

AIR T INC
Form 10-Q/A
October 13, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No.1)

(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, 2016
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
(State or other jurisdiction of incorporation or organization)

52-1206400
(I.R.S. Employer Identification No.)

5930 Balsom Ridge Road, Denver, North Carolina 28037

(Address of principal executive offices, including zip code)

(828) 464 -8741

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

Edgar Filing: AIR T INC - Form 10-Q/A

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

Emerging growth company

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

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

Yes No

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

Common Stock

Outstanding Shares at January 31, 2017

Common Shares, par value of \$.25 per share 2,042,789

AIR T, INC. AND SUBSIDIARIES
 QUARTERLY REPORT ON FORM 10-Q
 TABLE OF CONTENTS

PART I

Item 1.	Financial Statements	
	Condensed Consolidated Statements of Income (Loss) (Unaudited) Three Months and Nine Months Ended December 31, 2016 and 2015 (As Restated)	5
	Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) Three Months and Nine Months Ended December 31, 2016 and 2015 (As Restated)	6
	Condensed Consolidated Balance Sheets December 31, 2016 (Unaudited) and March 31, 2016 (As Restated)	7
	Condensed Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended December 31, 2016 and 2015	8
	Condensed Consolidated Statements of Equity (Unaudited) Nine Months Ended December 31, 2016 and 2015 (As Restated)	9
	Notes to Condensed Consolidated Financial Statements (Unaudited) (As Restated)	10-31
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations (As Restated)	32-46
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 4.	Controls and Procedures (As Amended)	46

PART II

Item 6.	Exhibits (As Amended)	47
	Signatures	48
	Exhibit Index (As Amended)	49
	Certifications (As Amended)	
	Interactive Data Files (As Restated)	

EXPLANATORY NOTE

Air T, Inc. (the “Company,” “Air T,” “we” or “us”) is filing this amended Form 10-Q/A (“Form 10-Q/A”) to amend its Quarterly Report on Form 10-Q for the period ended December 31, 2016, originally filed with the Securities and Exchange Commission (the “SEC”) on February 13, 2017 (“Original Filing”), to restate our unaudited condensed consolidated financial statements and related footnote disclosures at December 31, 2016 and March 31, 2016 and for the three and nine months ended December 31, 2016 and 2015. The previously filed consolidated financial statements for those periods should no longer be relied upon. This Form 10-Q/A also amends certain other items in the Original Filing, as listed in “Items Amended in this Form 10-Q/A” below.

Restatement Background

As disclosed in the Original Filing, pursuant to a Securities Purchase Agreement dated as of October 2, 2015 (the “Securities Purchase Agreement”) among the Company, Delphax Technologies Inc. (“Delphax”) and its subsidiary, Delphax Technologies Canada Limited (“Delphax Canada”), on November 24, 2015 (the “Closing Date”), the Company purchased (i) at face value a \$2,500,000 principal amount Five-Year Senior Subordinated Promissory Note (the “Senior Subordinated Note”) issued by Delphax Canada for a combination of cash and the outstanding principal of \$500,000 and accrued and unpaid interest under a 90-Day Senior Subordinated Note purchased at face value by the Company from Delphax Canada on October 2, 2015 pursuant to the Securities Purchase Agreement and (ii) for \$1,050,000 in cash a total of 43,000 shares of Delphax’s Series B Preferred Stock (the “Series B Preferred Stock”) and a Stock Purchase Warrant (the “Warrant”) to acquire an additional 95,600 shares of Series B Preferred Stock at a price of \$33.4728 per share (subject to adjustment for specified dilutive events). As further disclosed in the Original Filing, each share of Series B Preferred Stock is convertible into 100 shares of common stock of Delphax, subject to anti-dilution adjustments, and has no liquidation preference over shares of common stock of Delphax. No dividends are required to be paid with respect to the shares of Series B Preferred Stock, except that ratable dividends (on an as-converted basis) are to be paid in the event that dividends are paid on the common stock of Delphax. Based on the number of shares of Delphax common stock outstanding at the Closing Date, the number of shares of common stock underlying the Series B Preferred Stock purchased by the Company represented approximately 38% of the shares of Delphax common stock that would be outstanding assuming conversion of Series B Preferred Stock held by the Company. Holders of the Series B Preferred Stock, voting as a separate class, were initially entitled to elect (and exercise rights of removal and replacement with respect to) three-sevenths of the board of directors of Delphax, and after June 1, 2016 the holders of the Series B Preferred Stock, voting as a separate class, were entitled to elect (and to exercise rights of removal and replacement with respect to) four-sevenths of the members of the board of directors of Delphax. The Warrant expires on November 24, 2021 and 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.

