RADIANT LOGISTICS, INC
Form 10-Q
February 16, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2015

¨ 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 001-35392

RADIANT LOGISTICS, INC.

(Exact name of Registrant as Specified in Its Charter)

Delaware	04-3625550
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)

405 114th Ave S.E., Bellevue, WA 98004
(Address of principal executive offices)

(425) 943-4599
(Registrant’s telephone number, including area code)

N/A
(Former name, former address, and former fiscal year,
if changed since last report)

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 past 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 x 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 x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

There were 48,745,540 shares issued and outstanding of the registrant’s common stock, par value $.001 per share, as of February 11, 2016.

RADIANT LOGISTICS, INC.

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RADIANT LOGISTICS, INC.

Condensed Consolidated Balance Sheets

(unaudited)

	December 31, 2015	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$20,126,312	$7,268,144
Accounts receivable, net of allowance of $1,819,512 and $1,551,202, respectively	107,977,722	127,348,546
Employee and other receivables	120,378	110,728
Income tax deposit	4,954,723	4,102,191
Prepaid expenses and other current assets	5,199,816	5,671,872
Deferred tax asset	1,977,433	1,977,433
Total current assets	140,356,384	146,478,914
Furniture and equipment, net	13,312,694	13,175,890
Acquired intangibles, net	76,088,477	82,954,682
Goodwill	63,119,472	63,089,222
Deposits and other assets	2,223,373	3,007,492
Total long-term assets	141,431,322	149,051,396
Total assets	$295,100,400	$308,706,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued transportation costs	$79,819,306	$92,025,407
Commissions payable	11,504,009	9,449,047
Other accrued costs	5,384,248	7,732,101
Due to former shareholders of acquired operations	—	683,593
Current portion of notes payable	1,537,628	543,086
Current portion of contingent consideration	3,029,000	1,872,000
Current portion of transition and lease termination liability	1,509,761	282,849
Other current liabilities	292,226	297,727
Total current liabilities	103,076,178	112,885,810
Notes payable, net of current portion	47,851,343	85,892,515
Contingent consideration, net of current portion	3,726,000	5,741,000
Transition and lease termination liability, net of current portion	857,112	923
Deferred rent liability	931,840	1,143,749
Deferred tax liability	15,502,503	17,544,417
Other long-term liabilities	778,938	1,004,812
Total long-term liabilities	69,647,736	111,327,416
Total liabilities	172,723,914	224,213,226

Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized; 839,200 shares issued and outstanding, liquidation preference of $20,980,000	839	839
Common stock, $0.001 par value, 100,000,000 shares authorized; 48,743,581 and 42,563,224 shares issued and outstanding, respectively	30,198	24,018
Additional paid-in capital	113,826,750	74,658,960
Deferred compensation	(1,976)	(4,166)
Retained earnings	7,446,336	10,146,282
Accumulated other comprehensive income (loss)	1,026,938	(394,547)
Total Radiant Logistics, Inc. stockholders' equity	122,329,085	84,431,386
Non-controlling interest	47,401	61,588
Total stockholders' equity	122,376,486	84,492,974
Total liabilities and stockholders' equity	$295,100,400	$308,706,200

The accompanying notes form an integral part of these condensed consolidated financial statements.

RADIANT LOGISTICS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Revenues	$206,951,043	$105,948,104	$425,603,615	$204,179,492
Cost of transportation	159,354,826	78,355,731	327,294,293	150,262,336
Net revenues	47,596,217	27,592,373	98,309,322	53,917,156
Operating partner commissions	21,691,079	14,897,910	43,988,958	28,877,261
Personnel costs	13,279,317	6,976,480	27,722,412	13,536,426
Selling, general and administrative expenses	6,628,468	2,882,218	13,091,902	5,530,284
Depreciation and amortization	3,118,854	1,099,713	6,223,853	2,378,794
Transition and lease termination costs	1,157,420	395,086	4,319,648	395,086
Impairment of acquired intangible assets	3,679,825	—	3,679,825	—
Change in contingent consideration	598,233	(170,796)	186,233	(720,796)
Total operating expenses	50,153,196	26,080,611	99,212,831	49,997,055
Income (loss) from operations	(2,556,979)	1,511,762	(903,509)	3,920,101
Other income (expense):				
Interest income	7,696	732	14,477	1,657
Interest expense	(1,317,546)	(96,442)	(2,735,475)	(187,901)
Foreign exchange gain	218,246	37,584	468,752	112,082
Other	23,982	23,149	118,502	75,473
Total other income (expense):	(1,067,622)	(34,977)	(2,133,744)	1,311
Income (loss) before income tax expense	(3,624,601)	1,476,785	(3,037,253)	3,921,412
Income tax benefit (expense)	1,627,233	(616,491)	1,393,895	(1,518,417)
Net income (loss)	(1,997,368)	860,294	(1,643,358)	2,402,995
Less: Net income attributable to non-controlling interest	(18,699)	(21,555)	(33,813)	(43,592)
Net income (loss) attributable to Radiant Logistics, Inc.	(2,016,067)	838,739	(1,677,171)	2,359,403
Less: Preferred stock dividends	(511,387)	(511,388)	(1,022,775)	(1,022,776)
Net income (loss) attributable to common stockholders	$(2,527,454)	$327,351	$(2,699,946)	$1,336,627
Other comprehensive income (loss):				
Foreign currency translation gain	566,888	—	1,421,485	—

Comprehensive income (loss)	$(1,960,566)	$327,351	$(1,278,461)	$1,336,627
Net income (loss) per common share - basic and diluted	$(0.05)	$0.01	$(0.06)	$0.04
Weighted average shares outstanding:				
Basic shares	48,732,762	34,627,645	48,054,100	34,488,616
Diluted shares	48,732,762	36,184,653	48,054,100	36,005,995

The accompanying notes form an integral part of these condensed consolidated financial statements.

