

AIR T INC  
Form 10-Q  
February 14, 2019

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, 2018  
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)

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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 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   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                           | Common Shares, par value of \$.25 per share |
| Outstanding Shares at February 8, 2019 | 2,024,331                                   |



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

AIR T, INC. AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

|                                                     | Three Months Ended<br>December 31, |              | Nine Months Ended<br>December 31, |              |
|-----------------------------------------------------|------------------------------------|--------------|-----------------------------------|--------------|
|                                                     | 2018                               | 2017         | 2018                              | 2017         |
| Operating Revenues:                                 |                                    |              |                                   |              |
| Overnight air cargo                                 | \$17,868,191                       | \$18,028,688 | \$52,573,449                      | \$52,851,936 |
| Ground equipment sales                              | 16,278,359                         | 12,911,101   | 35,501,936                        | 34,376,866   |
| Ground support services                             | 8,136,466                          | 8,643,267    | 25,658,143                        | 26,557,666   |
| Printing equipment and maintenance                  | 104,980                            | 905,860      | 543,748                           | 5,340,163    |
| Commercial jet engines and parts                    | 20,990,088                         | 3,930,510    | 58,953,054                        | 21,781,095   |
| Corporate and other                                 | 244,587                            | 81,820       | 600,587                           | 152,383      |
|                                                     | 63,622,671                         | 44,501,246   | 173,830,917                       | 141,060,109  |
| Operating Expenses:                                 |                                    |              |                                   |              |
| Overnight air cargo                                 | 16,292,144                         | 15,538,554   | 46,816,294                        | 46,020,254   |
| Ground equipment sales                              | 13,760,055                         | 10,578,846   | 29,677,280                        | 28,606,906   |
| Ground support services                             | 7,098,098                          | 7,337,862    | 22,925,769                        | 21,738,525   |
| Printing equipment and maintenance                  | 94,733                             | 265,054      | 289,164                           | 2,848,861    |
| Commercial jet engines and parts                    | 12,268,266                         | 2,143,540    | 38,052,172                        | 15,534,775   |
| Research and development                            | -                                  | -            | -                                 | 195,653      |
| General and administrative                          | 10,373,194                         | 7,252,381    | 28,028,050                        | 21,114,626   |
| Depreciation and amortization                       | 2,253,291                          | 768,660      | 5,554,904                         | 1,522,998    |
| Impairment                                          | 7,125                              | 46,930       | 27,818                            | 220,957      |
| Gain on sale of property and equipment              | 10,802                             | 17,739       | 10,802                            | 16,648       |
|                                                     | 62,157,708                         | 43,949,566   | 171,382,253                       | 137,820,203  |
| Operating Income                                    | 1,464,963                          | 551,680      | 2,448,664                         | 3,239,906    |
| Non-operating Income (Expense):                     |                                    |              |                                   |              |
| Gain on sale of marketable securities               | 81,388                             | 72,145       | 81,388                            | 72,145       |
| Foreign currency loss, net                          | (15,352 )                          | (11,797 )    | (17,484 )                         | (260,903 )   |
| Other-than-temporary impairment loss on investments | (2,000,000 )                       | (788,799 )   | (2,000,000 )                      | (1,559,972 ) |
| Other investment income (loss), net                 | (586,039 )                         | 50,485       | (623,623 )                        | 123,286      |
| Interest expense                                    | (1,186,349 )                       | (538,459 )   | (2,607,639 )                      | (1,010,177 ) |
| Gain on asset retirement obligation                 | -                                  | -            | -                                 | 562,500      |
| Unrealized gain (loss) on interest rate swap        | -                                  | (199,122 )   | 145,222                           | (199,122 )   |
| Bargain purchase acquisition gain                   | -                                  | -            | 1,983,776                         | 501,880      |

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|                                                             |                |              |                |              |
|-------------------------------------------------------------|----------------|--------------|----------------|--------------|
| Income from equity method investments                       | 200,929        | 89,426       | 370,670        | 119,363      |
| Other expense, net                                          | (102,406 )     | -            | (74,720 )      | -            |
|                                                             | (3,607,829 )   | (1,326,121 ) | (2,742,410 )   | (1,651,000 ) |
| Income (Loss) Before Income Taxes                           | (2,142,866 )   | (774,441 )   | (293,746 )     | 1,588,906    |
| Income Taxes (Benefit)                                      | 174,000        | (60,000 )    | 168,000        | 595,000      |
| Net Income (Loss)                                           | (2,316,866 )   | (714,441 )   | (461,746 )     | 993,906      |
| Net (Income) Loss Attributable to Non-controlling Interests | \$(398,085 )   | \$42,502     | \$(745,697 )   | \$(275,755 ) |
| Net Income (Loss) Attributable to Air T, Inc. Stockholders  | \$(2,714,951 ) | \$(671,939 ) | \$(1,207,443 ) | \$718,151    |
| Income (Loss) Per Share:                                    |                |              |                |              |
| Basic                                                       | \$(1.34 )      | \$(0.33 )    | \$(0.59 )      | \$0.35       |
| Diluted                                                     | \$(1.34 )      | \$(0.33 )    | \$(0.59 )      | \$0.35       |
| Weighted Average Shares Outstanding:                        |                |              |                |              |
| Basic                                                       | 2,028,194      | 2,042,789    | 2,038,523      | 2,042,789    |
| Diluted                                                     | 2,028,194      | 2,042,789    | 2,038,523      | 2,047,547    |

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

|                                                                                                                                                                                               | Three Months Ended<br>December 31, |             | Nine Months Ended<br>December 31, |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------|-----------------------------------|-------------|
|                                                                                                                                                                                               | 2018                               | 2017        | 2018                              | 2017        |
| Net income (loss)                                                                                                                                                                             | \$(2,316,866)                      | \$(714,441) | \$(461,746 )                      | \$993,906   |
| Other comprehensive income (loss):                                                                                                                                                            |                                    |             |                                   |             |
| Foreign currency translation gain                                                                                                                                                             | 120,476                            | 22,067      | 200,346                           | 255,433     |
| Unrealized loss on interest rate swaps, net of tax of \$48,575 and \$39,920 respectively                                                                                                      | (163,451 )                         | -           | (134,327 )                        | -           |
| Unrealized net loss on marketable securities, net of tax of (\$21,000) and (\$282,115) respectively                                                                                           | -                                  | (258,739)   | -                                 | (1,131,769) |
| Reclassification of other-than-temporary impairment loss on investments, net of gains on sale of marketable securities, included in income (loss), net of tax of \$0 and 277,622 respectively | -                                  | 716,654     | -                                 | 1,210,205   |
| Total Other Comprehensive Income (Loss)                                                                                                                                                       | (42,975 )                          | 479,982     | 66,019                            | 333,869     |
| Total Comprehensive Income (Loss)                                                                                                                                                             | (2,359,841)                        | (234,459)   | (395,727 )                        | 1,327,775   |
| Comprehensive Loss (Income) Attributable to Non-controlling Interests                                                                                                                         | (404,718 )                         | 80,472      | (777,446 )                        | (279,997 )  |
| Comprehensive Income (Loss) Attributable to Air T, Inc. Stockholders                                                                                                                          | \$(2,764,559)                      | \$(153,987) | \$(1,173,173)                     | \$1,047,778 |

See notes to condensed consolidated financial statements.



AIR T, INC. AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

|                                                                                                                         | December 31,<br>2018 | March 31,<br>2018 |
|-------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------|
| <b>ASSETS</b>                                                                                                           |                      |                   |
| Current Assets:                                                                                                         |                      |                   |
| Cash and cash equivalents (Delphax \$58,511 and \$241,430)*                                                             | \$2,729,249          | \$4,803,238       |
| Marketable securities                                                                                                   | 2,457,609            | 290,449           |
| Restricted cash                                                                                                         | 907,488              | 269,659           |
| Restricted investments                                                                                                  | 135,291              | 1,235,405         |
| Accounts receivable, less allowance for doubtful accounts of \$739,607 and \$801,000 (Delphax \$293,044 and \$317,000)* | 17,881,122           | 15,157,855        |
| Costs and estimated earnings in excess of billings on uncompleted projects                                              | -                    | 2,012,121         |
| Income tax receivable                                                                                                   | 1,940,955            | 1,557,180         |
| Inventories, net                                                                                                        | 39,585,915           | 34,231,005        |
| Other current assets                                                                                                    | 4,298,164            | 658,630           |
| Prepaid expenses (Delphax \$58,516 and \$72,269)*                                                                       | 1,680,419            | 1,455,566         |
| Total Current Assets                                                                                                    | 71,616,212           | 61,671,108        |
| Investments in securities                                                                                               | 356,013              | 1,026,920         |
| Assets on lease, net of accumulated depreciation of \$4,932,576 and \$1,625,237                                         | 26,920,552           | 15,664,606        |
| Property and equipment, net of accumulated depreciation of \$5,356,017 and \$4,722,016                                  | 4,904,741            | 4,608,565         |
| Cash surrender value of life insurance policies, net of policy loans                                                    | 562,430              | 2,356,507         |
| Other tax receivables-long-term (Delphax \$311,000 and \$311,000)*                                                      | 311,000              | 311,000           |
| Investments in funds                                                                                                    | 278,709              | 324,854           |
| Equity method investments                                                                                               | 5,666,430            | 5,032,268         |
| Other assets                                                                                                            | 598,006              | 420,981           |
| Intangible assets, net of accumulated amortization of \$2,081,004 and \$1,788,598                                       | 1,271,688            | 1,312,472         |
| Goodwill                                                                                                                | 4,417,605            | 4,417,605         |
| Total Assets                                                                                                            | \$116,903,386        | \$97,146,886      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                             |                      |                   |
| Current Liabilities:                                                                                                    |                      |                   |
| Accounts payable (Delphax \$2,163,424 and \$2,145,847)*                                                                 | \$10,960,852         | \$10,181,143      |
| Income tax payable (Delphax \$0 and \$11,312)*                                                                          | 23,000               | 23,000            |
| Accrued expenses (Delphax \$3,127,229 and \$3,244,514)*                                                                 | 12,151,574           | 11,743,973        |
| Current portion of long-term debt                                                                                       | 33,437,246           | 9,229,690         |
| Total Current Liabilities                                                                                               | 56,572,672           | 31,177,806        |
| Long-term debt                                                                                                          | 33,361,871           | 38,855,260        |

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|                                                                                                                   |               |              |
|-------------------------------------------------------------------------------------------------------------------|---------------|--------------|
| Deferred tax liabilities                                                                                          | 641,080       | 92,000       |
| Other non-current liabilities                                                                                     | 1,012,234     | 785,797      |
| Total Liabilities                                                                                                 | 91,587,857    | 70,910,863   |
| Redeemable non-controlling interest                                                                               | 2,998,161     | 1,992,939    |
| Commitments and contingencies (Note 17)                                                                           |               |              |
| 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, 2,024,331 and 2,043,607 shares issued and outstanding | 506,084       | 510,901      |
| Additional paid-in capital                                                                                        | 4,195,484     | 4,171,869    |
| Retained earnings                                                                                                 | 18,694,300    | 20,695,981   |
| Accumulated other comprehensive loss                                                                              | (120,284 )    | (260,900 )   |
| Total Air T, Inc. Stockholders' Equity                                                                            | 23,275,584    | 25,117,851   |
| Non-controlling Interests                                                                                         | (958,216 )    | (874,767 )   |
| Total Equity                                                                                                      | 22,317,368    | 24,243,084   |
| Total Liabilities and Equity                                                                                      | \$116,903,386 | \$97,146,886 |

\* Amounts related to Delphax as of December 31, 2018 and March 31, 2018, respectively.

