

MESA AIR GROUP INC  
Form 10-Q  
May 15, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period-ended March 31, 2003**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 0-15495**

**Mesa Air Group, Inc.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(State or other jurisdiction of  
incorporation or organization)*

**85-0302351**

*(I.R.S. Employer Identification No.)*

**410 North 44th Street, Suite 700, Phoenix, Arizona**

*(Address of principal executive offices)*

**85008**

*(Zip code)*

**Registrant's telephone number, including area code:**

**(602) 685-4000**

Indicate by checkmark 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 last 90 days. Yes  No

On May 8, 2003 the registrant had outstanding 31,454,272 shares of Common Stock.

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## PART 1. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MESA AIR GROUP, INC

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	March 31, 2003	March 31, 2002	March 31, 2003	March 31, 2002
<b>Operating revenues:</b>				
Passenger	\$ 131,654	\$ 116,063	\$ 259,332	\$ 223,824
Freight and other	5,658	3,512	11,074	6,985
<b>Total operating revenues</b>	<b>137,312</b>	<b>119,575</b>	<b>270,406</b>	<b>230,809</b>
<b>Operating expenses:</b>				
Flight operations	76,071	62,496	151,301	121,520
Maintenance	25,687	19,452	56,668	41,447
Aircraft and traffic servicing	13,461	11,228	26,773	21,607
Promotion and sales	1,647	3,189	4,048	6,436
General and administrative	9,530	11,834	18,203	21,016
Depreciation and amortization	2,619	2,658	5,228	5,347
Impairment and restructuring charges (credits)	(10,957)		(10,597)	
<b>Total operating expenses</b>	<b>118,058</b>	<b>110,857</b>	<b>251,264</b>	<b>217,373</b>
<b>Operating income</b>	<b>19,254</b>	<b>8,718</b>	<b>19,142</b>	<b>13,436</b>
<b>Other income (expense):</b>				
Interest expense	(1,144)	(2,641)	(2,417)	(4,784)
Interest income	258	525	519	730
Other income	1,170	2,697	1,381	7,441
<b>Total other income (expense)</b>	<b>284</b>	<b>581</b>	<b>(517)</b>	<b>3,387</b>
<b>Income before income taxes and minority interest</b>	<b>19,538</b>	<b>9,299</b>	<b>18,625</b>	<b>16,823</b>
<b>Income taxes</b>	<b>7,483</b>	<b>3,673</b>	<b>7,133</b>	<b>6,645</b>
<b>Income before minority interest</b>	<b>12,055</b>	<b>5,626</b>	<b>11,492</b>	<b>10,178</b>
Minority interest	(9)	(441)	(6)	(1,327)
<b>Net income</b>	<b>\$ 12,046</b>	<b>\$ 5,185</b>	<b>\$ 11,486</b>	<b>\$ 8,851</b>
<b>Income per common share:</b>				

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Basic	\$ 0.38	\$ 0.16	\$ 0.36	\$ 0.27
Diluted	\$ 0.38	\$ 0.15	\$ 0.36	\$ 0.26

See accompanying notes to consolidated financial statements.

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## MESA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS  
(in thousands except share amounts)

	March 31, 2003 (Unaudited)	September 30, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 30,136	\$ 45,870
Marketable securities	5,231	8,517
Receivables, primarily traffic, net	38,525	29,072
Expendable parts and supplies	22,242	21,238
Aircraft and parts held for sale	20,027	24,546
Prepaid expenses and other current assets	32,851	25,730
Deferred income taxes	11,388	16,228
	<hr/>	<hr/>
Total current assets	160,400	171,201
Property and equipment, net	134,284	127,450
Lease and equipment deposits	23,349	15,538
Deferred income taxes	26,998	29,287
Other assets	8,045	8,867
	<hr/>	<hr/>
Total assets	\$353,076	\$352,343
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 14,376	\$ 19,036
Accounts payable	33,201	24,434
Air traffic liability	3,683	3,362
Accrued compensation	5,726	5,950
Income taxes payable		510
Other accrued expenses	34,627	43,893
	<hr/>	<hr/>
Total current liabilities	91,613	97,185
Long-term debt, excluding current portion	101,886	109,721
Deferred credits	57,421	52,549
Other noncurrent liabilities	3,045	2,821
	<hr/>	<hr/>
Total liabilities	253,965	262,276
Minority interest	439	967
	<hr/>	<hr/>
Stockholders' equity:		
Common stock, no par value, 75,000,000 shares authorized; 31,585,938 and 31,989,886 shares issued and outstanding, respectively	112,724	114,670
Accumulated other comprehensive income	32	
Accumulated deficit	(14,084)	(25,570)
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Total stockholders' equity	98,672	89,100

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Total liabilities, minority interest and stockholders equity	\$353,076	\$352,343
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See accompanying notes to consolidated financial statements.