RADIANT LOGISTICS, INC.

Condensed Consolidated Statement of Stockholders' Equity

(unaudited)

	RADIANT LOGISTICS, INC. STOCKHOLDERS' EQUITY									
	Preferred Stock		Common Stock		Additional Paid-in	Deferred	Retained	Accumulated Other Comprehensive Income	Non- Controlling	Total Stockholders
	Shares	Amount	Shares	Amount	Capital	Compensation	Earnings	(Loss)	Interest	Equity
alance as of ne 30, 2015	839,200	$839	42,563,224	$24,018	$74,658,960	$(4,166)	$10,146,282	$(394,547)	$61,588	$84,492,974
suance of mmon stock at $6.75 per are, net of underwriting d offering costs of ,969,810	—	—	6,133,334	6,133	38,424,061	—	—	—	—	38,430,194
suance of mmon stock to former opper Logistics areholders at $4.23 per are	—	—	7,385	7	31,243	—	—	—	—	31,250
hare-based ompensation	—	—	—	—	756,006	—	—	—	—	756,006
mortization deferred ompensation	—	—	—	—	—	2,190	—	—	—	2,190
ashless ercise of ock	—	—	39,638	40	(103,813)	—	—	—	—	(103,773

options										
ax benefit om exercise f stock options	—	—	—	—	60,293	—	—	—	—	60,293
referred vidends paid	—	—	—	—	—	—	(1,022,775)	—	—	(1,022,775
istribution to on- controlling terest	—	—	—	—	—	—	—	—	(48,000)	(48,000
et income oss)	—	—	—	—	—	—	(1,677,171)	—	33,813	(1,643,358
omprehensive come	—	—	—	—	—	—	—	1,421,485	—	1,421,485
alance as of ecember 31, 2015	839,200	$839	48,743,581	$30,198	$113,826,750	$(1,976)	$7,446,336	$1,026,938	$47,401	$122,376,486

The accompanying notes form an integral part of these condensed consolidated financial statements.

RADIANT LOGISTICS, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended December 31,	
	2015	2014
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income (loss)	$(1,643,358)	$2,402,995
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
share-based compensation expense	758,196	451,568
amortization of intangibles	4,412,380	2,111,745
depreciation and leasehold amortization	1,811,473	267,049
deferred income tax benefit	(2,306,830)	(239,959)
amortization of loan fees	200,982	30,590
change in contingent consideration	186,233	(720,796)
loss on impairment of acquired intangible assets	3,679,825	—
transition and lease termination costs	2,942,009	395,086
loss on disposal of fixed assets	111,398	—
change in (recovery of) provision for doubtful accounts	268,310	(142,343)
CHANGE IN OPERATING ASSETS AND LIABILITIES:		
accounts receivable	17,484,649	1,793,289
employee and other receivables	(8,316)	(53,961)
income tax deposit	(775,964)	(1,085,303)
prepaid expenses, deposits and other assets	704,380	(2,506,431)
accounts payable and accrued transportation costs	(11,611,248)	938,875
commissions payable	2,054,962	1,046,568
other accrued costs	(1,559,942)	(74,535)
other liabilities	(137,100)	13,662
deferred rent liability	(206,381)	9,184
lease termination liability	(682,443)	(504,494)
Net cash provided by operating activities	15,683,215	4,132,789
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Acquisitions during the fiscal year, net of cash acquired	(800,000)	(3,506,250)
Purchase of furniture and equipment	(2,395,899)	(1,226,880)
Proceeds from sale of furniture and equipment	152,353	—
Payments to former shareholders of acquired operations	(683,593)	—
Net cash used for investing activities	(3,727,139)	(4,733,130)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from (repayments to) credit facility, net of credit fees	(34,706,116)	1,085,941
Proceeds from notes payable	—	547,730

Repayment of notes payable	(84,879)	—
Proceeds from stock offering, net of offering costs	38,430,194	—
Payments of contingent consideration	(1,469,233)	(1,205,042)
Payment of preferred stock dividends	(1,022,775)	(1,022,796)
Distributions to non-controlling interest	(48,000)	(18,000)
Payment of employee tax withholdings related to cashless stock option exercises	(103,773)	(388,206)
Tax benefit from exercise of stock options	60,293	438,078
Net cash provided by (used for) financing activities	1,055,711	(562,295)
Effect of exchange rate changes on cash and cash equivalents	(153,619)	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,858,168	(1,162,636)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,268,144	2,880,205
CASH AND CASH EQUIVALENTS, END OF PERIOD	$20,126,312	$1,717,569
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$2,063,857	$2,416,933
Interest paid	$2,621,794	$153,936

(continued)

RADIANT LOGISTICS, INC.

Condensed Consolidated Statements of Cash Flows (continued)

(unaudited)

Supplemental disclosure of non-cash investing and financing activities:

In November 2014, the Company issued 52,452 shares of common stock at a fair value of $3.84 per share in satisfaction of $201,162 of the On Time Express, Inc. earn-out payment for the year ended June 30, 2014, resulting in a decrease to the current portion of contingent consideration, an increase to common stock of $52 and an increase to additional paid-in capital of $201,110.

In December 2014, the Company issued 43,221 shares of common stock at a fair value of $3.90 per share in satisfaction of $168,750 of the Don Cameron & Associates, Inc. purchase price, resulting in an increase to common stock of $43 and an increase to additional paid-in capital of $168,707.