The consolidated financial statements included in the Original Filing reflect the consolidation of Delphax with the Company and its subsidiaries from the Closing Date. Such consolidated financial statements also reflected an attribution of 62% of Delphax's loss for periods commencing as of the Closing Date to non-controlling interests in the determination of consolidated net income (loss) attributable to Air T, Inc. stockholders. Such attribution was based on the Company's ownership of the Series B Preferred Stock, which represented approximately 38% of the shares of Delphax common stock that would be outstanding assuming conversion of Series B Preferred Stock held by the Company.

We have concluded that it was not appropriate to base attribution solely on our ownership of the Series B Preferred Stock and that our attribution methodology should be based on consideration of all of Air T's investments in Delphax and Delphax Canada. As disclosed above, the Warrant provides that in the event that dividends are paid on the common stock of Delphax, the holder of the Warrant is entitled to participate in such dividends on a ratable basis as if the Warrant had been fully exercised and the shares of Series B Preferred Stock acquired upon such exercise had been converted into shares of Delphax common stock. This provision would have entitled Air T, Inc. to approximately 67% of any Delphax dividends paid, with the remaining 33% paid to the non-controlling interests. We concluded that this was a substantive distribution right which should be considered in the attribution of Delphax net income or loss to non-controlling interests. We furthermore concluded that our investment in the debt of Delphax should be considered in attribution. Specifically, Delphax's net losses are attributed first to our Series B Preferred Stock and Warrant investments and to the non-controlling interest (67% / 33%) until such amounts are reduced to zero. Additional losses are then fully attributed to our debt investments until they too are reduced to zero. This sequencing reflects the relative priority of debt to equity. Any further losses are then attributed to Air T and the non-controlling interests based on the initial 67% / 33% share. Delphax net income is attributed using a backwards-tracing approach with respect to previous losses. The effect of interest expense arising under the Senior Subordinated Note and of other intercompany transactions are reflected in the attribution of Delphax net income or losses to non-controlling interests because Delphax is a variable interest entity.

As a result of the application of such methodology, for the three and nine months ended December 31, 2016 and 2015 the attribution of Delphax net income (loss) to non-controlling interests should have been 33%.

In addition, we are also correcting otherwise immaterial errors associated with our elimination of intercompany transactions between Air T, Inc. and Delphax.

This Form 10-Q/A is being filed to restate our unaudited condensed consolidated financial statements at December 31, 2016 and March 31, 2016 and for the three and nine months ended December 31, 2016 and 2015 to so correct the treatment of Air T's interests in Delphax with respect to the attribution of Delphax losses and the elimination of intercompany interest and to correct and expand related disclosures.

Restatement of Other Financial Statements

We are concurrently filing (i) an amendment to our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 (the "Form 10-K/A") to similarly restate our audited consolidated financial statements and related financial information at and for the fiscal year ended March 31, 2016 and to amend certain other items within that report, (ii) an amendment to our Quarterly Report on Form 10-Q for the period ended June 30, 2016 (the "Q1 Form 10-Q/A") to similarly restate our unaudited condensed consolidated financial statements and related financial information at June 30, 2016 and March 31, 2016 and for the three months ended June 30, 2016 and to amend certain other items within that report, (iii) an amendment to our Quarterly Report on Form 10-Q for the period ended September 30, 2016 (the "Q2 Form 10-Q/A") to similarly restate our unaudited condensed consolidated financial statements and related financial information at September 30, 2016 and March 31, 2016 and for the three and six months ended September 30, 2016 and to amend certain other items within that report, and (iv) an amendment to our Quarterly Report on Form 10-Q for the period ended December 31, 2015 (the "2015 Form 10-Q/A") to similarly restate our unaudited condensed consolidated financial statements and related financial information at December 31, 2015 and for the three and nine months ended December 31, 2015 and to amend certain other items within that report.