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|                                                                                   | Nine Months Ended<br>December 31, |                |
|-----------------------------------------------------------------------------------|-----------------------------------|----------------|
|                                                                                   | 2018                              | 2017           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                   |                |
| Net income (loss)                                                                 | \$(461,746                        | ) \$993,906    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |                |
| Gain on sale of marketable securities                                             | (28,060                           | ) (72,145 )    |
| Loss on sale of property and equipment                                            | 15,671                            | 16,648         |
| Profit from sale of assets on lease                                               | (946,185                          | ) -            |
| Change in inventory reserves                                                      | (367,022                          | ) (69,222 )    |
| Change in accounts receivable reserves                                            | (61,823                           | ) (2,731 )     |
| Depreciation and amortization                                                     | 5,554,904                         | 1,522,998      |
| Impairment                                                                        | 27,818                            | 220,957        |
| Change in cash surrender value of life insurance                                  | (102,710                          | ) (118,254 )   |
| Gain on asset retirement obligation                                               | -                                 | (562,500 )     |
| Gain on bargain purchase, net of tax                                              | (1,983,777                        | ) (501,880 )   |
| Deferred income taxes                                                             | -                                 | (102,566 )     |
| Change in warranty reserve                                                        | 156,253                           | 53,092         |
| Other-than-temporary impairment loss on investments                               | 2,000,000                         | 1,559,972      |
| Unrealized loss on marketable securities                                          | 854,874                           | -              |
| Unrealized (gain) loss on interest rate swap                                      | (145,222                          | ) 199,122      |
| Change in operating assets and liabilities:                                       |                                   |                |
| Accounts receivable                                                               | (718,690                          | ) 3,011,203    |
| Costs and estimated earnings in excess of billings and uncompleted projects       | 2,012,121                         | -              |
| Notes receivable and other non-trade receivables                                  | (3,638,929                        | ) 1,053,846    |
| Inventories                                                                       | (75,059                           | ) 4,223,445    |
| Prepaid expense and other assets                                                  | (742,050                          | ) 145,640      |
| Accounts payable                                                                  | (506,587                          | ) (2,294,265 ) |
| Accrued expenses                                                                  | 147,160                           | (538,232 )     |
| Income taxes payable/receivable                                                   | (72,775                           | ) (603,843 )   |
| Non-current liabilities                                                           | 356,541                           | 165,039        |
| Total adjustments                                                                 | 1,736,453                         | 7,306,324      |
| Net cash provided by operating activities                                         | 1,274,707                         | 8,300,230      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                   |                |
| Purchases of marketable securities                                                | (2,013,921                        | ) (1,007,071 ) |
| Proceeds from sale of marketable securities                                       | 836,510                           | 537,826        |
| Acquisition of businesses, net of cash acquired                                   | (3,375,700                        | ) (2,900,000 ) |
| Cash used for equity method investments                                           | (263,492                          | ) -            |
| Investment in reinsurance entity                                                  | (2,000,000                        | ) -            |
| Capital expenditures related to property & equipment                              | (1,010,330                        | ) (1,655,551 ) |
| Capital expenditures related to assets on lease                                   | (19,149,515                       | ) (13,591,693) |
| Proceeds from sale of property and equipment                                      | 50,602                            | 1,861          |

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|                                                                                  |                     |                    |
|----------------------------------------------------------------------------------|---------------------|--------------------|
| Proceeds from sale of assets on lease                                            | 4,180,208           | -                  |
| Net cash used in investing activities                                            | (22,745,638)        | (18,614,628)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                     |                     |                    |
| Proceeds from lines of credit                                                    | 86,519,612          | 86,949,125         |
| Payments on lines of credit                                                      | (83,566,277)        | (88,817,034)       |
| Proceeds from term loan                                                          | 22,539,000          | 20,841,000         |
| Payments on term loan                                                            | (6,787,210 )        | (2,436,225 )       |
| Debt issuance costs                                                              | (150,142 )          | (156,115 )         |
| Proceeds from loan against cash surrender value of life insurance policies       | 1,896,788           | -                  |
| Distribution to non-controlling member                                           | (65,672 )           | (1,100,000 )       |
| Contribution from non-controlling member                                         | 210,000             | 252,000            |
| Payments for repurchase of stock                                                 | (693,136 )          | -                  |
| Proceeds from exercise of stock options                                          | 17,762              | -                  |
| Net cash provided by financing activities                                        | 19,920,725          | 15,532,751         |
| Effect of foreign currency exchange rates on cash and cash equivalents           | 114,046             | 3,370              |
| <b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b> | <b>(1,436,160 )</b> | <b>5,221,723</b>   |
| <b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD</b>      | <b>5,072,897</b>    | <b>3,653,734</b>   |
| <b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>            | <b>\$3,636,737</b>  | <b>\$8,875,457</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF INVESTING ACTIVITIES:</b>                          |                     |                    |
| Non-cash capital expenditures related to property & equipment                    | \$8,675             | \$-                |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                         |                     |                    |
| Cash paid during the year for:                                                   |                     |                    |
| Interest                                                                         | \$2,084,085         | \$690,859          |
| Income taxes                                                                     | 490,181             | 1,457,518          |

See notes to condensed consolidated financial statements.

AIR T, INC AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

|                                                | Equity<br>Air T, Inc. Stockholders' Equity |           |                       |              |                                                           |                              |              |
|------------------------------------------------|--------------------------------------------|-----------|-----------------------|--------------|-----------------------------------------------------------|------------------------------|--------------|
|                                                | Common Stock                               |           | Additional<br>Paid-In | Retained     | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Non-controlling<br>Interests | Total        |
|                                                | Shares                                     | Amount    | Capital               | Earnings     |                                                           |                              | Equity       |
| Balance, March 31,<br>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      |
| Loss on marketable<br>securities, net of tax   | -                                          | -         | -                     | -            | (94,997 )                                                 | -                            | (94,997 )    |
| Foreign currency<br>translation<br>gain (loss) | -                                          | -         | -                     | -            | 135,634                                                   | (845 )                       | 134,789      |
| Redeemable<br>non-controlling<br>interest      | -                                          | -         | (25,000 )             | -            | -                                                         | -                            | (25,000 )    |
| Balance, June 30,<br>2017                      | 2,042,789                                  | \$510,696 | \$4,180,536           | \$19,429,736 | \$ (171,410 )                                             | \$ (785,744 )                | \$23,163,814 |
| Net income (loss)*                             | -                                          | -         | -                     | 421,701      | -                                                         | (18,556 )                    | 403,145      |
| Loss on marketable<br>securities, net of tax   | -                                          | -         | -                     | -            | (284,483 )                                                | -                            | (284,483 )   |
| Foreign currency<br>translation gain           | -                                          | -         | -                     | -            | 74,694                                                    | 23,883                       | 98,577       |
| Redeemable<br>non-controlling<br>interest      | -                                          | -         | (8,550 )              | -            | -                                                         | -                            | (8,550 )     |
| Balance, September<br>30, 2017                 | 2,042,789                                  | 510,696   | 4,171,986             | 19,851,437   | (381,199 )                                                | (780,417 )                   | 23,372,503   |

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|                                                   |           |           |             |              |            |               |              |
|---------------------------------------------------|-----------|-----------|-------------|--------------|------------|---------------|--------------|
| Net income (loss)*                                | -         | -         | -           | (671,939 )   | -          | 16,514        | (655,425 )   |
| Gain on marketable securities, net of tax         | -         | -         | -           | -            | 415,441    | -             | 415,441      |
| Foreign currency translation gain (loss)          | -         | -         | -           | -            | 40,863     | (18,796 )     | 22,067       |
| Redeemable non-controlling interest               | -         | -         | (8,550 )    | -            | -          | -             | (8,550 )     |
| 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 |

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|                                                    | Equity<br>Air T, Inc. Stockholders' Equity |            |                       |               |                                       |                 |               |
|----------------------------------------------------|--------------------------------------------|------------|-----------------------|---------------|---------------------------------------|-----------------|---------------|
|                                                    | Common Stock                               |            | Additional<br>Paid-In | Retained      | Accumulated<br>Other<br>Comprehensive | Non-controlling | Total         |
|                                                    | Shares                                     | Amount     | Capital               | Earnings      | Income<br>(Loss)                      | Interests*      | Equity        |
| Balance, March 31, 2018                            | 2,043,607                                  | \$ 510,901 | \$ 4,171,869          | \$ 20,695,981 | \$ (260,900 )                         | \$ (874,767 )   | \$ 24,243,084 |
| Net income (loss)*                                 | -                                          | -          | -                     | 2,828,694     | -                                     | (46,259 )       | 2,782,435     |
| Adoption of ASU 2016-01                            | -                                          | -          | -                     | (106,341 )    | 106,341                               | -               | -             |
| Foreign currency translation gain                  | -                                          | -          | -                     | -             | 30,508                                | 17,152          | 47,660        |
| Balance, June 30, 2018                             | 2,043,607                                  | 510,901    | 4,171,869             | 23,418,334    | (124,051 )                            | (903,874 )      | 27,073,179    |
| Net income (loss)*                                 | -                                          | -          | -                     | (1,321,185 )  | -                                     | (42,190 )       | (1,363,375 )  |
| Exercise of stock options                          | 1,682                                      | 421        | 17,341                | -             | -                                     | -               | 17,762        |
| Repurchase of common stock                         | (675 )                                     | (170 )     | (1,377 )              | (21,212 )     | -                                     | -               | (22,759 )     |
| Foreign currency translation gain                  | -                                          | -          | -                     | -             | 24,250                                | 7,964           | 32,214        |
| Unrealized gain on interest rate swaps, net of tax | -                                          | -          | -                     | -             | 29,124                                | -               | 29,124        |
| Balance, September 30, 2018                        | 2,044,614                                  | 511,152    | 4,187,833             | 22,075,937    | (70,677 )                             | (938,100 )      | 25,766,145    |
| Net loss*                                          | -                                          | -          | -                     | (2,714,951 )  | -                                     | (26,749 )       | (2,741,700 )  |
| Repurchase of common stock                         | (20,283 )                                  | (5,068 )   | 1,377                 | (666,686 )    | -                                     | -               | (670,377 )    |
| Equity-based compensation                          | -                                          | -          | 6,274                 | -             | -                                     | -               | 6,274         |
|                                                    | -                                          | -          | -                     | -             | 113,843                               | 6,633           | 120,476       |

Foreign currency  
translation gain

Unrealized loss on  
interest rate swaps, - - - - (163,450 ) - (163,450 )  
net of tax

Balance, December 2,024,331 \$506,084 \$4,195,484 \$18,694,300 \$(120,284 ) \$(958,216 ) \$22,317,368  
31, 2018

\*Excludes amount attributable to redeemable non-controlling interest in Conrail 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. (“Air T”, the “Company”, “we”, “us” or “our”) have been prepared, without audit, 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, 2018*. The results of operations for the periods ended *December 31* 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.

*Recently Adopted Accounting Pronouncements*

In *May 2014*, the Financial Accounting Standards Board (FASB) issued ASU *2014-09, Revenue from Contracts with Customers*, and created Topic *606 (ASC 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. *ASC 606* replaced most existing revenue recognition guidance in GAAP and is effective for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2017*.