In December 2015, the Company issued 7,385 shares of common stock at a fair value of $4.23 per share in satisfaction of $31,250 of the Copper Logistics, Incorporated purchase price, resulting in an increase to common stock of $7 and an increase to additional paid-in capital of $31,243.

The accompanying notes form an integral part of these condensed consolidated financial statements.

RADIANT LOGISTICS, INC.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

The Company

Radiant Logistics, Inc. (the “Company”) operates as a third party logistics company, providing multi-modal transportation and logistics services primarily in the United States and Canada. The Company services a large and diversified account base consisting of consumer goods, food and beverage, manufacturing and retail customers which it supports from an extensive network of approximately 150 operating locations across North America. The Company provides these services through a multi-brand network comprised of Company-owned offices and locations operated by its strategic operating partners, as well as an integrated international service partner network located in other key markets around the globe. As a third party logistics company, the Company has approximately 10,000 asset-based transportation companies, including motor carriers, railroads, airlines and ocean lines, in its carrier network. The Company believes shippers value its services because it is able to objectively arrange the most efficient and cost-effective means, type and provider of transportation service without undue influence caused by the ownership of transportation assets. In addition, the Company’s minimal investment in physical assets affords it the opportunity for a higher return on invested capital and net cash flows than the Company’s asset-based competitors.

Through its operating locations across North America, the Company offers domestic and international air and ocean freight forwarding services and freight brokerage services including truckload services, less than truckload services and intermodal services, which is the movement of freight in trailers or containers by combination of truck and rail. The Company’s primary business operations involve arranging the shipment, on behalf of its customers, of materials, products, equipment and other goods that are generally larger than shipments handled by integrated carriers of primarily small parcels, such as FedEx, DHL and UPS, including arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. The Company also provides other value-added logistics services, including customs brokerage, order fulfillment, inventory management and warehousing services to complement its core transportation service offering.

The Company expects to grow its business organically and by completing acquisitions of other companies with complementary geographic and logistics service offerings. The Company’s organic growth strategy will continue to focus on strengthening existing and expanding new customer relationships leveraging the benefit of the Company’s new truck brokerage and intermodal service offerings, while continuing its efforts on the organic build-out of the Company’s network of strategic operating partner locations. In addition, as the Company continues to grow and scale the business, the Company is creating density in its trade lanes which creates opportunities for the Company to more efficiently source and manage our transportation capacity.

In addition to its focus on organic growth, it will continue to search for acquisition candidates that bring critical mass from a geographic standpoint, purchasing power and/or complementary service offerings to the current platform. As the Company continues to grow and scale the business, it remains focused on leveraging its back-office infrastructure to drive productivity improvement across the organization.

Interim Disclosure

The condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The Company's management believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2015.

The interim period information included in this Quarterly Report on Form 10-Q reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of the Company's management, necessary for a fair statement of the results of the respective interim periods. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year.

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as well as a single variable interest entity, Radiant Logistics Partners, LLC ("RLP"), which is 40% owned by Radiant Global Logistics, Inc. ("RGL"), and 60% owned by Radiant Capital Partners, LLC ("RCP", see Note 8), an affiliate of Bohn H. Crain, the Company's Chief Executive Officer, whose accounts are included in the condensed consolidated financial statements. All significant intercompany balances and transactions have been eliminated.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of Estimates

The preparation of financial statements and related disclosures in accordance with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include revenue recognition, accruals for the cost of purchased transportation, the fair value of acquired assets and liabilities, changes in contingent consideration, accounting for the issuance of shares and share-based compensation, the assessment of the recoverability of long-lived assets and goodwill, and the establishment of an allowance for doubtful accounts. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results could differ from those estimates.

b) Fair Value Measurements

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

c) Fair Value of Financial Instruments

The carrying values of the Company's receivables, accounts payable and accrued transportation costs, commissions payable, other accrued costs, and the income tax deposit approximate the fair values due to the relatively short maturities of these instruments. The carrying value of the Company's credit facility and other long-term liabilities would not differ significantly from fair value (based on Level 2 inputs) if recalculated based on current interest rates. Contingent consideration attributable to the Company's acquisitions are reported at fair value using Level 3 inputs.

d) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include all highly liquid investments with original maturities of three months or less that are not securing any corporate obligations. Cash balances may at times exceed federally insured limits. Checks issued by the Company that have not yet been presented to the bank for payment are reported as accounts payable and commissions payable in the accompanying consolidated balance sheets. Accounts payable and commissions payable includes outstanding payments which had not yet been presented to the bank for payment in the amounts of $7,344,905 and $3,137,103 as of December 31, 2015 and June 30, 2015, respectively.

e) Concentrations

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally-insured limits. The Company has not experienced any losses in such accounts.

f) Accounts Receivable

The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company evaluates the collectability of accounts receivable on a customer-by-customer basis. The Company records a reserve for bad debts against amounts due to reduce the net recognized receivable to an amount the Company believes will be reasonably collected. The reserve is a discretionary amount determined from the analysis of the aging of the accounts receivables, historical experience and knowledge of

specific customers.