Internal Control and Disclosure Controls Considerations

Our Chief Executive Officer and Chief Financial Officer have determined that there were deficiencies in our internal control over financial reporting that constitute material weaknesses, as defined by SEC regulations, at December 31, 2016. Accordingly, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined by SEC regulations, were not effective at December 31, 2016, as discussed in Part I, Item 4 of this Form 10-Q/A.

Items Amended in this Form 10-Q/A

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing, in its entirety, as modified and superseded as necessary to reflect the restatement described above. The following items in the Original Filing have been amended as a result of, and to reflect, the restatement:

A. Part I, Item 1. Financial Statements

B. Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

C. Part I, Item 4. Controls and Procedures

D. Part II, Item 6. Exhibits

In accordance with applicable SEC rules, this Form 10-Q/A includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the filing date of this Form 10-Q/A. In addition, the Exhibit Index has been appropriately updated.

Item 1. Financial Statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016 (As Restated)	2015 (As Restated)	2016 (As Restated)	2015 (As Restated)
Operating Revenues:				
Overnight air cargo	\$ 17,099,640	\$ 18,674,458	\$ 50,888,019	\$ 48,949,401
Ground equipment sales	5,400,258	20,344,287	20,743,323	45,666,664
Ground support services	7,579,661	6,559,110	21,417,854	17,974,239
Printing equipment and maintenance	2,653,899	1,035,000	6,941,883	1,035,000
Commercial jet engines	2,998,165	-	4,293,272	-
Leasing	37,547	5,718	501,062	5,718
	35,769,170	46,618,573	104,785,413	113,631,022
Operating Expenses:				
Overnight air cargo - flight	10,152,680	9,823,987	29,150,766	25,597,653
Overnight air cargo - maintenance	5,068,418	6,499,073	15,778,738	17,061,811
Ground equipment sales	4,345,727	14,629,183	16,521,728	33,229,603
Ground support services	6,449,260	5,358,593	17,604,562	15,137,050
Printing equipment and maintenance	948,008	1,376,000	8,072,739	1,376,000
Commercial jet engines	1,672,092	-	2,459,631	-
Leasing	-	-	49,460	-
Research and development	107,598	216,000	858,480	216,000
General and administrative	4,960,263	4,585,364	15,932,655	12,050,479
Depreciation, amortization and impairment	411,798	296,474	2,755,071	667,595
Gain (loss) on sale of property and equipment	13,909	(56,218)	13,909	(50,837)
	34,129,753	42,728,456	109,197,739	105,285,354
Operating Income (Loss)	1,639,417	3,890,117	(4,412,326)	8,345,668
Non-operating Income (Expense):				
Gain (loss) on sale of marketable securities	9,965	(6,837)	582,910	(6,837)
Foreign currency gain, net	235,670	11,000	360,556	11,000
Other-than-temporary impairment loss on investments	-	-	(1,502,239)	-
Other investment income, net	66,082	15,776	157,044	-
Interest expense and other	(136,842)	35,144	(278,219)	21,289
	174,875	55,083	(679,948)	25,452
Income (Loss) Before Income Taxes	1,814,292	3,945,200	(5,092,274)	8,371,120
Income Taxes	149,000	1,499,000	152,000	2,867,000