Effective *April 1, 2018*, the Company adopted the standard using the modified retrospective transition method. Results for reporting periods beginning after *April 1, 2018* are presented according to ASU *2014-09* while prior period amounts have *not* been adjusted and continue to be reported in accordance with the Company's historic accounting

policies. The Company applied the standard to all open contracts at the date of the initial application. The main area impacted by ASU 2014-09 includes the recognition of revenue with the Company's Ground Equipment Sales segment transitioning from percentage of completion to point in time for its government contracts which is included in the product sales revenue stream. Additionally, certain repair service revenues which were previously recorded at a point-in-time upon completion of service are now recognized over-time. Due to the short-term nature of these contracts, over-time recognition does *not* result in a material difference from point-in-time recognition. The Company calculated the transition adjustment based on the open contracts at *April 1, 2018* and concluded that there was an immaterial impact due to the adoption of ASC 606 and thus has *not* recorded an adjustment.

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 became 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. Transitional guidance provided that entities with unrealized gains or losses on available for sale ("AFS") equity securities were required to reclassify those amounts to beginning retained earnings in the year of adoption. The Company adopted the guidance within ASU 2016-01 as of *April 1, 2018*. As a result, the Company reclassified the beginning amount of accumulated other comprehensive income related to AFS securities to accumulated deficit and all changes in fair values of these securities are reflected in the Company's consolidated statement of income (loss) for the period.

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 adopted the guidance within ASU 2016-15 as of *April 1, 2018*. In addition, the Company elected the cumulative-earnings approach to account for distributions received from equity method investments. Under this approach, distributions are presumed to be returns on investment and classified as operating cash inflows. However, if the cumulative distributions received, less distributions received in prior periods that were determined to be returns of investment, exceed the entity's cumulative equity in earnings, such excess is a return of capital and should be classified as cash inflows from investing activities. The adoption of this standard did *not* have a material impact on the Company's consolidated financial statements.

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 also must disclose the nature of the restrictions. ASU 2016-18 became effective for financial statements issued for fiscal years beginning after *December 15, 2017*. The Company adopted the guidance within ASU 2016-18 as of *April 1, 2018*. The impact of ASU 2016-18 on the Company's financial statements was as follows: (1) changes in restricted cash balances are *no* longer shown in the statements of cash flows as previously presented in investing activities, as these balances are now included in the beginning and ending cash balances in the statements of cash flows; and (2) included within Note 4 is a reconciliation between cash balances presented on the balance sheets with the amounts presented in the statements of cash flows. The Company continued to hold restricted cash as of *December 31, 2018*.

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 Company adopted the guidance within ASU 2017-01 as of *April 1, 2018*. The adoption of this standard did *not* have a material impact on the Company's 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. The Company adopted the guidance within ASU 2017-01 as of *April 1, 2018*. The adoption of this standard did *not* have a material impact on the Company's 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 became effective for public companies for fiscal years beginning after *December 15, 2018*. The Company adopted the guidance early as permitted and designated both interest rate swaps as effective hedging arrangements as of *August 1, 2018*. As a result, all changes in the fair value of the derivatives subsequent to *August 1, 2018* are now reflected in the accumulated other comprehensive loss.

In February 2018, the FASB amended the **Financial Instruments Topic** of the Accounting Standards Codification. The amendments clarify certain aspects of the guidance issued in ASU 2016-01, including the measurement of equity securities without a readily determinable fair value, forward contracts and purchased options and presentation of

certain fair value option liabilities. Public business entities with fiscal years beginning between *December 15, 2017*, and *June 15, 2018*, are *not* required to adopt these amendments until the interim period beginning after *June 15, 2018*. The Company adopted the new standards as of *December 31, 2018*. Adoption of these amendments did *not* have a material impact on the Company's consolidated financial statements.

#### *Recently Issued Accounting Pronouncements*

In *February 2016*, the FASB issued ASU 2016-02, ***Leases (Topic 842)*** as amended by multiple standards updates. The new standard provides that a lessee should recognize the assets and the liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of *twelve* months or less, the lessee is permitted to make an accounting policy election by class of underlying asset *not* to recognize lease assets and lease liabilities.

The standard is effective for fiscal years beginning after *December 15, 2018*, including interim periods within such fiscal year, with early adoption permitted. Topic 842 permits *two* transition methods: (1) a modified retrospective transition method requiring retrospective adjustment of each comparative presented with an adjusting entry at the beginning of the earliest comparative period presented and (2) a modified retrospective approach with *no* restatement of prior periods and an adjusting entry as of the effective date. Under both transition methods, entities *may* elect certain transition practical expedients that would be required to be applied to all leases. We expect to elect the package of *three* practical expedients to permit an entity to a) *not* reassess whether expired or existing contracts contain leases, b) *not* reassess lease classification for existing or expired leases and c) *not* consider whether previously capitalized initial direct costs would be appropriate under the new standard.

The Company will adopt the standard in the fiscal year beginning *April 1, 2019* and expects to adopt using the modified retrospective transition method that does *not* require retrospective adjustment of the comparative periods. The Company has engaged *third* party advisors to assist with the implementation. The Company is currently in the process of reviewing existing leases to determine the impact of the adoption of the standard on its consolidated financial statements. We expect to complete the project during the *fourth* quarter. The Company does *not* expect the standard to have a material effect on its statement of operations or statement of cash flows.

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. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this update are effective for fiscal years beginning after *December 15, 2019*, including interim periods within those fiscal years. 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 *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 *August 2018*, the FASB amended the ***Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement Topic*** of the Accounting Standards Codification. The amendment is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after *December 15, 2019*. The amendment includes different transition requirements based on the disclosure topic. Changes to disclosure requirements for unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other required disclosure changes should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the update and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating but has *not* yet concluded how the new standard will impact the consolidated financial statements.

In August 2018, the FASB amended the ***Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract Topic*** of the Accounting Standards Codification. The amendment is effective for public business entities for fiscal years beginning after *December 15, 2019*, and interim periods within those fiscal years. For all other entities, the amendments in this update are effective for annual reporting periods beginning after *December 15, 2020*, and interim periods within annual periods beginning after *December 15, 2021*. Early adoption of the amendments in the update is permitted, including adoption in any interim period, for all entities. The amendments in the update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating but has *not* yet concluded how the new standard will impact the consolidated financial statements.

In October 2018, the FASB updated the ***Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*** of the Accounting Standards Codification. The amendments in this update affect reporting entities that are required to determine whether they should consolidate a legal entity under the guidance within the Variable Interest Entities Subsections of Subtopic *810-10*, Consolidation—Overall. Indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The amendments in this update are effective for fiscal years beginning after *December 15, 2019*, and interim periods within those fiscal years. The Company is currently evaluating but has *not* yet concluded how the new standard will impact the consolidated financial statements.

## 2. Revenue Recognition

Substantially all of the Company's revenue is derived from contracts with an initial expected duration of *one* year or less, as a result, the Company has applied the practical expedient to exclude consideration of significant financing components from the determination of transaction price, to expense costs incurred to obtain a contract, and to *not* disclose the value of unsatisfied performance obligations.

The following is a description of the Company's performance obligations.

|                        |                                                                                                 |
|------------------------|-------------------------------------------------------------------------------------------------|
| <b>Type of Revenue</b> | <b>Nature, Timing of Satisfaction of Performance Obligations, and Significant Payment Terms</b> |
|------------------------|-------------------------------------------------------------------------------------------------|

The Company generates revenue from sales of various distinct products such as parts, aircraft equipment, printing equipment, jet engines, airframes, and scrap metal to its customers. A performance obligation is created when the Company accepts an order from a customer to provide a specified product. Each product ordered by a customer represents a performance obligation.

|                      |  |
|----------------------|--|
| <b>Product Sales</b> |  |
|----------------------|--|

The Company recognizes revenue when obligations under the terms of the contract are satisfied; generally, this occurs at a point-in-time upon shipment or when control is transferred to the customer. Transaction prices are based on contracted terms, which are at fixed amounts based on standalone selling prices. While the majority of the Company's contracts do *not* have variable consideration, for the limited number of contracts that do, the Company records revenue based on the standalone selling price less an estimate of variable consideration (such as rebates, discounts or prompt payment discounts). The Company estimates these amounts based on the expected incentive amount to be provided to customers and reduces revenue accordingly. Performance obligations are short-term in nature and customers are typically billed upon transfer of control. The Company records all shipping and handling fees billed to customers as revenue.

The terms and conditions of the customer purchase orders or contracts are dictated by either the Company's standard terms and conditions or by a master service agreement or by the contract.

|                         |  |
|-------------------------|--|
| <b>Support Services</b> |  |
|-------------------------|--|

The Company provides a variety of support services such as aircraft maintenance, printer maintenance, and short-term repair services to its customers. Additionally, the Company operates certain aircraft routes on behalf of FedEx. A performance obligation is created when the Company agrees to provide a particular service to a customer. For each service, the Company recognizes revenues over time as the customer simultaneously receives the benefits provided by the Company's performance. This revenue recognition can vary from when the Company has a right to invoice to the output or input method depending on the structure of the contract and management's analysis.

For repair-type services, the Company records revenue over-time based on an input method of costs

incurred to total estimated costs. The Company believes this is appropriate as the Company is enhancing an asset that the customer controls as repair work, such as labor hours are incurred, and parts installed, is being performed. The vast majority of repair-services are short term in nature and are typically billed upon completion of the service.

Some of the Company's contracts contain a promise to stand ready as the Company is obligated to perform certain maintenance or administrative services. For most of these contracts, the Company applies the 'as invoiced' practical expedient as the Company has a right to consideration from the customer in an amount that corresponds directly with the value of the entity's performance completed to date. A small number of contracts are accounted for as a series and recognized equal to the amount of consideration the Company is entitled to less an estimate of variable consideration (typically rebates). These services are typically ongoing and are generally billed on a monthly basis.



In addition to the above type of revenues, the Company also has Leasing Revenue, which is in scope under Topic 840 (Leases) and out of scope under Topic 606 and Other Revenues (Freight, Management Fees, etc.) which are immaterial for disclosure under Topic 606. In the current quarter, the Company also generated revenue from sale of assets on lease. Proceeds from this sale has been reflected within the cash flows from investing activities on the Company's consolidated statements of cash flows.