The Company derives a substantial portion of its revenue through independently-owned strategic operating partner locations operating under the various Company brands. Each individual strategic operating partner is responsible for some or all of the bad debt expense related to the underlying customers being serviced by the office. To facilitate this arrangement, certain strategic operating partners are required to maintain a security deposit with the Company that is recognized as a liability in the Company's financial statements. The Company charges each individual strategic operating partner's bad debt reserve account for any accounts receivable aged beyond 90 days. However, the bad debt reserve account may carry a deficit balance when amounts charged to this reserve exceed amounts otherwise available in the bad debt reserve account. In these circumstances, deficit bad debt reserve accounts, as well as other deficit balances owed to us by our strategic operating partners, are recognized as a receivable in the Company's financial statements. Other strategic operating partners are not responsible to establish a bad debt reserve, however, they are still responsible for deficits and their strategic operating partner agreements provide that the Company may withhold all or a portion of future commission checks payable to the individual operating partner in satisfaction of any deficit balance. Currently, a number of the Company's operating partners have a deficit balance in their bad debt reserve account. The Company expects to replenish these funds through the future business operations of these operating partners. However, to the extent any of these operating partners were to cease operations or otherwise be unable to replenish these deficit accounts, the Company would be at risk of loss for any such amount.

g) Furniture and Equipment

Technology (computer software, hardware, and communications), vehicles, furniture, and equipment are stated at cost, less accumulated depreciation over the estimated useful lives of the respective assets. Depreciation is computed using three to fifteen year lives for vehicles, communication, office, furniture, and computer equipment using the straight line method of depreciation. Computer software is depreciated over a three year life using the straight line method of depreciation. For leasehold improvements, the cost is depreciated over the shorter of the lease term or useful life on a straight line basis. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in other income or expense. Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized.

h) Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of a business acquired. The Company typically performs its annual goodwill impairment test effective as of April 1 of each year, unless events or circumstances indicate impairment may have occurred before that time. The Company assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. After assessing qualitative factors, the Company determined that no further testing was necessary. If further testing was necessary, the Company would have performed a two-step impairment test for goodwill. The first step requires the Company to determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. As of December 31, 2015, management believes there are no indications of impairment.

i) Long-Lived Assets

Acquired intangibles consist of customer related intangibles, trade names and trademarks, and non-compete agreements arising from the Company's acquisitions. Customer related intangibles are amortized using the straight-line method over a period of up to 10 years, trademarks and trade names are amortized using the straight line method over 15 years, and non-compete agreements are amortized using the straight line method over the term of the underlying

agreements.

The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. As of December 31, 2015, the Company concluded it had a triggering event requiring assessment of customer related intangibles associated with the On Time Express, Inc. ("OTE") acquisition due to a loss of customers. As a result, the Company reviewed the customer related intangibles and recorded an impairment loss of $3,679,825. The impairment was measured using future discounted cash flows using Level 3 inputs in the fair value hierarchy.

j) Business Combinations

The Company accounts for business combinations using the purchase method of accounting and allocates the purchase price to the tangible and intangible assets acquired and the liabilities assumed based upon their estimated fair values at the acquisition date. The difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of income.

The fair values of intangible assets acquired are estimated using a discounted cash flow approach with Level 3 inputs. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company uses risk-adjusted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes the level and timing of cash flows appropriately reflects market participant assumptions.

The Company determines the acquisition date fair value of the contingent consideration payable based on the likelihood of paying the contingent consideration as part of the consideration transferred. The fair value is estimated using projected future operating results and the corresponding future earn-out payments that can be earned upon the achievement of specified operating objectives and financial results by our acquired companies using Level 3 inputs and the amounts are then discounted to present value. These liabilities are measured quarterly at fair value, and any change in the contingent liability is included in the consolidated statements of income.

k) Commitments

The Company has operating lease commitments for equipment rentals, office space, and warehouse space under non-cancelable operating leases expiring at various dates through May 2021. Rent expense is recognized straight line over the term of the lease. Minimum future lease payments (excluding the lease payments included in the lease termination liability) under these non-cancelable operating leases for the next five fiscal years ending June 30 and thereafter are as follows:

2016 (remaining portion)	$2,797,523
2017	4,953,643
2018	3,384,768
2019	2,640,941
2020	1,666,244
Thereafter	975,485
Total minimum lease payments	$16,418,604

Rent expense amounted to $1,402,522 and $2,878,909 for the three and six months ended December 31, 2015, respectively, and $451,662 and $975,278 for the three and six months ended December 31, 2014.

l) Lease Termination and Transition Costs

Lease termination costs consist of expenses related to future rent payments for which we no longer intend to receive any economic benefit. A liability is recorded when we cease to use leased space. Lease termination costs are calculated as the present value of lease payments, net of expected sublease income, and the loss on disposition of assets. Transition costs consist of nonrecurring personnel costs that will be eliminated in connection with the winding-down of the historical back-office of SBA and other operating locations as well as the periodic expense of retention bonuses, estimated to be $735,000, which is being expensed over the requisite service period.

The transition and lease termination liability consists of the following:

	Lease Termination Costs	Severance Costs	Non-recurring Personnel Costs	Total
Balance as of June 30, 2015	255,272	28,500	—	283,772
Lease termination and transition costs	2,107,343	834,666	1,377,639	4,319,648
Payments and other	(744,779)	(114,129)	(1,377,639)	(2,236,547)
Balance as of December 31, 2015	$ 1,617,836	$ 749,037	$ —	$ 2,366,873

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m) 401(k) Savings Plans

The Company has employee savings plans under which the Company provides matching contributions. The Company's contributions under the plans were $152,877 and $299,409 for the three and six ended December 31, 2015, respectively, and $119,576 and $223,097 for the three and six months ended December 31, 2014.

n) Income Taxes

Deferred income taxes are reported using the asset and liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company reports a liability for unrecognized tax benefits resulting from uncertain income tax positions taken or expected to be taken in an income tax return. Estimated interest and penalties, if any, are recorded as a component of interest expense or other expense, respectively.

o) Revenue Recognition and Purchased Transportation Costs

The Company is the primary obligor responsible for providing the service desired by the customer and is responsible for fulfillment, including the acceptability of the service(s) ordered or purchased by the customer. At the Company's sole discretion, it sets the prices charged to its customers, and is not required to obtain approval or consent from any other party in establishing its prices. The Company has multiple suppliers for the services it sells to its customers, and has the absolute and complete discretion and right to select the supplier that will provide the product(s) or service(s) ordered by a customer, including changing the supplier on a shipment-by-shipment basis. In most cases, the Company determines the nature, type, characteristics, and specifications of the service(s) ordered by the customer. The Company also assumes credit risk for the amount billed to the customer.