Edgar Filing: AIR T INC - Form 10-Q/A

Net Income (Loss)	1,665,292	2,446,200	(5,244,274)	5,504,120
Net (Income) Loss Attributable to Non-controlling Interests	(445,255)	279,510	1,796,942	279,510
Net Income (Loss) Attributable to Air T, Inc. Stockholders	\$1,220,037	\$2,725,710	\$(3,447,332)	\$5,783,630
Earnings (Loss) Per Share:				
Basic	\$0.60	\$1.15	\$(1.60)	\$2.44
Diluted	\$0.60	\$1.14	\$(1.60)	\$2.41
Weighted Average Shares Outstanding:				
Basic	2,042,789	2,372,527	2,152,301	2,372,527
Diluted	2,047,637	2,396,999	2,152,301	2,396,645

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2016 (As Restated)	2015 (As Restated)	2016 (As Restated)	2015 (As Restated)
Net income (loss)	\$1,665,292	\$2,446,200	\$(5,244,274)	\$5,504,120
Other comprehensive income (loss):				
Foreign currency translation loss	(179,015)	(18,000)	(368,958)	(18,000)
Unrealized net gains (losses) on marketable securities	139,531	1,030,265	(307,224)	163,835
Tax effect of net unrealized (gains) losses on marketable securities	(50,715)	(370,895)	110,601	(58,981)
Total unrealized net gain (loss) on marketable securities, net of tax	88,816	659,370	(196,623)	104,854
Reclassification of other-than-temporary impairment losses on marketable securities, net of losses (gains) on sale of marketable securities, included in income (loss) before income taxes	(9,965)	6,837	919,329	6,837
Tax effect of reclassification	4,071	(2,461)	(330,475)	(2,461)
Reclassification adjustment, net of tax	(5,894)	4,376	588,854	4,376
Total Other Comprehensive Income (Loss)	(96,093)	645,746	23,273	91,230
Total Comprehensive Income (Loss)	1,569,199	3,091,946	(5,221,001)	5,595,350
Comprehensive (Income) Loss Attributable to Non-controlling Interests	(386,177)	285,450	1,918,700	285,450
Comprehensive Income (Loss) Attributable to Air T, Inc. Stockholders	\$1,183,022	\$3,377,396	\$(3,302,301)	\$5,880,800

See notes to condensed consolidated financial statements.

AIR T, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (AS RESTATED)

	December 31, 2016 (As Restated) (Unaudited)	March 31, 2016 * (As Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents (Delphax \$95,357 And \$249,528)**	\$ 1,621,890	\$5,345,455
Marketable securities	3,196,810	4,944,572
Restricted cash	820,651	820,651
Accounts receivable, less allowance for doubtful accounts of \$437,000 and \$426,000 (Delphax \$2,000,183 and \$1,433,494)**	15,239,948	12,303,128
Notes and other receivables-current	1,318,865	592,721
Income tax receivable	1,582,145	719,899
Inventories, net (Delphax \$2,014,783 and \$4,642,298)**	20,946,720	12,274,104
Deferred income taxes	71,126	291,000
Prepaid expenses and other (Delphax \$491,331 and \$1,034,067)**	1,192,275	1,668,004
Total Current Assets	45,990,430	38,959,534
Investments in Available-For-Sale Securities	2,876,399	4,711,343
Property and Equipment, net (Delphax \$33,474 and \$625,684)**	5,168,905	4,577,774
Cash surrender value of life insurance policies	2,264,689	2,100,057
Notes and other receivables - long-term	-	103,996
Other assets (Delphax \$0 and \$26,020)**	402,439	317,528
Intangible assets, net (Delphax \$0 and \$1,109,112)**	1,139,922	1,109,112
Goodwill (Delphax \$0 and \$275,408)**	4,185,265	275,408
Total Assets	\$62,028,049	\$52,154,752
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable (Delphax \$2,577,816 and \$1,684,802)**	\$9,054,684	\$7,003,660
Income tax payable (Delphax \$11,312 and \$11,312)**	-	11,312
Accrued expenses (\$3,562,787 and \$1,926,340)**	6,706,927	6,842,874
Short-term debt (Delphax \$1,163,577 and \$1,859,300)**	1,163,577	1,859,300
Total Current Liabilities	16,925,188	15,717,146
Long-term debt	18,358,742	4,835
Deferred income taxes	546,000	546,000
Other non-current liabilities	2,992,435	615,241
Total Liabilities	38,822,365	16,883,222
Redeemable non-controlling interest	1,127,019	-