The following table summarizes disaggregated revenues by type:

|                                    | Three<br>Months<br>Ended<br>12/31/2018 | Nine Months<br>Ended<br>12/31/2018 |
|------------------------------------|----------------------------------------|------------------------------------|
| <b>Product Sales</b>               |                                        |                                    |
| Air Cargo                          | \$5,694,323                            | \$16,217,414                       |
| Ground equipment sales             | 15,902,261                             | 34,518,840                         |
| Ground support services            | 2,134,079                              | 6,850,344                          |
| Commercial jet engines and parts   | 15,957,039                             | 48,365,760                         |
| Printing equipment and maintenance | 88,008                                 | 496,888                            |
| Corporate and other                | -                                      | -                                  |
| <b>Support Services</b>            |                                        |                                    |
| Air Cargo                          | 12,163,579                             | 36,245,505                         |
| Ground equipment sales             | 260,465                                | 509,174                            |
| Ground support services            | 5,985,291                              | 18,770,908                         |
| Commercial jet engines and parts   | 1,308,769                              | 3,601,924                          |
| Printing equipment and maintenance | 13,208                                 | 33,159                             |
| Corporate and other                | 44,241                                 | 60,716                             |
| <b>Leasing Revenue</b>             |                                        |                                    |
| Air Cargo                          | -                                      | -                                  |
| Ground equipment sales             | 15,357                                 | 61,716                             |
| Ground support services            | -                                      | -                                  |
| Commercial jet engines and parts   | 3,663,501                              | 6,690,873                          |
| Printing equipment and maintenance | -                                      | -                                  |
| Corporate and other                | 49,051                                 | 121,301                            |
| <b>Other</b>                       |                                        |                                    |
| Air Cargo                          | 10,290                                 | 110,530                            |
| Ground equipment sales             | 100,275                                | 412,205                            |
| Ground support services            | 17,096                                 | 36,890                             |
| Commercial jet engines and parts   | 60,779                                 | 294,499                            |
| Printing equipment and maintenance | 3,765                                  | 13,701                             |
| Corporate and other                | 151,294                                | 418,570                            |
| <b>Total</b>                       | <b>\$63,622,671</b>                    | <b>\$173,830,917</b>               |

The following table summarizes total revenues by segment:

|                                    | Three<br>Months<br>Ended<br>12/31/2018 | Nine Months<br>Ended<br>12/31/2018 |
|------------------------------------|----------------------------------------|------------------------------------|
| Air Cargo                          | \$17,868,191                           | \$52,573,448                       |
| Ground equipment sales             | 16,278,359                             | 35,501,936                         |
| Ground support services            | 8,136,465                              | 25,658,143                         |
| Printing equipment and maintenance | 104,981                                | 543,749                            |
| Commercial jet engines and parts   | 20,990,088                             | 58,953,055                         |
| Corporate and other                | 244,587                                | 600,587                            |
| <b>Total</b>                       | <b>\$63,622,671</b>                    | <b>\$173,830,917</b>               |

See Note 15 for the Company's disaggregated revenues by geographic region and Note 16 for the Company's disaggregated revenues by segment. These notes disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

*Contract Balances and Costs*

The Company does *not* have material contract assets, liabilities or costs associated with arrangements with its customers at *December 31, 2018*.

**3. Business Combinations***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 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,<br>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 transaction resulted in a bargain purchase because AirCo was a non-marketed transaction and in financial distress at the time of the acquisition. The inventory was *not* being marketed appropriately and as a result, the company was unable to realize market prices for the parts. 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.

*Acquisition of Worthington Aviation Parts, Inc.*

On May 4, 2018, Air T, Inc. completed the acquisition (the “Transaction”) of substantially all of the assets and assumed certain liabilities of Worthington Aviation Parts, Inc. (“Worthington”), pursuant to the Asset Purchase Agreement (the “Purchase Agreement”), dated as of April 6, 2018, by and among the Company, Worthington, and Churchill Industries, Inc., as guarantor of Worthington’s obligations as disclosed in the Purchase Agreement.

Worthington is primarily engaged in the business of operating, distributing and selling airplane and aviation parts along with repair services. The Company agreed to acquire the assets and liabilities in exchange for payment to Worthington of \$50,000 as earnest money upon execution of the Agreement and a cash payment of \$3,300,000 upon closing. Total consideration is summarized in the table below:

|                     |             |
|---------------------|-------------|
| Earnest money       | \$50,000    |
| Cash consideration  | 3,300,000   |
| Cash acquired       | (24,300 )   |
| Total consideration | \$3,325,700 |

The Transaction was accounted for as a business combination in accordance with ASC Topic 805 "Business Combinations." Assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet at their estimated fair values as of *May 4, 2018*, with the excess of fair value of net assets acquired recorded as a bargain purchase gain. A bargain purchase gain has been recognized by the Company due to Worthington being sold in a distressed sale, resulting in the fair value of net assets acquired exceeding consideration paid. The most significant asset acquired was Worthington's inventory. The following table outlines the consideration transferred and purchase price allocation at the respective estimated fair values as of *May 4, 2018*:

|                               | May 4,<br>2018  |
|-------------------------------|-----------------|
| <b>ASSETS</b>                 |                 |
| Accounts receivable           | \$1,929,120     |
| Inventories                   | 4,564,437       |
| Other current assets          | 149,792         |
| Property and equipment        | 391,892         |
| Investment in JVs             | 189,607         |
| Intangible assets - tradename | 138,000         |
| Total assets                  | 7,362,848       |
| <b>LIABILITIES</b>            |                 |
| Accounts payable              | 1,289,150       |
| Accrued expenses              | 175,222         |
| Deferred tax liability        | 589,000         |
| Total liabilities             | 2,053,372       |
| <br>Net assets acquired       | <br>\$5,309,476 |
| Consideration paid            | \$3,350,000     |
| Less: Cash acquired           | (24,301 )       |
| Bargain purchase gain         | \$1,983,777     |

As of *December 31, 2018*, the purchase price allocation is considered preliminary. 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. All relevant facts and circumstances are still being considered by management prior to finalization of the purchase price allocation.

The transaction resulted in a bargain purchase gain because Worthington needed access to additional capital to maintain its operations. The seller engaged in a formal bidding process and determined Air T was the best option for Worthington. 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 \$589,000. The resulting net bargain purchase gain after taxes was approximately \$1,983,000. Total transaction costs incurred in connection with this acquisition were approximately \$83,000.

The following table sets forth the revenue and expenses of Worthington, prior to intercompany eliminations, that are included in the Company's condensed consolidated statement of income (loss) for the *nine* months ended *December 31, 2018*:

|                      | Income<br>Statement<br>Post-Acquisition |
|----------------------|-----------------------------------------|
| Revenue              | \$ 10,862,711                           |
| Cost of Sales        | 7,488,271                               |
| Operating Expenses   | 3,191,464                               |
| Operating Income     | 182,976                                 |
| Non-operating Income | 1,872,422                               |
| Net Income           | \$ 2,055,398                            |

**Pro Forma Financial Information**

The following unaudited pro forma consolidated results of operations for the *three* and *nine*-month periods ended *December 31, 2018* and *2017* present consolidated information of the Company as if the acquisition of Worthington had occurred as of *April 1, 2017*:

|                                                   | <b>Pro-Forma<br/>Three<br/>Months<br/>Ended<br/>December<br/>31, 2018</b> | <b>Pro-Forma<br/>Three<br/>Months<br/>Ended<br/>December<br/>31, 2017</b> |
|---------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Revenue                                           | \$63,622,671                                                              | \$47,766,896                                                              |
| Operating income                                  | 1,475,766                                                                 | 370,126                                                                   |
| Net loss attributable to Air T, Inc. stockholders | (2,703,696 )                                                              | (879,401 )                                                                |
| Basic loss per share                              | (1.32 )                                                                   | (0.43 )                                                                   |
| Dilutive loss per share                           | \$(1.32 )                                                                 | \$(0.43 )                                                                 |

|                                                            | <b>Pro-Forma<br/>Nine<br/>Months<br/>Ended<br/>December<br/>31, 2018</b> | <b>Pro-Forma<br/>Nine<br/>Months<br/>Ended<br/>December<br/>31, 2017</b> |
|------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Revenue                                                    | \$175,274,787                                                            | \$152,522,914                                                            |
| Operating income                                           | 2,255,200                                                                | 2,468,420                                                                |
| Net income (loss) attributable to Air T, Inc. stockholders | (3,324,515 )                                                             | 2,024,964                                                                |
| Basic income (loss) per share                              | (1.63 )                                                                  | 0.99                                                                     |
| Dilutive income (loss) per share                           | \$(1.63 )                                                                | \$0.99                                                                   |

The unaudited pro forma consolidated results for the *three* and *nine*-month periods were prepared using the acquisition method of accounting and are based on the historical financial information of Worthington and the Company. The historical financial information has been adjusted to give effect to pro forma adjustments that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The pro forma *nine* months ended *December 31, 2018* exclude the bargain purchase gain recognized in connection with the acquisition as that gain is included in the pro-forma *nine* months ended *December 31, 2017*. The unaudited pro forma consolidated results are *not* necessarily indicative of what the Company's consolidated results of operations actually would have been had it completed these acquisitions on *April 1, 2017*.

*Other Acquisitions and Business Investments*

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”). In connection with the transaction, BCCM acquired the assets of, and assumed certain liabilities of Blue Clay Capital. Blue Clay Capital, BCCM, BCCM Advisors, LLC (“BCCM Advisors”), a wholly-owned subsidiary of BCCM purchased the general partnership interests in certain investment funds previously managed by Blue Clay Capital for a purchase price equal to *\$227,000*. Upon acquisition of each of the general partnership interests, BCCM Advisors was admitted as the general partner of each fund.

On *July 31, 2018*, the Company purchased *100%* of the outstanding common units of Ambry Hill Technologies, LLC. (“AHT”) for *\$50,000*. AHT offers the aviation business community technology to help manage high volumes of request for quotes for aircraft part purchases. Subsequent to the acquisition, AHT is accounted for as a wholly-owned subsidiary of the Company.

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



4. Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the Consolidated Statement of Cash Flows:

|                                                                                       | December<br>31, 2018 | March 31,<br>2018 |
|---------------------------------------------------------------------------------------|----------------------|-------------------|
| Cash and cash equivalents                                                             | \$2,729,250          | \$4,803,238       |
| Restricted cash                                                                       | 907,488              | 269,659           |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | \$3,636,738          | \$5,072,897       |

5. Cash Surrender Value of Life Insurance

The Company is the beneficiary of corporate-owned life insurance policies on certain former employees with a net cash surrender value of approximately \$562,000 and \$2,357,000 at *December 31, 2018* and *March 31, 2018*, respectively.

In *September 2018*, the Company received proceeds of \$1.9 million through loans against the cash value of its life insurance policies. The loan balance is recorded net against the cash surrender value of life insurance in the accompanying condensed consolidated balance sheet at *December 31, 2018*.

6. Income Taxes

During the *nine-month* period ended *December 31, 2018*, the Company recorded \$168,000 in income tax expense at an effective rate of (57.2%). The Company records income taxes using an estimated annual effective tax rate for interim reporting. The primary factors contributing to the difference between the federal statutory rate of 21% and the Company's effective tax rate for the *nine-month* period ended *December 31, 2018* were the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary under Section 831(b), the presentation of the tax impact of the bargain purchase gain, and the exclusion from the tax provision of the minority owned portion of the pretax income of Conrail Aviation Support, LLC as well as an increase in the valuation allowance, a portion of which is recorded as a discrete item *not* included in the estimated annual effective tax rate. The increase in the valuation allowance is primarily due to unrealized losses on investments as well as losses incurred by Delphax

Solutions, Inc. During the *nine*-month period ended *December 31, 2017*, the Company recorded \$595,000 in income tax expense at an effective tax rate of 37.45%. The primary factors contributing to the difference between the federal statutory rate and the Company's effective tax rate for the *nine*-month period ended *December 31, 2017* were the change in the valuation allowance relating to the other than temporary impairment of available for sale securities included in the pretax activity in the period, the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary under Section 831(b), 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.