As a non-asset based carrier, the Company generally does not own transportation assets. The Company generates the major portion of its freight forwarding revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. Based upon the terms in the contract of carriage, revenues related to shipments where the Company issues a House Airway Bill or a House Ocean Bill of Lading are recognized at the time the freight is tendered to the direct carrier at origin net of duties and taxes. Costs related to the shipments are also recognized at this same time based upon anticipated margins, contractual arrangements with direct carriers, and other known factors. The estimates are routinely monitored and compared to actual invoiced costs. The estimates are adjusted as deemed necessary by the Company to reflect differences between the original accruals and actual costs of purchased transportation.

This method generally results in recognition of revenues and purchased transportation costs earlier than the preferred methods under GAAP which does not recognize revenue until a proof of delivery is received or which recognizes revenue as progress on the transit is made. The Company's method of revenue and cost recognition does not result in a material difference from amounts that would be reported under such other methods.

All other revenue, including revenue from other value-added services including brokerage services, warehousing and fulfillment services, is recognized upon completion of the service.

p) Share-Based Compensation

The Company has issued restricted stock awards and stock options to certain directors, officers and employees. The Company accounts for share-based compensation under the fair value recognition provisions such that compensation cost is measured at the grant date based on the value of the award and is expensed ratably over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the percentage of awards that will be forfeited, stock volatility, the expected life of the award, and other inputs. If actual forfeitures differ significantly from the estimates, share-based compensation expense and the Company's results of operations could be materially impacted. The Company issues new shares of common stock to satisfy exercises and vesting of awards granted under our stock plan.

The Company recorded share-based compensation expense of $368,097 and $758,196 for the three and six months ended December 31, 2015, respectively, and $246,839 and $451,568 for the three and six months ended December 31, 2014.

q) Basic and Diluted Income Per Share

Basic income per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares, such as stock awards and stock options, had been issued and if the additional common shares were dilutive. Net income attributable to common stockholders is calculated after earned preferred stock dividends, whether or not declared.

For the three months ended December 31, 2015, the weighted average outstanding number of potentially dilutive common shares totaled 48,732,762 shares of common stock. Unvested restricted stock awards and options to purchase 4,519,086 shares of common stock were excluded from the diluted income per share for the three months ended December 31, 2015 as there was a net loss in the period and their effect would have been antidilutive. For the three months ended December 31, 2014, the weighted average outstanding number of potentially dilutive common shares totaled 36,184,653 shares of common stock, including unvested restricted stock awards and options to purchase 5,356,821 shares of common stock as of December 31, 2014, of which 946,536 were excluded as their effect would have been antidilutive.

For the six months ended December 31, 2015, the weighted average outstanding number of potentially dilutive common shares totaled 48,054,100 shares of common stock. Unvested restricted stock awards and options to purchase 4,519,086 shares of common stock were excluded from the diluted income per share for the six months ended December 31, 2015, as there was a net loss in the period and their effect would have been antidilutive. For the six months ended December 31, 2014, the weighted average outstanding number of potentially dilutive common shares totaled 36,005,995 shares of common stock, including unvested restricted stock awards and options to purchase 5,356,821 shares of common stock as of December 31, 2014, of which 980,627 were excluded as their effect would have been antidilutive.

The following table reconciles the numerator and denominator of the basic and diluted per share computations for earnings per share as follows:

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
Weighted average basic shares outstanding	48,732,762	34,627,645	48,054,100	34,488,616
Dilutive effect of share-based awards	—	1,557,008	—	1,517,379
Weighted average dilutive shares outstanding	48,732,762	36,184,653	48,054,100	36,005,995

r) Foreign Currency Translation

For the Company’s significant foreign subsidiaries that prepare financial statements in currencies other than U.S. dollars, the local currency is the functional currency. All assets and liabilities are translated at period-end exchange

rates and all income statement amounts are translated at the weighted average rates for the period. Translation adjustments are recorded in accumulated other comprehensive (loss) income. Gains and losses on transactions of monetary items are recognized in the consolidated statements of operations.

s) Reclassifications

Certain amounts for prior periods have been reclassified in the Company's consolidated financial statements to conform to the classification used in fiscal year 2016.

t) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. The guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact, if any, that the adoption of this guidance will have on the Company's consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Imputation of Interest, requiring entities to present debt issuance costs related to a debt liability as a reduction of the carrying amount of that liability. In August 2015, the FASB issued ASU 2015-15 to provide additional guidance related to debt issuance costs related to line-of-credit arrangements. The guidance is effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact, if any, that the adoption of this guidance will have on the Company's consolidated financial statements and related disclosures.

NOTE 3 – BUSINESS ACQUISITIONS

Fiscal Year 2016 Acquisition

Copper Logistics, Incorporated

On November 20, 2015, the Company acquired the operations and assets of Copper Logistics, Incorporated (“Copper”), a Minneapolis, Minnesota based company that provides a full range of domestic and international transportation and logistics services across North America. The Company has structured the transaction similar to previous acquisitions, with a portion of the expected purchase price payable in subsequent periods based on future performance of the acquired operation.

Fiscal Year 2015 Acquisitions

Wheels Group, Inc.