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## MESA AIR GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

## Six Months Ended

	March 31, 2003	March 31, 2002
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 11,486	\$ 8,851
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	5,228	5,347
Impairment and restructuring charges (credits)	(10,957)	
Deferred income taxes	7,129	6,079
Gain on involuntary conversion of aircraft	(1,283)	
Unrealized (gain) loss on investment securities	709	(3,471)
Amortization of deferred credits	(3,119)	(2,368)
Provision for obsolete expendable parts and supplies	600	
Provision for doubtful accounts		1,000
Minority interest	6	1,327
Changes in assets and liabilities:		
Receivables	(9,453)	6,449
Expendable parts and supplies	(1,604)	2,291
Prepaid expenses and other current assets	(7,069)	(13,291)
Accounts payable	8,844	(10,231)
Income taxes	(530)	
Cost to return aircraft held for sale	(1,800)	(2,161)
Other accrued liabilities	2,601	4,749
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>788</b>	<b>4,571</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(13,651)	(6,022)
Proceeds from sale of assets held for sale	1,680	633
Proceeds from aircraft insurance	3,218	
Net (purchases) sales of investment securities	2,577	(16,830)
Change in other assets	822	(808)
Lease and equipment deposits	(8,174)	7,392
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(13,528)</b>	<b>(15,635)</b>
<b>Cash Flows from Financing Activities:</b>		
Principal payments on long-term debt	(9,656)	(2,533)
Net borrowings on line of credit		(20,000)
Proceeds from issuance of common stock	280	527
Common stock purchased and retired	(2,226)	
Change in deferred credits	9,217	6,846
Contribution from minority interest		5,000
Distribution to minority interest shareholders	(609)	
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(2,994)</b>	<b>(10,160)</b>

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NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,734)	(21,224)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	45,870	74,504
	<u>          </u>	<u>          </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 30,136	\$ 53,280
	<u>          </u>	<u>          </u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	\$ 2,412	\$ 6,644
Cash paid for income taxes, net	535	440
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Return of aircraft for reduction of long-term debt and accrued interest	\$ 2,839	\$

See accompanying notes to consolidated financial statements.

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**MESA AIR GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Business and Basis of Presentation**

The accompanying unaudited, consolidated financial statements of Mesa Air Group, Inc. ( Mesa or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the unaudited three and six-month periods have been made. Operating results for the three and six-month periods ended March 31, 2003, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2003. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2002.

The consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly owned operating subsidiaries: Mesa Airlines, Inc. ( Mesa ), Freedom Airlines, Inc. ( Freedom ), Air Midwest, Inc. ( Air Midwest ), CCAir, Inc. ( CCAir ), MPD, Inc. d/b/a Mesa Pilot Development ( MPD ), Regional Aircraft Services, Inc. ( RAS ), MAGI Insurance, Ltd. ( MAGI ), Mesa Air Group Aircraft Inventory Management, LLC ( MAG-AIM ) as well as the accounts of UFLY, LLC ( UFLY ), a 52% owned subsidiary of which the Company is able to exercise significant influence. CCAir ceased operations on November 4, 2002. All significant intercompany balances and transactions have been eliminated in consolidation.

**2. Air Transportation Safety and System Stabilization Act**

In September 2001, the Company recorded as non-operating income \$14.7 million associated with amounts claimed under the Air Transportation Safety and System Stabilization Act (the Act ). As of March 31, 2003, the Company has received \$12.4 million and the remaining \$2.3 million is included in accounts receivable. Amounts paid or payable under the Act are subject to audit and adjustment by the Federal Government. Amounts in accounts receivable at March 31, 2003, remain outstanding as the Company has not finalized its claim with the Department of Transportation. There can be no assurance that the claim will be finalized in the Company's favor or that as a result of the Government's audit, some or all of the \$12.4 million previously received will not have to be repaid.