## 7. 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. There were 5,251 anti-dilutive securities as of *December 31, 2018*. The computation of basic and diluted earnings per common share is as follows:

|                                                            | Three Months Ended<br>December 31, |             | Nine Months Ended<br>December 31, |           |
|------------------------------------------------------------|------------------------------------|-------------|-----------------------------------|-----------|
|                                                            | 2018                               | 2017        | 2018                              | 2017      |
| Net Income (Loss) Attributable to Air T, Inc. Stockholders | \$(2,714,949)                      | \$(671,939) | \$(1,207,441)                     | \$718,151 |
| Income (Loss) Per Share:                                   |                                    |             |                                   |           |
| Basic                                                      | \$(1.34)                           | \$(0.33)    | \$(0.59)                          | \$0.35    |
| Diluted                                                    | \$(1.34)                           | \$(0.33)    | \$(0.59)                          | \$0.35    |
| Weighted Average Shares Outstanding:                       |                                    |             |                                   |           |
| Basic                                                      | 2,028,194                          | 2,042,789   | 2,038,523                         | 2,042,789 |
| Diluted                                                    | 2,028,194                          | 2,042,789   | 2,038,523                         | 2,047,547 |

## 8. Investments in Securities

The Company adopted ASU 2016-01 as of *April 1, 2018*. As a result of adoption of this guidance, the Company now recognizes changes in fair value of these securities in the Consolidated Statement of Income (Loss).

At *December 31, 2018*, the Company had a gross unrealized gain aggregating to \$73,000 and gross unrealized losses aggregating to \$882,000, which are included in the Consolidated Statement of Income (Loss).

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

In *June 2018*, the Company invested \$2,000,000 in a quota share reinsurance program in the form of participating notes. The investment period is *three* years; subject to early redemption if applicable. Due to an accumulation of severe and costly wildfires, tropical storms and earthquakes that took place globally in the *second* half of 2018, the

underlying contracts of our investment were adversely affected. As such, the investment was deemed worthless as of *December 31, 2018* and the Company recorded an impairment of \$2,000,000 during the quarter.

### 9. Equity Method Investments

The Company's investment in Insignia Systems, Inc. ("Insignia") is accounted for under the equity method of accounting. The Company has elected a *three*-month lag upon adoption of the equity method. At *December 31, 2018*, the Company held approximately 3.5 million shares of Insignia's common stock representing approximately 30% of the outstanding shares for a total net investment basis of approximately \$5,065,000. For the quarter ended *December 31, 2018*, the Company recorded approximately \$190,000 as its share of Insignia's net income for the *three* months ended *September 30, 2018* along with a basis difference adjustment of approximately \$24,000. Summarized unaudited financial information for the *nine* months ended *September 30, 2018* and *September 30, 2017* are as follows:

|                                                     | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30, 2018</b> | <b>Nine<br/>Months<br/>Ended<br/>September<br/>30, 2017</b> |
|-----------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Revenue                                             | \$25,119,000                                                | \$18,339,000                                                |
| Gross Profit                                        | 9,314,000                                                   | 4,870,000                                                   |
| Operating income (loss)                             | 1,331,000                                                   | (1,861,000 )                                                |
| Net income (loss)                                   | 993,000                                                     | (1,274,000 )                                                |
| Net income attributable to Air T, Inc. stockholders | \$202,664                                                   | \$-                                                         |

The Company's investment in The Fence Store LLC ("TFS") is also accounted for under the equity method of accounting. The Company's net investment basis is approximately \$601,000 at *December 31, 2018*. For the quarter ended *December 31, 2018*, the Company recorded approximately \$35,000 as its share of TFS's net income. Summarized unaudited financial information for the *nine* months ended *December 31, 2018* and *December 31, 2017* are as follows:

|                                                     | <b>Nine<br/>Months<br/>Ended<br/>December<br/>31, 2018</b> | <b>Nine<br/>Months<br/>Ended<br/>12/31/2017*</b> |
|-----------------------------------------------------|------------------------------------------------------------|--------------------------------------------------|
| Revenue                                             | \$7,893,896                                                | \$6,498,938                                      |
| Gross Profit                                        | 2,831,958                                                  | 2,455,015                                        |
| Operating income                                    | 768,724                                                    | 778,628                                          |
| Net income                                          | 690,449                                                    | 493,883                                          |
| Net income attributable to Air T, Inc. stockholders | \$168,006                                                  | \$119,363                                        |

\* Amounts represent results since The Fence Store's inception in *May, 2017*

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10. Inventories

Inventories consisted of the following:

|                                    | December<br>31, 2018 | March 31,<br>2018 |
|------------------------------------|----------------------|-------------------|
| Ground support service parts       | \$2,554,867          | \$2,489,433       |
| Ground equipment manufacturing:    |                      |                   |
| Raw materials                      | 3,030,632            | 3,198,939         |
| Work in process                    | 1,158,533            | 20,089            |
| Finished goods                     | 1,429,662            | 1,768,897         |
| Printing equipment and maintenance |                      |                   |
| Raw materials                      | 322,759              | 747,778           |
| Finished goods                     | 1,036,506            | 553,847           |
| Commercial jet engines and parts   | 30,052,954           | 25,452,022        |
| Total inventories                  | \$39,585,915         | \$34,231,005      |

11. Employee and Non-employee Stock Options

Air T, Inc. maintains a stock option plan for the benefit of certain eligible employees and directors. 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 granted under Air T, Inc.'s stock option plan during the *three* and *nine*-month periods ended *December 31, 2018* and *2017*. Stock-based compensation expense with respect to this plan in the amount of \$0 was recognized for the *three* and *nine*-month periods ended *December 31, 2018* and *2017*, respectively. At *December 31, 2018*, there was *no* unrecognized compensation expense related to the Air T Inc. stock options.

No options were granted or exercised during the *three* and *nine*-month periods ended *December 31, 2018* and *2017* under any of Delphax's stock option plans.



12. Financing Arrangements

Borrowings of the Company and its subsidiaries are summarized below at *December 31, 2018* and *March 31, 2018*, respectively. AirCo, Conrail Aviation (“Conrail”) and Worthington are subsidiaries of the Company in the commercial jet engines and parts segment.

|                                       | <b>December<br/>31, 2018</b> | <b>March 31,<br/>2018</b> | <b>Maturity Date</b> |
|---------------------------------------|------------------------------|---------------------------|----------------------|
| Revolver                              | \$10,553,502                 | \$-                       | November 30, 2019    |
| Term Note A                           | 9,000,000                    | 9,750,000                 | January 1, 2028      |
| Term Note B                           | 4,500,000                    | 4,875,000                 | January 1, 2028      |
| Term Note D                           | 1,624,000                    | 1,674,400                 | January 1, 2028      |
| Air T Debt                            | 25,677,502                   | 16,299,400                |                      |
| Revolver                              | 4,550,000                    | 5,000,000                 | February 21, 2019    |
| Term Loan                             | 450,000                      | 2,404,775                 | March 26, 2019       |
| AirCo Debt                            | 5,000,000                    | 7,404,775                 |                      |
| Revolver                              | 6,575,895                    | 14,826,062                | May 5, 2019          |
| Term Loan                             | 8,999,502                    | 9,920,000                 | January 26, 2021     |
| Term Loan                             | 17,000,000                   | -                         | September 14, 2021   |
| Conrail Debt                          | 32,575,397                   | 24,746,062                |                      |
| Term Loan                             | 3,252,463                    | -                         | November 30, 2019    |
| MB&T - Revolver                       | 650,000                      | -                         | November 30, 2019    |
| Worthington Debt                      | 3,902,463                    | -                         |                      |
| Total Debt                            | 67,155,362                   | 48,450,238                |                      |
| Less: Unamortized Debt Issuance Costs | (356,246 )                   | (365,288 )                |                      |
| <b>Total Debt, net</b>                | <b>\$66,799,116</b>          | <b>\$48,084,950</b>       |                      |



At *December 31, 2018*, our contractual financing obligations, including payments due by period, are as follows:

| Due by                                | Amount       |
|---------------------------------------|--------------|
| December 31, 2019                     | \$33,437,246 |
| December 31, 2020                     | 8,730,834    |
| December 31, 2021                     | 14,564,883   |
| December 31, 2022                     | 1,567,200    |
| December 31, 2023                     | 1,567,200    |
| Thereafter                            | 7,288,000    |
|                                       | 67,155,362   |
| Less: Unamortized Debt Issuance Costs | (356,246 )   |
|                                       | \$66,799,116 |

Refer to the Company's Form *10-K* for the year ended *March 31, 2018* for a detailed explanation of existing financing arrangements.

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.

As part of the Company's interest rate risk management strategy, the Company, from time to time, uses derivative instruments to minimize significant unanticipated earnings fluctuations that *may* arise from rising variable interest rate costs associated with existing borrowings (Air T Term Note A and Term Note D). To meet these objectives, the Company entered into interest rate swaps with notional amounts consistent with the outstanding debt to provide a fixed rate of 4.56% and 5.09%, respectively, on Term Notes A and D. The swaps mature in *January 2028*.

As of *August 1, 2018*, these swap contracts have been designated as cash flow hedging instruments and qualified as effective hedges in accordance with ASC 815-30. The effective portion of changes in the fair value on these instruments is recorded in other comprehensive income (loss) and is reclassified into the consolidated statement of income (loss) as interest expense in the same period in which the underlying hedge transaction affects earnings. As of *December 31, 2018* and *March 31, 2018*, the fair value of the interest-rate swap contracts was a liability of *\$96,000* and *\$66,706*, respectively, which is included within other non-current liabilities in the consolidated balance sheets. During the *nine-months ended December 31, 2018*, the Company recorded a gain of approximately *\$145,000* in the consolidated statement of income (loss) due to the changes in the fair value of the instruments prior to the designation and qualification of these instruments as effective hedges. After the interest rate swaps were deemed effective hedges, the Company recorded a loss of approximately *\$134,000*, net of tax, in the consolidated statement of comprehensive income (loss) for changes in the fair value of the instruments.

### 13. 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.

The Company concluded that its investments in Delphax's equity and debt, and its investment in the Delphax warrant, each constituted a variable interest. In addition, the Company concluded that it became the primary beneficiary of Delphax 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, 2018* and *March 31, 2018*:

|                                 | December<br>31, 2018 | March 31,<br>2018 |
|---------------------------------|----------------------|-------------------|
| <b>ASSETS</b>                   |                      |                   |
| Current assets:                 |                      |                   |
| Cash and cash equivalents       | \$58,511             | \$241,430         |
| Accounts receivable, net        | 43,844               | 316,542           |
| Other current assets            | 58,516               | 72,269            |
| Total current assets            | 160,871              | 630,241           |
| Other tax receivables-long-term | 311,000              | 311,000           |
| Total assets                    | \$471,871            | \$941,241         |
| <b>LIABILITIES</b>              |                      |                   |
| Current liabilities:            |                      |                   |
| Accounts payable                | \$2,163,424          | \$2,145,847       |
| Income tax payable              | -                    | 11,312            |
| Accrued expenses                | 3,127,229            | 3,244,514         |
| Short-term debt                 | 1,678,632            | 1,788,285         |
| Total current liabilities       | 6,969,285            | 7,189,958         |
| Long-term debt                  | -                    | -                 |
| Other long-term liabilities     | -                    | -                 |
| Total liabilities               | \$6,969,285          | \$7,189,958       |
| <br>Net Liabilities             | <br>\$(6,497,414)    | <br>\$(6,248,717) |

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, 2018*, the outstanding principal amount of the Senior Subordinated Note was approximately \$550,000 (\$900,000 as of *March 31, 2018*) and there were *no* borrowings under the Delphax Senior Credit Agreement. Short-term debt as reflected in the above table includes approximately \$1,123,000 and \$888,000 of accrued interest, due to the Company from Delphax Technologies, Inc. under the Senior Subordinated Note as of *December 31, 2018* and *March 31, 2018*. 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. Furthermore, Delphax's creditors do *not* have recourse to the assets of Air T, Inc. or its subsidiaries.