On April 2, 2015, the Company acquired the outstanding stock of Wheels Group Inc. (“Wheels”). Under an Arrangement Agreement (the “Arrangement”), the Company purchased Wheels for approximately $26.9 million in cash and 6,900,000 shares of common stock. The Company was also responsible for a portion of Wheels’ transaction costs, in addition to its own costs. Wheels, founded in 1988, provides truck brokerage and intermodal services throughout the United States and Canada along with value added warehouse and distribution service offerings in support of U.S. shippers looking to access the Canadian markets. Wheels is one of the largest third party logistics providers in Canada. Wheels, now formally amalgamated into Wheels International, Inc., provides these services primarily to the food and beverage, consumer packaged goods, frozen foods and refrigerated product, and building products industries. The goodwill recognized is attributable to a larger geographic footprint and an increased service line expansion and is not deductible for tax purposes. The results of operations for Wheels are included in the Company’s financial statements as of the date of purchase.

Service by Air, Inc.

On June 8, 2015, the Company acquired the outstanding stock of Service by Air, Inc. (“SBA”), a privately-held New York corporation founded in 1976. SBA is a domestic and international freight forwarder serving manufacturers, distributors and retailers through a combination of three company-owned operating locations and forty independent operating partners across North America. The base purchase price was approximately $12.25 million, consisting of $11.4 million paid in cash at closing, and $0.85 million payable net of working capital and other holdbacks. The goodwill recognized is attributable primarily to the expected cost synergies associated with eliminating redundancies and migrating back-office operations of SBA to the Company and is not deductible for tax purposes. The results of operations for SBA are included in the Company’s financial statements as of the date of purchase.

Other acquisitions

On September 1, 2014, through a wholly-owned subsidiary, the Company acquired the assets and operations of Trans-Net, Inc. (“TNI”), a privately-held company based in Issaquah, Washington. TNI has extensive experience providing integrated project logistics solutions in key Russian oil, gas, mining and infrastructure development markets. On December 15, 2014, through a wholly-owned subsidiary, the Company acquired the assets and operations of Don Cameron & Associates, Inc. (“DCA”), a privately-held company based in Minneapolis, Minnesota. DCA has extensive experience providing a full range of domestic and international transportation and logistics services across North America to the med-tech, advertising/marketing, pharmaceutical, and trade show industries. Effective as of June 1, 2015, through a wholly-owned subsidiary, the company acquired the stock of Highways and Skyways, Inc.

(“Highways”), a privately-held company based near Cincinnati, Ohio. Highways services a full range of domestic and international transportation and logistics services to manufacturing, apparel, paper products, medical devices, consumer products and technology industries. Each of the TNI, DCA and Highways acquisitions include earn-out payments that are payable upon achieving certain earnings up to a maximum contingent consideration of $6.5 million, although there are no maximums on certain of the earn-out payments.

Each of the TNI, DCA, Highways, and Copper acquisitions were financed with proceeds from the Company’s Credit Facility (as defined in Note 6), and the transactions were structured using cash, stock, and earn-out payments. The goodwill recorded is expected to be deductible for income tax purposes over a period of 15 years. The consideration paid, purchase price, and pro forma results of operations have not been presented because the effect of these acquisitions was not material to the condensed consolidated financial statements.

The results of operations for the businesses acquired are included in our financial statements as of the date of purchase. The preliminary fair value estimates for the assets acquired and liabilities assumed are based upon preliminary calculations and valuations and our estimates and assumptions are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the acquisition date). The primary areas of the preliminary estimates for Wheels, SBA, Highways and Copper not yet finalized relates to certain tangible assets and liabilities acquired, and identifiable intangible assets.

NOTE 4 – FURNITURE AND EQUIPMENT

	December 31, 2015	June 30, 2015
Vehicles	$5,030,898	$5,384,161
Communication equipment	179,817	111,790
Office and warehouse equipment	490,532	471,915
Furniture and fixtures	598,126	585,820
Computer equipment	1,613,426	1,364,648
Computer Software	8,807,964	7,209,965
Leasehold improvements	1,498,551	1,324,437
	18,219,314	16,452,736
Less: Accumulated depreciation and amortization	(4,906,620)	(3,276,846)
	$13,312,694	$13,175,890

Depreciation and amortization expense related to furniture and equipment was $901,025 and $1,811,473 for the three and six months ended December 31, 2015, respectively, and $139,451 and $267,049 for the three and six months ended December 31, 2014, respectively.

NOTE 5 – ACQUIRED INTANGIBLE ASSETS

The table below reflects acquired intangible assets related to all acquisitions:

	December 31, 2015	June 30, 2015	Weighted-Average Life
Customer related	$85,823,815	$88,287,640	8.6 years
Trade names and trademarks	14,069,000	14,069,000	14.3 years
Covenants not to compete	740,000	730,000	2.1 years
	100,632,815	103,086,640	
Less: Accumulated amortization	(24,544,338)	(20,131,958)	
	$76,088,477	$82,954,682	

Amortization expense amounted to $2,217,829 and $4,412,380 for the three and six months ended December 31, 2015, respectively, and $960,262 and $2,111,745 for the three and six months ended December 31, 2014, respectively.