**3. Minority Interest**

In 2001, the Company entered into an agreement to form UFLY, for the purpose of making strategic investments in US Airways, Inc. In 2002, UFLY was formally established and was capitalized with \$10.0 million. The Company currently owns 52% of UFLY. The Company's Chairman and CEO is a minority shareholder/owner and the managing member of UFLY. He receives no additional remuneration or compensation in connection with his role as the managing member of UFLY. Amounts included in the consolidated statements of income as minority interest reflect the after-tax portion of earnings of UFLY that are applicable to the minority interest partners. During fiscal 2002, UFLY's investments lost \$1.9 million. For the six months ended March 31, 2002, UFLY had investment gains of \$4.4 million. Investment gains in fiscal 2003 were de minimis. UFLY currently has less than \$0.1 million in investment assets.

**4. Segment Reporting**

Statement of Financial Accounting Standard ( SFAS ) No. 131, Disclosures about Segments of an Enterprise and Related Information, requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has four airline operating subsidiaries, Mesa Airlines, Freedom Airlines, Air Midwest and CCAir and various other subsidiaries organized to provide support for the Company's airline operations. The Company has aggregated these operating segments into four reportable segments. Mesa and Freedom primarily operate the Company's regional jets. Air Midwest operates the Company's Beech 1900 turboprop aircraft. CCAir, which ceased operations on November 4, 2002, operated a mixed fleet of turboprop aircraft. The Other reportable segment includes Mesa Air Group, RAS, MPD, MAG-AIM, MAGI and UFLY, all of which support Mesa's operating subsidiaries.

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Mesa and Freedom provide passenger service with regional jets under revenue-guarantee contracts with America West, US Airways and Frontier Airlines. Mesa Airlines also provides passenger service with Dash-8 aircraft under a revenue-guarantee contract with America West and under a pro-rate contract with US Airways. On March 1, 2003, Mesa Airlines amended its contract with Frontier to perform flying under a revenue-guarantee agreement through August 31, 2003. Mesa and Freedom provide service to 103 destinations throughout the United States, Canada and Mexico. As of March 31, 2003, Mesa and Freedom operated a fleet of 86 aircraft 42 CRJs, 32 ERJs and 12 Dash-8 s.

Air Midwest provides passenger service with Beechcraft 1900D aircraft under the revenue-guarantee contract with America West and under pro-rate contracts with US Airways and Midwest Airlines. Air Midwest provides service to 68 destinations in the United States. As of March 31, 2003, Air Midwest operated a fleet of 42 Beechcraft 1900D turboprop aircraft.

CCAir provided passenger service with Dash-8 and Jetstream 31 turboprop aircraft under pro-rate revenue contracts with US Airways. CCAir discontinued its use of Jetstream aircraft in February 2002, and discontinued its use of Dash-8 aircraft in November 2002, when it ceased operations.

The Other category consists of Mesa Air Group (holding company), MPD, MAG-AIM, RAS, MAGI and UFLY. Mesa Air Group performs all administrative functions not directly attributable to any specific operating company. These administrative costs are allocated to the operating companies based upon specific criteria including headcount, ASM s and other operating statistics. MPD operates pilot training programs in conjunction with San Juan College in Farmington, New Mexico and Arizona State University in Tempe, Arizona. Graduates of these training programs are eligible to be hired by the Company s operating subsidiaries. MAG-AIM, which was formed in the second quarter of fiscal 2003, primarily provides inventory management services for the Company s operating subsidiaries, hence its revenues are primarily derived from intercompany sales. These intercompany sales are eliminated in consolidation. RAS primarily provides repair services to the Company s operating subsidiaries. MAGI is a captive insurance company located in Barbados. UFLY was established for the purpose of making strategic investments in other airline s common stock.

<b>Three Months Ended March 31, 2003 (000's)</b>	<b>Mesa/ Freedom</b>	<b>Air Midwest</b>	<b>CCAir</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Total operating revenues	\$ 116,427	\$ 19,574	\$	\$ 34,648	\$ (33,337)	\$ 137,312
Depreciation and amortization	1,189	807		623		2,619
Impairment and restructuring charges (credits)	1,050		(12,007)			(10,957)
Operating income (loss)	6,732	(2,523)	12,441	13,552		