Upon petition by the Company, on *August 8, 2017* the Ontario Superior Court of Justice in Bankruptcy and Insolvency adjudged Delphax Canada to be bankrupt. As a result, Delphax Canada ceased to have capacity to deal with its property, which then vested in the trustee in bankruptcy of Delphax Canada subject to the rights of secured creditors. As of *December 31, 2018*, 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, 2018* are eliminated in the presentation of the consolidated financial statements.

Delphax's revenues and expenses are included in our consolidated financial statements beginning *November 24, 2015* through *December 31, 2018*. 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 Delphax 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 quarters ended *December 31, 2018* and *December 31, 2017* the attribution of Delphax losses to non-controlling interests was 33% and 0%, respectively.

The following table sets forth the revenue and expenses of Delphax prior to intercompany eliminations that are included in the Company's condensed consolidated statement of income (loss) for the *nine* months ended *December 31, 2018* and *2017*.

|                                           | Nine Months Ended<br>December 31, |             |
|-------------------------------------------|-----------------------------------|-------------|
|                                           | 2018                              | 2017        |
| Operating Revenues                        | \$-                               | \$5,324,763 |
| Operating Expenses:                       |                                   |             |
| Cost of sales                             | -                                 | 2,860,159   |
| General and administrative                | 215,860                           | 1,213,885   |
| Research and development                  | -                                 | 195,653     |
| Depreciation, amortization and impairment | -                                 | 8,007       |
|                                           | 215,860                           | 4,277,704   |
| Operating Income (Loss)                   | (215,860)                         | 1,047,059   |
| Non-operating Expenses, net               | (133,225)                         | (540,076 )  |

|                                   |             |           |
|-----------------------------------|-------------|-----------|
| Income (Loss) Before Income Taxes | (349,085)   | 506,983   |
| Income Taxes                      | -           | -         |
| Net Income (Loss)                 | \$(349,085) | \$506,983 |

*Unconsolidated Variable Interest Entities and Other Entities*

As discussed in Note 3, BCCM Advisors holds equity interests in certain investment funds as of *March 31, 2018* and *December 31, 2018*. The Company determined that the equity interests 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, Blue Clay Capital SMid-Cap LO LP and AO Partners II 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, 2018* is valued at approximately *\$279,000*. The Company's exposure to loss is limited to its initial investment.

14. Share Repurchase

On *May 14, 2014*, the Company announced that its Board of Directors had authorized a program to repurchase up to *750,000* shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, in compliance with SEC Rule *10b-18*, over an indefinite period. During the *nine* months ended *December 31, 2018*, the Company repurchased *20,958* shares at an aggregate cost of *\$693,136*. These shares are reflected as retired as of *December 31, 2018* in accordance with the intent of the authorized share repurchase program. The Company has reduced common stock and retained earnings to reflect the retirement of those shares.

15. Geographical information

Total property and equipment, net of accumulated depreciation, located in the United States, the Company's country of domicile, and held outside the United States are summarized in the following table as of *December 31, 2018* and *March 31, 2018*:

|                                   | December<br>31, 2018 | March 31,<br>2018 |
|-----------------------------------|----------------------|-------------------|
| United States                     | \$5,042,114          | \$5,209,831       |
| Foreign                           | 26,783,178           | 15,063,340        |
| Total property and equipment, net | \$31,825,292         | \$20,273,171      |

The Company's tangible long-lived assets, net of accumulated depreciation, held outside of the United States represent engines and aircraft on lease at *December 31, 2018*. The net book value located within each individual country at *December 31, 2018* and *March 31, 2018* is listed below:

|                                   | December<br>31, 2018 | March 31,<br>2018 |
|-----------------------------------|----------------------|-------------------|
| Australia                         | \$5,186              | \$-               |
| United Kingdom                    | 475                  | -                 |
| Canada                            | 15,104               | -                 |
| Mexico                            | 3,098,683            | 4,352,257         |
| Romania                           | -                    | 3,626,136         |
| Netherlands                       | 5,839,089            | 7,084,947         |
| China                             | 17,824,641           | -                 |
| Total property and equipment, net | \$26,783,178         | \$15,063,340      |

Total revenue, in and outside the United States is summarized in the following table for the *nine*-months ended *December 31, 2018* and *December 31, 2017*:

|               | December 31,<br>2018 | December 31,<br>2017 |
|---------------|----------------------|----------------------|
| United States | \$160,411,098        | \$127,425,254        |
| Foreign       | 13,419,819           | 13,634,855           |
| Total revenue | \$173,830,917        | \$141,060,109        |



16. Segment Information

The Company has *six* business segments: overnight air cargo, ground equipment sales, ground support services, commercial jet engine and parts segment, printing equipment and maintenance and corporate and other. Segment data is summarized as follows:

|                                          | Three Months Ended<br>December 31, |              | Nine Months Ended<br>December 31, |               |
|------------------------------------------|------------------------------------|--------------|-----------------------------------|---------------|
|                                          | 2018                               | 2017         | 2018                              | 2017          |
| Operating Revenues by Segment:           |                                    |              |                                   |               |
| Overnight Air Cargo                      | \$17,868,191                       | \$18,028,688 | \$52,573,449                      | \$52,851,936  |
| Ground Equipment Sales:                  |                                    |              |                                   |               |
| Domestic                                 | 13,022,309                         | 11,877,589   | 29,383,863                        | 32,200,847    |
| International                            | 3,246,993                          | 1,045,318    | 6,118,073                         | 2,187,825     |
| Total Ground Equipment Sales             | 16,269,302                         | 12,922,907   | 35,501,936                        | 34,388,672    |
| Ground Support Services                  | 8,136,465                          | 8,651,138    | 25,658,143                        | 26,565,537    |
| Printing Equipment and Maintenance       |                                    |              |                                   |               |
| Domestic                                 | 80,056                             | 905,859      | 273,782                           | 2,630,169     |
| International                            | 24,925                             | -            | 269,967                           | 2,709,993     |
| Total Printing Equipment and Maintenance | 104,980                            | 905,859      | 543,748                           | 5,340,162     |
| Commercial Jet Engines and Parts:        |                                    |              |                                   |               |
| Domestic                                 | 9,903,990                          | 2,580,659    | 37,563,259                        | 13,044,059    |
| International                            | 11,086,098                         | 1,349,852    | 21,389,795                        | 8,737,037     |
| Total Commercial Jet Engines and Parts   | 20,990,088                         | 3,930,511    | 58,953,054                        | 21,781,096    |
| Corporate and other                      | 235,898                            | 81,821       | 600,587                           | 152,384       |
| Intercompany                             | 17,746                             | (19,677 )    | -                                 | (19,676 )     |
| Total                                    | \$63,622,671                       | \$44,501,246 | \$173,830,917                     | \$141,060,109 |
| Operating Income (Loss):                 |                                    |              |                                   |               |
| Overnight Air Cargo                      | \$69,272                           | \$996,819    | \$1,323,834                       | \$2,709,991   |
| Ground Equipment Sales                   | 1,172,651                          | 1,084,303    | 2,263,708                         | 2,415,527     |
| Ground Support Services                  | (397,856 )                         | (114,064 )   | (1,228,063 )                      | 518,873       |
| Printing Equipment and Maintenance       | (352,316 )                         | (1,030,228 ) | (1,006,685 )                      | (538,414 )    |
| Commercial Jet Engines and Parts         | 2,449,158                          | (292,016 )   | 6,237,311                         | 468,623       |
| Corporate and other                      | (1,479,425 )                       | (90,806 )    | (5,145,119 )                      | (2,332,368 )  |
| Intercompany                             | 3,481                              | (2,327 )     | 3,679                             | (2,327 )      |
| Total                                    | \$1,464,965                        | \$551,680    | \$2,448,665                       | \$3,239,906   |
| Capital Expenditures:                    |                                    |              |                                   |               |
| Overnight Air Cargo                      | \$(3,255 )                         | \$7,076      | \$31,201                          | \$27,422      |
| Ground Equipment Sales                   | 22,165                             | 206,603      | 318,485                           | 208,861       |
| Ground Support Services                  | 52,935                             | 70,241       | 113,435                           | 213,525       |
| Printing Equipment and Maintenance       | -                                  | 19,926       | -                                 | 28,417        |
| Commercial Jet Engines and Parts         | 84,475                             | 6,639,721    | 19,555,168                        | 13,722,702    |

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|                                            |              |              |               |               |
|--------------------------------------------|--------------|--------------|---------------|---------------|
| Corporate and other                        | 30,317       | 44,462       | 141,557       | 1,046,317     |
| Total                                      | \$ 186,636   | \$ 6,988,029 | \$ 20,159,845 | \$ 15,247,244 |
| Depreciation, Amortization and Impairment: |              |              |               |               |
| Overnight Air Cargo                        | 19,010       | \$ 27,161    | \$ 62,951     | \$ 88,305     |
| Ground Equipment Sales                     | 56,690       | 90,558       | 213,424       | 340,937       |
| Ground Support Services                    | 106,344      | 121,340      | 351,214       | 346,596       |
| Printing Equipment and Maintenance         | (22,884 )    | 2,570        | 6,754         | 10,577        |
| Commercial Jet Engines and Parts           | 1,915,833    | 430,366      | 4,469,895     | 627,480       |
| Corporate and other                        | 149,097      | 144,919      | 444,808       | 334,034       |
| Intercompany                               | 36,326       | (1,324 )     | 33,676        | (3,974 )      |
| Total                                      | \$ 2,260,415 | \$ 815,590   | \$ 5,582,721  | \$ 1,743,955  |

17. Commitments and Contingencies

Conrail Aviation Support, LLC (“Conrail Aviation”), a subsidiary of the Company, completed the purchase of all of the assets owned by Conrail Aviation Support, Inc. (the “Seller”) in *July 2016*. As part of this purchase, Conrail Aviation agreed to pay contingent additional deferred consideration of up to a maximum of *\$1,500,000* per year and *\$3,000,000* in the aggregate. The Company established a liability with a present value of *\$2,900,000* in the initial allocation of purchase price. This is based on the expectation that the earn-out will be paid at the maximum level. The Company has paid *\$2,500,000* of contingent consideration as of *December 31, 2018* and the remaining liability of *\$480,000*, which includes a current portion of *\$24,000* and a non-current portion of *\$456,000*, is included in the “Accrued expenses” and “Other non-current liabilities”, respectively, in the consolidated balance sheet at *December 31, 2018*.

Conrail Aviation entered into an Operating Agreement (the “Operating Agreement”) with the Seller providing for the governance of and the terms of membership interests in Conrail Aviation and including put and call options (“Put/Call Option”). The Put/Call Option permits the Seller to require Conrail Aviation to purchase all of the Seller’s equity membership interests in Conrail Aviation commencing on the *fifth* anniversary of the acquisition, which is on *July 18, 2021*. The Company has presented this redeemable non-controlling interest in Conrail Aviation between the liabilities and equity sections of the accompanying consolidated balance sheets.

18. 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.

Management is *not* aware of any subsequent events as of the date of issuance.

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”) owns a portfolio of powerful businesses, each of which is independent yet interrelated. Our operating and earnings assets are designed to expand, strengthen and diversify our cash earnings power. Our goal is to build on Air T’s core businesses and grow after-tax cash flow per share.