Future amortization expense for the fiscal years ending June 30 are as follows:

2016 (remaining portion)	$4,147,962
2017	8,266,924
2018	8,232,257
2019	8,200,924
2020	8,088,741
Thereafter	39,151,669
	$76,088,477

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NOTE 6 – NOTES PAYABLE AND OTHER LONG TERM DEBT

Notes payable and other long-term debt consist of the following:

	December 31, 2015	June 30, 2015
Long-term Credit Facility	$3,001,570	$37,707,686
Senior Secured Loan	20,962,940	23,218,575
Subordinated Secured Loan	25,000,000	25,000,000
Other notes payable	424,461	509,340
Total notes payable and other long-term debt	49,388,971	86,435,601
Less: Current portion	(1,537,628)	(543,086)
Total notes payable, net of current portion	$47,851,343	$85,892,515

Future maturities of notes payable and other long-term debt for the years ending June 30 are as follows:

2016 (remaining portion)	$422,478
2017	2,266,155
2018	2,364,441
2019	5,372,711
2020	2,533,717
Thereafter	36,429,469
	$49,388,971

Bank of America Credit Facility

The Company has a $65.0 million senior credit facility (the “Credit Facility”) with Bank of America, N.A. (the “Lender”) on its own behalf and as agent to the other lenders named therein, currently consisting of the Bank of Montreal (as the initial member of the syndicate under such loan), pursuant to an Amended and Restated Loan and Security Agreement. The Credit Facility includes a $2.0 million sublimit to support letters of credit and matures August 9, 2018.

Borrowings accrue interest based on the Company’s fixed charge coverage ratio at the Lender’s base rate plus 0.0% to 0.50% or LIBOR plus 1.50% to 2.25%. The Credit Facility provides for advances of up to 85% of the eligible Canadian and domestic accounts receivable, 75% of eligible accrued but unbilled domestic receivables and eligible foreign accounts receivable, all of which are subject to certain sub-limits, reserves and reductions. The Credit Facility is collateralized by a first-priority security interest in all of the assets of the U.S. co-borrowers, a first-priority security interest in all of the accounts receivable and associated assets of the Canadian co-borrowers (the “Canadian A/R Assets”) and a second-priority security interest on the other assets of the Canadian borrowers.

Borrowings are available to fund future acquisitions, capital expenditures, repurchase of Company stock or for other corporate purposes. The terms of the Credit Facility are subject to customary financial and operational covenants, including covenants that may limit or restrict the ability to, among other things, borrow under the Credit facility, incur indebtedness from other lenders, and make acquisitions. As of December 31, 2015, the Company was in compliance with all of its covenants.

As of December 31, 2015, based on available collateral and $286,800 in outstanding letter of credit commitments, there was $46,917,000 available for borrowing under the Credit Facility and excluding any availability attributable to accounts receivable of SBA.

Senior Secured Loan

In connection with the Company's acquisition of Wheels, Wheels obtained a CAD$29.0 million senior secured Canadian term loan from Integrated Private Debt Fund IV LP ("IPD") pursuant to a CAD$29,000,000 Credit Facilities Loan Agreement (the "IPD Loan Agreement"). The Company and its U.S. and Canadian subsidiaries are guarantors of the Wheels obligations thereunder. The loan matures on April 1, 2024 and accrues interest at a rate of 6.65% per annum. The Company is required to maintain 5 months interest in a debt service reserve account to be controlled by IPD. This amount is recorded as deposits and other assets in the accompanying condensed consolidated financial statements. The loan repayment consists of interest-only payments for the first 12 months followed by blended principal and interest payments for the next eight years. The loan may be prepaid in whole at any time upon providing at least 30 days prior written notice and paying the difference between (i) the present value of the loan interest and the principal payments foregone discounted at the Government of Canada Bond Yield for the term from the date of prepayment to April 1, 2024, and (ii) the face value of the principal amount being prepaid. As of December 31, 2015, the Company was in compliance with all of its covenants.

The loan is collateralized by a (i) first-priority security interest in all of the assets of Wheels except the Canadian A/R Assets, (ii) a second-priority security interest in the Canadian A/R Assets, and (iii) a second-priority security interest on all of the Company's assets.

Subordinated Secured Loan

In connection the Company's acquisition of Wheels, the Company obtained a $25.0 million subordinated secured term loan from Alcentra Capital Corporation ($10.0 million) and Triangle Capital Corporation ($15.0 million) (collectively, the "Subordinated Lenders") pursuant to a Loan and Security Agreement (the "Alcentra/Triangle Subordinated Loan Agreement"). The loan matures on April 2, 2021 and accrues interest at a rate of 12% per annum during the first six months of the loan and then at a variable rate, ranging from LIBOR plus 950 basis points to LIBOR plus 1025 basis points (all with a 100 basis points LIBOR floor), depending on the Company's total leverage ratio. Prior to April 2, 2016, the loan may not be prepaid. After this, prior to April 2, 2017, the loan may be prepaid by paying a prepayment premium equal to 3% of the amount prepaid. After April 2, 2017, the loan may be prepaid, in whole or in part, without penalty. The Company may be required to prepay, at the Subordinated Lenders' option, the entire amount of the loan (including applicable prepayment premiums) upon the occurrence of certain events, such as an event of default, a change in control, or the completion of a "going private" transaction. As of December 31, 2015, the Company was in compliance with all of its covenants.

The loan is collateralized by a third-priority security interest in all of the Company's U.S. based assets. The loan is subordinate to the Senior Credit Facility and the loan from IPD, and is senior to all other indebtedness.

NOTE 7 – STOCKHOLDERS' EQUITY

The Company is authorized to issue 5,000,000 shares of preferred stock, par value at $0.001 per share and 100,000,000 shares of common stock, $0.001 per share.

Series A Preferred Stock

The Company has 839,200 outstanding shares of 9.75% Series A Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Shares") liquidation preference $25 per share. Dividends on the Series A Preferred Shares are cumulative from the date of original issue and are payable on January 31, April 30, July 31 and October 31, as and if declared by the Company's Board of Directors. If the Company does not pay dividends in full on any two payment dates (whether consecutive or not), the per annum dividend rate will increase an additional 2.0% per annum per $25.00 stated liquidation preference, up to a maximum of 19.0% per annum. If the Company fails to maintain the listing of the Series A Preferred Shares on the NYSE MKT or other exchange for 30 days or more, the per annum dividend rate will increase by an additional 2.0% per annum so long as the listing failure continues. The Series A Preferred Shares require the Company to maintain a Fixed Charge Coverage Ratio of at least 2.0. If the Company is not in compliance with this ratio, then it cannot pay any dividend on its common stock. As of December 31, 2015, the Company was in compliance with this ratio.