Commitments and Contingencies (Notes 9 and 13)

Equity:

Air T, Inc. Stockholders' Equity:

Preferred stock, \$1.00 par value, 50,000 shares authorized	-	-
Common stock, \$.25 par value; 4,000,000 shares authorized, 2,042,789 shares issued and outstanding at December 31, 2016, 2,372,527 shares issued and outstanding at March 31, 2016	510,696	593,131
Additional paid-in capital	4,268,536	4,956,171
Retained earnings	18,227,554	28,821,825
Accumulated other comprehensive income (loss), net	4,513	(140,519)
Total Air T, Inc. Stockholders' Equity	23,011,299	34,230,608
Non-controlling Interests	(932,634)	1,040,922
Total Equity	22,078,665	35,271,530
Total Liabilities and Equity	\$62,028,049	\$52,154,752

*

Derived
from
audited
consolidated
financial
statements

** Amounts
related to
Delphax as
of December
31, 2016 and
March 31,
2016,
respectively

See notes to
condensed
consolidated
financial
statements.

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

	Nine Months Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(5,244,274)	\$5,504,120
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on sale of marketable securities	(582,910)	6,837
(Gain) loss on sale of property and equipment	13,909	(50,837)
Change in accounts receivable and inventory reserves	1,409,575	(157,059)
Depreciation, amortization and impairment	2,755,071	667,595
Change in cash surrender value of life insurance	(164,632)	(120,159)
Warranty reserve	(66,869)	(93,228)
Compensation expense related to stock options	-	31,000
Other-than-temporary impairment loss on investments	1,502,239	-
Change in operating assets and liabilities:		
Accounts receivable	(1,350,470)	(3,576,456)
Notes receivable and other non-trade receivables	(669,943)	(137,634)
Inventories	(8,569,464)	383,383
Prepaid expenses and other	450,498	80,138
Accounts payable	1,615,448	(565,144)
Accrued expenses	(317,093)	152,974
Income tax payable / receivable	(873,557)	897,266
Non-current liabilities	(580,110)	(34,310)
Total adjustments	(5,428,308)	(2,515,634)
Net cash (used in) provided by operating activities	(10,672,582)	2,988,486
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(2,505,519)	(3,278,466)
Proceeds from sale of marketable securities	5,781,001	54,958
Net cash flow used in business combinations	(4,573,700)	78,000
Capital expenditures	(1,518,007)	(1,051,055)
Proceeds from sale of property and equipment	6,281	185,830
Net cash used in investing activities	(2,809,944)	(4,010,733)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	52,462,391	14,472,273
Payment on line of credit	(34,103,649)	(19,291,273)
Payment on line of credit - Delphax	(700,558)	(3,031,000)
Proceeds from lease funding	-	7,428
Repurchase of common stock	(7,917,009)	-
Net cash provided by (used in) financing activities	9,741,175	(7,842,572)
Effect of foreign currency exchange rates on cash and cash equivalents	17,786	(12,985)

NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,723,565)	(8,877,804)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,345,455	14,165,120
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,621,890	\$5,287,316

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:

Finished goods inventory transferred to equipment leased to customers	\$321,345	\$1,288,474
Change in fair value of marketable securities	(893,225)	171,220

SUPPLEMENTAL DISCLOSURE OF INVESTING ACTIVITIES:

Non-controlling interest in acquired business	\$1,072,161	\$-
Acquired business earnout contracts and payable	3,075,000	-

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	\$158,100	\$56,546
Income taxes	1,028,457	1,966,881

See notes to
condensed
consolidated
financial
statements.

AIR T, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED) (AS RESTATED)

	Equity		Air T, Inc. Stockholders' Equity			Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Equity
	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings				
Balance, March 31, 2015	2,372,527	\$593,131	\$4,929,090	\$24,407,915	\$ (134,913)	\$ -	\$29,795,223	
Initial consolidation of Delphax	-	-	-	-				