We currently operate in six industry segments:

• Overnight air cargo, which operates in the air express delivery services industry;

• Ground equipment sales, which manufactures and provides mobile deicers and other specialized equipment products to passenger and cargo airlines, airports, the military and industrial customers;

• Ground support services, which provide ground support equipment maintenance and facilities maintenance services to domestic airlines and aviation service providers across the United States;

• Commercial jet engine and airframe asset management and logistics, which manages and leases aviation assets; supplies surplus and aftermarket commercial jet engine components; provides commercial aircraft disassembly/part-out services; commercial aircraft parts sales; procurement services and overhaul and repair services to airlines and commercial aircraft companies;

• Printing equipment and maintenance, which designs, manufactures and sells advanced digital print production equipment and provides maintenance services to commercial customers; and

• Corporate and other, which acts as the capital allocator and resource for other segments.

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.

### **Third Quarter Fiscal 2019 Compared to Third Quarter Fiscal 2018**

Consolidated revenue increased by \$19,122,000 (43%) to \$63,623,000 for the three-month period ended December 31, 2018 compared to the same quarter in the prior fiscal year.



Following is a table detailing revenue by segment, net of intercompany during the three months ended December 31, 2018 compared to the same quarter in the prior fiscal year:

|                                    | Three Months            |          | Change   |       |
|------------------------------------|-------------------------|----------|----------|-------|
|                                    | Ended December 31, 2018 | 2017     |          |       |
| Overnight Air Cargo                | \$17,868                | \$18,029 | \$(160 ) | -1 %  |
| Ground Equipment Sales             | 16,278                  | 12,911   | 3,367    | 26 %  |
| Ground Support Services            | 8,136                   | 8,643    | (507 )   | -6 %  |
| Commercial Jet Engines and Parts   | 20,990                  | 3,929    | 17,061   | 434 % |
| Printing Equipment and Maintenance | 105                     | 906      | (801 )   | -88 % |
| Corporate and other                | 245                     | 82       | 163      | 199 % |
|                                    | \$63,623                | \$44,501 | \$19,122 | 43 %  |

Revenues from the air cargo segment decreased by \$160,000 (1%) compared to the third quarter of the prior fiscal year. The decrease was principally attributable to decreased billable maintenance hours with FedEx.

The ground equipment sales segment contributed approximately \$16,278,000 and \$12,911,000 to the Company's revenues for the three-month periods ended December 31, 2018 and 2017 respectively, representing a \$3,367,000 (26%) increase in the current quarter primarily driven by an increase in sales of deicer and catering trucks. At December 31, 2018, the ground equipment sales segment's order backlog was \$18.3 million as compared to \$17.9 million at December 31, 2017.

The ground support services segment contributed approximately \$8,136,000 and \$8,643,000 to the Company's revenues for the three-month periods ended December 31, 2018 and 2017, respectively, representing a \$507,000 (6%) decrease in the current quarter principally due to the closure of two airport locations during the three month period ended December 31, 2018.

The commercial jet engines and parts segment contributed \$20,990,000 of revenues in the quarter ended December 31, 2018 compared to \$3,929,000 in the comparable prior quarter which is an increase of \$17,061,000 (434%). The primary driver of the increase in revenues was Conrail experiencing record levels of sales driven by the sale of two engines totaling \$8,900,000 during the quarter ended December 31, 2018 and the acquisition of Worthington in May 2018 which contributed revenues of approximately \$3,710,000 during the quarter ended December 31, 2018.

Revenues from the printing equipment and maintenance segment declined \$801,000 (88%) compared to the comparable prior quarter as this segment is in the process of upgrading its printer products. Sales of the new printers are expected to commence in fiscal year 2020.

Revenues from the corporate and other segment increased \$163,000 compared to the comparable prior quarter principally attributable to the acquisition of BCCM and AHT.

Following is a table detailing operating income (loss) by segment during the three months ended December 31, 2018 compared to the same quarter in the prior fiscal year:

|                                    | Three Months<br>Ended December<br>31,<br>2018 |         | 2017    |  | Change |   |
|------------------------------------|-----------------------------------------------|---------|---------|--|--------|---|
| Overnight Air Cargo                | \$73                                          | \$997   | \$(924) |  | -93    | % |
| Ground Equipment Sales             | 1,175                                         | 1,084   | 92      |  | 9      | % |
| Ground Support Services            | (400)                                         | (115)   | (285)   |  | -248   | % |
| Commercial Jet Engines and Parts   | 2,449                                         | (294)   | 2,742   |  | n/m    |   |
| Printing Equipment and Maintenance | (353)                                         | (1,029) | 676     |  | 66     | % |
| Corporate and other                | (1,479)                                       | (91)    | (1,389) |  | -1534  | % |
|                                    | \$1,465                                       | \$552   | \$913   |  | 166    | % |

Consolidated operating income for the quarter ended December 31, 2018 was \$1,465,000, an increase of \$913,000 from operating income of \$552,000 for the comparable quarter of the prior year.

Operating income for the air cargo segment decreased by \$924,000 (93%) due primarily to higher operating costs not passed through to the customer (mainly increased flight crew costs to meet operational requirements), decreased billable maintenance hours with FedEx and higher general and administrative costs.

The ground equipment sales segment operating income increased by \$92,000 (9%) to \$1,175,000. This increase was primarily attributable to the increased sales volume of deicer and catering trucks.

The operating loss for the ground support services segment increased by \$285,000 (248%) to (\$400,000) for the current-year quarter compared to (\$115,000) in the prior-year quarter due to continuing lease costs of the two closed locations, higher medical costs and increased general and administrative costs.

Operating results of the commercial jet engines and parts segment increased to operating income of \$2,449,000 in the current-year quarter compared to an operating loss of (\$294,000) in the prior-year quarter. The change was primarily attributable to the record level of sales.

The operating loss in the printing equipment and maintenance segment declined to \$353,000 in the current-year quarter from \$1,029,000 in the prior-year quarter primarily attributable to the bankruptcy of Delphax Canada in the prior period.

The operating loss in the corporate and other segment increased to (\$1,479,000) from (\$91,000). For purposes of segment reporting, corporate and other reflected the \$1.2 million foreclosed inventory surplus as a result of the bankruptcy of Delphax Canada. The \$1.2 million was eliminated in consolidation. The resulting operating loss in the corporate and other segment in the current year's quarter is primarily attributable to increased headcount and significant professional fees.

Operating expenses increased by \$18,208,000 (41%) to \$62,158,000 in the current year quarter compared to the equivalent prior year period. The increase in operating expenses was primarily driven by the commercial jet engines and parts segment which experienced an increase of \$14,318,403 (339%) principally due to the increased costs related to Contrail's record sales and the acquisition of Worthington.



The ground equipment sales segment operating costs increased by \$3,258,000 (28%) due to the impact of increased sales.

Operating expenses from the printing equipment and maintenance segment decreased by \$1,479,000 (76%) due to the bankruptcy of Delphax Canada in prior period.

The Company had net non-operating expense of \$3,608,000 for the quarter ended December 31, 2018, an increase of \$2,282,000 (172%) from \$1,326,000 in the prior-year quarter, principally due to increases in an impairment on investments of \$1,211,000, interest expense of \$648,000, and \$637,000 in other investment losses. The increase in impairment was primarily due to a \$2,000,000 impairment of an investment in reinsurance contracts. The additional interest expense was the result of increased borrowings.

Pretax loss for the three-month period ended December 31, 2018 was \$2,143,000 a decline of \$1,368,000 compared to the prior year comparable period, which was attributable to the increased non-operating loss offset by the improvement in operating income detailed above.

During the three-month period ended December 31, 2018, the Company recorded \$174,000 in income tax expense at an effective rate of (8.12%). The Company records income taxes using an estimated annual effective tax rate for interim reporting. The primary factors contributing to the difference between the federal statutory rate of 21% and the Company's effective tax rate for the three-month period ended December 31, 2018 were the state income tax expense and the exclusion from the tax provision of the minority owned portion of the pretax income of Conrail Aviation Support, LLC as well as an increase in the valuation allowance, a portion of which is recorded as a discrete item not included in the estimated annual effective tax rate. The increase in the valuation allowance is primarily due to unrealized losses on investments as well as losses incurred by Delphax Solutions, Inc. During the three-month period ended December 31, 2017, the Company recorded a tax benefit of \$60,000 at an effective tax rate of 7.75%. The primary factors contributing to the difference between the federal statutory rate and the Company's effective tax rate for the three-month period ended December 31, 2017 were the change in the valuation allowance relating to the other than temporary impairment of available for sale securities included in the pretax activity in the period, the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary under Section 831(b), 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.

**First Nine Months of Fiscal 2019 Compared to First Nine Months of Fiscal 2018**

Following is a table detailing revenue by segment, net of intercompany during the nine months ended in Fiscal 2019 and Fiscal 2018:

(Dollars in thousands)

|                                    | Nine Months Ended<br>December 31, |           | Change   |       |
|------------------------------------|-----------------------------------|-----------|----------|-------|
|                                    | 2018                              | 2017      |          |       |
| Overnight Air Cargo                | \$52,573                          | \$52,852  | \$(279 ) | -     |
| Ground Equipment Sales             | 35,502                            | 34,377    | 1,125    | 3 %   |
| Ground Support Services            | 25,658                            | 26,558    | (900 )   | -3 %  |
| Commercial Jet Engines and Parts   | 58,953                            | 21,781    | 37,172   | 171 % |
| Printing Equipment and Maintenance | 544                               | 5,340     | (4,796 ) | -90 % |
| Corporate and other                | 601                               | 152       | 449      | 295 % |
|                                    | \$173,831                         | \$141,060 | \$32,771 | 23 %  |

Revenues from the air cargo segment decreased by \$279,000 compared to the first nine months of the prior fiscal year from \$52,573,000 to \$52,852,000 due to lower billable maintenance hours with FedEx.

The ground equipment sales segment contributed approximately \$35,502,000 and \$34,377,000 to the Company's revenues for the nine-month periods ended December 31, 2018 and 2017 respectively, representing a \$1,125,000 (3%) increase in the current period which was principally attributable to a slight increase in sales volume of commercial deicers.

The ground support services segment contributed approximately \$25,658,000 and \$26,558,000 to the Company's revenues for the nine-month periods ended December 31, 2018 and 2017, respectively, representing a \$900,000 (3%) decrease in the current period principally due to the closure of two airport locations.

The commercial jet engines and parts segment contributed \$58,953,000 of revenues in the nine-months ended December 31, 2018 compared to \$21,781,000 in the nine-months ended December 31, 2017. The increase of \$37,172,000 was primarily due to Conrail experiencing record levels of sales driven by the sale of six engines totaling \$26,250,000 in addition to the acquisition of Worthington in May 2018, which contributed revenues of approximately \$10,505,000 during the nine-months ended December 31, 2018.

Revenues from the printing equipment and maintenance segment declined by \$4,796,000 (90%) compared to the first nine months of the prior fiscal year due to a lack of new printer sales in the current year.