Commencing on December 20, 2018, the Company may redeem, at its option, the Series A Preferred Shares, in whole or in part, at a cash redemption price of $25.00 per share plus accrued and unpaid dividends (whether or not declared). Among other things, the Series A Preferred Shares have no stated maturity, are not subject to any sinking fund or other mandatory redemption, and are not convertible into or exchangeable for any of the Company's other securities. Holders of Series A Preferred Shares generally have no voting rights, except if the Company fails to pay dividends on the Series A Preferred Shares for six or more quarterly periods (whether consecutive or not). Under such circumstances, holders of Series A Preferred Shares will be entitled to vote to elect two additional directors to the Company's Board of Directors, until all unpaid dividends have been paid or declared and set aside for payment. In addition, certain changes to the terms of the Series A Preferred Shares cannot be made without the affirmative vote of the holders of two-thirds of the outstanding Series A Preferred Shares, voting as a separate class. The Series A Preferred Shares are senior to the Company's common stock with respect to dividends and distributions, including distributions upon liquidation, dissolution or winding up. The Series A Preferred Shares are listed on the NYSE MKT under the symbol "RLGT-PA."

For the six months ended December 31, 2015, the Company's board of directors declared and paid a cash dividend to holders of Series A Preferred Shares in the amount of $1.218750 per share, totaling $1,022,775.

Common Stock

On July 16, 2015, the Company closed a registered underwritten public offering of 6,133,334 shares of common stock, including the full exercise of the underwriters' overallotment option. Proceeds from the offering totaled $38,430,194 after deducting the underwriting discount of $2,484,000 and offering costs of $485,810. The proceeds were used to reduce the borrowings under the Credit Facility.

NOTE 8 – VARIABLE INTEREST ENTITY AND RELATED PARTY TRANSACTIONS

RLP is owned 40% by RGL and 60% by RCP, a company for which the Chief Executive Officer of the Company is the sole member. RLP is a certified minority business enterprise that was formed for the purpose of providing the Company with a national accounts strategy to pursue corporate and government accounts with diversity initiatives. RCP's ownership interest entitles it to a majority of the profits and distributable cash, if any, generated by RLP. The operations of RLP are intended to provide certain benefits to the Company, including expanding the scope of services offered by the Company and participating in supplier diversity programs not otherwise available to the Company. In the course of evaluating and approving the ownership structure, operations and economics emanating from RLP, a committee consisting of the independent Board member of the Company, considered, among other factors, the significant benefits provided to the Company through association with a minority business enterprise, particularly as many of the Company's largest current and potential customers have a need for diversity offerings. In addition, the Committee concluded that the economic relationship with RLP was on terms no less favorable to the Company than terms generally available from unaffiliated third parties.

Certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have the sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties are considered "variable interest entities". RLP qualifies as a variable interest entity and is included in the Company's condensed consolidated financial statements.

RLP recorded $31,166 and $56,356 in profits, of which RCP's distributable share was $18,699 and $33,813, for the three and six months ended December 31, 2015, respectively. RLP recorded $35,925 and $72,654 in profits, of which RCP's distributable share was $21,555 and $43,592, for the three and six months ended December 31, 2014. The non-controlling interest recorded as a reduction of income on the condensed consolidated statements of operations represents RCP's distributive share.

NOTE 9 – FAIR VALUE MEASUREMENTS

The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis:

	Fair Value Measurements as of December 31, 2015	
	Level 3	Total
Contingent consideration	$6,755,000	$6,755,000

	Fair Value Measurements as of June 30, 2015	
	Level 3	Total
Contingent consideration	$7,613,000	$7,613,000

The Company has contingent obligations to transfer cash payments and equity shares to former shareholders of acquired operations in conjunction with certain acquisitions if specified operating results and financial objectives are met over the next four fiscal years. Contingent consideration is measured quarterly at fair value, and any change in the contingent liability is included in the condensed consolidated statements of operations. The Company recorded an increase to contingent consideration of $598,233 and $186,233 for the three and six months ended December 31, 2015, respectively, and a decrease to contingent consideration of $170,796 and $720,796 for the three and six months ended December 31, 2014, respectively. The change in the current period is principally attributable to a reduction in management's estimates of future pay-outs for OTE, offset by an increase in management's estimated future pay-out for DCA.

The Company uses projected future financial results based on recent and historical data to value the anticipated future earn-out payments. To calculate fair value, the future earn-out payments were then discounted using Level 3 inputs. The Company has classified the contingent consideration as Level 3 due to the lack of relevant observable market data over fair value inputs. The Company believes the discount rate used to discount the earn-out payments reflects market participant assumptions. Changes in assumptions and operating results could have a significant impact on the earn-out amount, up to a maximum of $20,510,000 through earn-out periods measured through November 2019, although there are no maximums on certain earn-out payments. Contingent consideration is net of advances on earn-out payments of $0.8 million.

The following table provides a reconciliation of the beginning and ending liabilities for the liabilities measured at fair value using significant unobservable inputs (Level 3):

	Contingent Consideration
Balance as of June 30, 2015	$ 7,613,000
Increase related to accounting for acquisition	425,000
Contingent consideration paid	(1,469,233)
Change in fair value	186,233
Balance as of December 31, 2015	$ 6,755,000

NOTE 10 – PROVISION FOR INCOME TAXES

Three months ended December 31, 2015	2014	Six months ended December 31,