 30, 2017, the Company recorded $374,000 in income tax expense at an effective rate of 23.3%. 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 34% and the Company's effective tax rate for the three-month period ended June 30, 2017 was the change in valuation allowance against Delphax's 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 Insignia unrealized impairment loss, and state income tax expense. During the three-month period ended June 30, 2016, the Company recorded $372,000 in income tax benefit which resulted in an effective tax rate of 4.4%. The individually largest factor contributing to the difference between the federal statutory rate and the Company's effective tax rate for the June 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 June 30, 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 June 30, 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 2, effective on November 24, 2015, Air T, Inc. purchased interests in Delphax. 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 are available to offset future income tax with no expiration date. 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. In the event of bankruptcy proceedings involving Delphax or Delphax Canada, any remaining tax attributes, including net operating losses and credit carryforwards in each respective jurisdiction will be lost. 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 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 June 30, 2017 and June 30, 2016 was approximately $13,809,000 and $12,772,000 respectively. The cumulative losses incurred by Delphax in recent years was the primary basis for the Company's determination that a full valuation allowance should be 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 quarter ended June 30, 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 June 30,	
	2017	2016
Net Income (Loss) Attributable to Air T, Inc. Stockholders	$968,389	$(5,751,471)
Loss Per Share:		
Basic	$0.47	$(2.42)
Diluted	$	