Following is a table detailing operating income by segment, net of intercompany during the nine months ended in Fiscal 2019 and Fiscal 2018:

(Dollars in thousands)

|                                    | Nine Months             |         | Change    |      |   |
|------------------------------------|-------------------------|---------|-----------|------|---|
|                                    | Ended December 31, 2018 | 2017    |           |      |   |
| Overnight Air Cargo                | \$1,328                 | \$2,710 | \$(1,382) | -51  | % |
| Ground Equipment Sales             | 2,264                   | 2,414   | (150)     | -6   | % |
| Ground Support Services            | (1,228)                 | 518     | (1,746)   | n/m  |   |
| Commercial Jet Engines and Parts   | 6,237                   | 469     | 5,768     | 1231 | % |
| Printing Equipment and Maintenance | (1,007)                 | (537)   | (470)     | -87  | % |
| Corporate and other                | (5,145)                 | (2,334) | (2,811)   | -120 | % |
|                                    | \$2,449                 | \$3,240 | \$(791)   | -24  | % |

Consolidated operating income for the nine-months ended December 31, 2018 decreased by \$791,000 (24%) to \$2,449,000, compared to operating income of \$3,240,000 for the same period of the prior year. Operating income for the air cargo segment decreased by \$1,382,000 (51%) in the current period due primarily to higher operating costs not passed through to the customer (mainly increased flight crew costs to meet operational requirements), decreased maintenance billable hours with FedEx and higher general and administrative costs.

The ground equipment sales segment operating income decreased by \$150,000 (6%) from \$2,414,000 in the prior year comparable period to \$2,264,000 in the current year period. This decrease was primarily attributable to lower gross margin due to the change in product mix and higher general and administrative expenses.

Operating income for the ground support services segment declined by \$1,746,000 to an operating loss of \$1,228,000 for the nine-month period in the current fiscal year compared to operating income of \$518,000 in the prior year nine-month period. This decrease was primarily attributable to lower operating profit at the shop level and higher general and administrative costs.

Operating income of the commercial jet engines and parts segment improved by \$5,768,000 to \$6,237,000 from \$469,000 in the prior year period due to Conrail having record levels of sales driven by the sale of six engines totaling \$26.25 million.

The operating loss in the printing equipment and maintenance segment increased by \$470,000 (87%) to \$1,007,000 due to additional personnel costs due to increased headcount and contractor support.

The operating loss in the corporate and other segment increased to \$5,145,000 from \$2,334,000 in the prior-year quarter. The prior-year quarter included a benefit of \$1.2 million for foreclosed inventory surplus as part of the Delphax bankruptcy. The operating loss in the current-year quarter is primarily attributable to increased headcount and significant professional fees.

Operating expenses increased by \$33,562,000 (24%) to \$171,382,000 in the first nine-months ended December 31, 2018 compared to the equivalent prior year period. The increase in operating expenses was primarily driven by the commercial jet engines and parts segment which increased \$31,403,000 principally due to cost of sales related to the six engines sold, and the acquisition of Worthington in May 2018.

Operating expenses from the printing equipment and maintenance segment decreased by \$4,328,000 due to the bankruptcy of Delphax Canada in prior period.

The Company had net non-operating expenses of \$2,742,000 for the nine months ended December 31, 2018, an increase of \$1,091,000 from \$1,651,000 in the prior year period, principally due to an increase in interest expense of \$1,597,000 and other investment losses of \$747,000 offset by a bargain purchase acquisition gain of \$1,983,000, net of tax, in connection with the acquisition of Worthington in May 2018. This bargain purchase gain exceeded prior year bargain purchase gain of \$502,000, net of tax, in connection with the acquisition of AirCo in October 2017 by \$1,482,000. In addition, there was an asset retirement obligation of \$562,500 in prior year period that did not exist in current year period.

Pretax loss for the nine-month period ended December 31, 2018 was \$294,000, a decline of \$1,883,000 compared to the prior year comparable period where pretax income totaled \$1,589,000. This decline is primarily due to the decrease in operating income and net non-operating loss discussed above.

During the nine-month period ended December 31, 2018, the Company recorded \$168,000 in income tax expense at an effective rate of (57.2%). The Company records income taxes using an estimated annual effective tax rate for interim reporting. The primary factors contributing to the difference between the federal statutory rate of 21% and the Company's effective tax rate for the nine-month period ended December 31, 2018 were the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary under Section 831(b), the presentation of the tax impact of the bargain purchase gain, and the exclusion from the tax provision of the minority owned portion of the pretax income of Conrail Aviation Support, LLC as well as an increase in the valuation allowance, a portion of which is recorded as a discrete item not included in the estimated annual effective tax rate. The increase in the valuation allowance is primarily due to unrealized losses on investments as well as losses incurred by Delphax Solutions, Inc. During the nine-month period ended December 31, 2017, the Company recorded \$595,000 in income tax expense at an effective tax rate of 37.45%. The primary factors contributing to the difference between the federal statutory rate and the Company's effective tax rate for the nine-month period ended December 31, 2017 were the change in the valuation allowance relating to the other than temporary impairment of available for sale securities included in the pretax activity in the period, the estimated benefit for the exclusion of income for the Company's captive insurance company subsidiary under Section 831(b), 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.

#### Critical Accounting Policies and Estimates

The Company's significant accounting policies are fully described in Note 1 to the consolidated financial statements and in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended March 31, 2018. 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. There were no significant changes to the Company's critical accounting policies and estimates during the nine-months ended December 31, 2018.

#### *Seasonality*

The ground equipment sales segment 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. Other segments are not susceptible to material seasonal trends.

#### Liquidity and Capital Resources

As of December 31, 2018, the Company held approximately \$3,637,000 in cash and cash equivalents and restricted cash. The Company also held \$135,000 in restricted investments held as statutory reserve of SAIC and the remaining \$907,000 of restricted investments pledged to secure SAIC's participation in certain reinsurance pools, and \$71,000 was invested in accounts not insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company has approximately \$8.2 million of marketable securities as of December 31, 2018.

As of December 31, 2018, the Company's working capital amounted to \$15,044,000, a decrease of \$15,450,000 compared to March 31, 2018.

On November 20, 2018, the Company filed a registration statement with the SEC Registration No. 333-228485 for the issuance of 680,000 shares of Alpha Income Trust Preferred Securities (AITPS) as well as warrants to purchase an aggregate of 680,000 AITPS which will be issued to our shareholders as a dividend. Each warrant entitles the holder to purchase one AITPS for \$24.00 per share, which price represents a \$1.00 discount to the \$25.00 face value of each AITPS. The registration statement has not been declared effective by the SEC and the AITPS and warrants have not been issued.

The revolving lines of credit at both Air T and Conrail have due dates or expire within the next twelve months, as does some term debts within various business units. We are currently seeking to refinance or extend the maturities of these obligations prior to the expiration dates; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend these obligations, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility.

Cash flows from operations, cash and cash equivalents, and the other sources of liquidity described above are expected to be available and sufficient to meet foreseeable cash requirements.

The Company's Credit Agreement with MBT (the Air T debt in footnote 12 to the financial statements) includes several covenants that are measured once a year as of March 31, 2019, including but not limited to a negative covenant requiring a debt service coverage ratio of 1.25. The Company is working with its operating subsidiaries to assure compliance with the MBT covenants at March 31, 2019. However, there is no assurance that the Company will meet each covenant at March 31, 2019 and in such event the Company will work with MBT to seek a waiver and/or undertake other actions to avoid an event of non-compliance.

Cash Flows

Following is a table of changes in cash flow for the nine-month periods ended December 31, 2018 and 2017:

|                                                                           | Nine Months Ended<br>December 31, |              |
|---------------------------------------------------------------------------|-----------------------------------|--------------|
|                                                                           | 2018                              | 2017         |
| Net Cash Provided by Operating Activities                                 | \$ 1,275,000                      | \$ 8,300,000 |
| Net Cash Used in Investing Activities                                     | (22,746,000)                      | (18,615,000) |
| Net Cash Provided by Financing Activities                                 | 19,921,000                        | 15,533,000   |
| Effect of foreign currency exchange rates on cash and cash equivalents    | 114,000                           | 4,000        |
| Net Increase/ (Decrease) in Cash and Cash Equivalents and Restricted Cash | \$ (1,436,000 )                   | \$ 5,222,000 |

Cash provided by operating activities was \$1,275,000 for the nine-month period ended December 31, 2018 compared to the net cash provided by operating activities of \$8,300,000 in prior year period. The primary drivers in cash provided by operating activities was the increase in inventory in the commercial jet engines and parts segment and an increase in accounts receivable.

Cash used in investing activities for the nine-month period ended December 31, 2018 was \$22,746,000 compared to \$18,615,000 in prior year period. The primary drivers in cash used in investing activities for the nine months ended December 31, 2018 was the \$20,160,000 in capital expenditures which includes \$19,560,000 of aircrafts on lease with Conrail, cash used in the acquisition of Worthington in May 2018 of \$3,326,000, cash used for investments in marketable securities (\$2,014,000) and in Oxbridge RE NS (\$2,000,000).

Cash provided by financing activities for the nine-month period ended December 31, 2018 was \$19,921,000 compared to cash provided by financing activities of \$15,533,000 in the prior year period. The cash provided by financing activities was primarily driven by the \$18,000,000 term loan that Conrail obtained to fund the acquisition of aircrafts, \$2,953,000 net proceeds on lines of credit, \$3,400,000 term loan to fund the acquisition of Worthington in May and \$1,900,000 of proceeds obtained from a loan against the cash surrender of life insurance policies where the Company is the beneficiary. These proceeds were partially offset by payments on the Company's existing term loans of \$6,787,000 during the nine-months ended December 31, 2018.

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 this business' operations, consist principally of fuel, and certain other direct operating costs, and certain maintenance costs that 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.

The Company is exposed to various risks, including interest rate risk. As interest rates are projected to increase and can be volatile, the Company has designated a risk management policy which provides for the use of derivative instruments to provide protection against rising interest rates on variable rate debt.

### Item 4. Controls and Procedures

Our 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. 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, 2018. Based on that review and evaluation, which included inquiries made to certain other employees of the Company, the Certifying Officers have concluded that the Company's current disclosure controls and procedures, as designed and implemented, are effective in ensuring 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. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions, regardless of how remote.

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, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) The Company issued the warrant under Brett Reynolds' May 7, 2018 Employment Agreement on November 30, 2018. The warrant provides for the right to purchase 25,000 shares of common stock at \$31.00 per share. The warrant was issued without registration in reliance upon the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

(b) None.

(c) On May 14, 2014, the Company announced that its Board of Directors had authorized a program to repurchase up to 750,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, in compliance with SEC Rule 10b-18, over an indefinite period.

Purchases during the last fiscal quarter are described below:

*Issuer Purchases of Equity Securities*

| Dates of Shares Purchased      | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Public Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|----------------------------------|------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| October 1 - October 31, 2018   | 15,000                           | \$ 33.55                     | 15,675                                                                         | 734,325                                                                        |
| November 1 - November 30, 2018 | 3,107                            | \$ 33.02                     | 18,782                                                                         | 731,218                                                                        |
| December 1 - December 31, 2018 | 2,176                            | \$ 28.29                     | 20,958                                                                         | 729,042                                                                        |

Item 6. Exhibits

(a) Exhibits

No. Description

10.1 Reynolds Warrant to Purchase Stock of Air T, Inc. issued November 30, 2018.

31.1 Section 302 Certification of Chief Executive Officer and President

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 1350 Certifications

The following financial information from the Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, 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, 2019

/s/ Nick Swenson

Nick Swenson, Chief Executive Officer and Director

/s/ Brett Reynolds

Brett Reynolds, Chief Financial Officer