GULFSTREAM INTERNATIONAL GROUP INC
Form 10-Q
May 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _________ to _________

Commission file number 001-33884

GULFSTREAM INTERNATIONAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-3973956 (IRS Employee Identification No.)

3201 Griffin Road, 4th Floor, Fort Lauderdale, Florida 33312
(Address of principal executive offices)

(954) 985-1500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) 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 the filing requirements for the past 90 days. Yes x No o

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 o No x

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ

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

Number of outstanding shares of the registrant's par value $0.01 common stock, as of May 15, 2010: 3,795,061.

Gulfstream International Group, Inc.
Quarterly Report on Form 10-Q

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Exhibit 32.1	Certification of Chief Executive Officer
Exhibit 32.2	Certification of Chief Financial Officer

Cautionary Statement Concerning Forward-Looking Statements

Our representatives and we may from time to time make written or oral statements that are "forward-looking," including statements contained in this Quarterly Report on Form 10-Q and other filings with the Securities and Exchange Commission, reports to our stockholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements which constitute forward-looking statements may be made by us or on our behalf. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "may," "should," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. These risks may relate to, without limitation:

- our business strategy;
- our value proposition;
- the market opportunity for our services, including expected demand for our services;
- information regarding the replacement, deployment, acquisition and financing of certain numbers and types of aircraft, and projected expenses associated therewith;
- costs of compliance with FAA regulations, Department of Homeland Security regulations and other rules and acts of Congress;
- the ability to pass taxes, fuel costs, inflation, and various expenses to our customers;
- certain projected financial obligations;
- our estimates regarding our capital requirements;
- any of our other plans, objectives, expectations and intentions contained in this report that are not historical facts;
- changing external competitive, business, budgeting, fuel supply, weather or economic conditions;
- changes in our relationships with employees or code share partners;
- availability and cost of funds for financing new aircraft and our ability to profitably manage our existing fleet;
- adverse reaction and publicity that might result from any accidents;
- the impact of current or future laws and government investigations and regulations affecting the airline industry and our operations;
- additional terrorist attacks; and
- consumer unwillingness to incur greater costs for flights.

Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the factors described herein and in other documents we file from time to time with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, and any Current Reports on Form 8-K filed by us.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

Assets	As of December 31, 2009	March 31, 2010
Current Assets		
Cash and cash equivalents	$2,260	$1,860
Accounts receivable, net	3,426	4,301
Expendable parts and fuel	1,210	1,211
Prepaid expenses	1,135	987
Total Current Assets	8,031	8,359
Property and Equipment		
Flight equipment	3,809	3,830
Other property and equipment	1,546	1,542
Less accumulated depreciation	(2,658)	(2,840)
Total Property and Equipment	2,697	2,532
Intangible assets, net	2,837	2,772
Other assets	1,213	1,032
Total Assets	$14,778	$14,695
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	$12,694	$11,932
Accounts payable - restructured, current portion	2,606	2,575
Notes Payable	3,864	5,644
Engine return liability, current portion	1,168	1,194
Warrant Liability	-	2,217
Air traffic liability	1,391	981
Deferred tuition revenue	929	784
Total Current Liabilities	22,652	25,327
Long Term Liabilities		
Accounts payable, restructured, net of current portion	426	282
Warrant liability	2,639	309
Total Liabilities	25,717	25,918
Stockholders' Equity (Deficit)		
Preferred Stock	-	534
Common stock	36	37
Additional paid-in capital	14,236	14,820
Common stock warrants	61	61

Accumulated deficit	(25,272)	(26,675)
Total Stockholders' Equity (Deficit)	(10,939)	(11,223)
Total Liabilities & Stockholders' Equity (Deficit)	$14,778	$14,695

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

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except EPS)
(Unaudited)

	Three Months Ended March, 2009	Three Months Ended March, 2010
Operating Revenues		
Passenger revenue	$17,532	$14,731
Academy, charter and other revenue	6,044	7,323
Total Operating Revenues	23,576	22,054
Operating Expenses		
Flight operations	3,065	3,920
Aircraft fuel	3,461	3,876
Maintenance	5,470	4,807
Passenger and traffic service	4,827	5,688
Aircraft rent	1,646	1,447
Promotion and sales	1,303	1,129
General and administrative	1,697	1,848
Depreciation and amortization	287	307
Total Operating Expenses	21,756	23,022
Operating profit (loss)	1,820	(968)
Non-operating (expense) income		
Interest expense	(584)	(568)
Interest income	7	-
Gain on modification of debt	0	194
Other (expense) income	(65)	(61)
Total non-operating (expense) income	(642)	(435)
Profit (loss) before income tax provision (benefit)	1,178	(1,403)
Income tax provision (benefit)	448	-
Net profit (loss)	$730	$(1,403)
Basic	$0.25	$(0.38)
Diluted	$0.19	$(0.38)
Shares used in calculating net income (loss) per share:		
Basic	2,960	3,657
Diluted	3,293	3,657

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

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2010
Cash flows from operating activities:		
Net income (loss)	$730	$(1,403)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	287	307
Amortization of deferred finance costs	339	350
Gain on the modification of senior debentures	-	(194)
Deferred income tax provision (benefit)	449	-
Changes in fair market value of derivative warrants	61	89
Stock-based compensation	47	18
Provision for bad debts	2	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(47)	(875)
Decrease (increase) in expendable parts and fuel	101	(1)
Decrease (increase) in prepaid expense	(175)	148
Decrease (increase) in other assets	-	(69)
Increase (decrease) in accounts payable & accrued exps.	(2,355)	(705)
Increase (decrease) in accounts payable - restructured	(173)	(183)
Increase (decrease) in deferred revenue	(199)	(555)
Increase (decrease) in engine return liability	(832)	26
Net cash provided by (used in) operating activities	(1,764)	(3,047)
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(188)	(79)
Disposal of equipment	-	9
Net cash provided by (used in) investing activities	(188)	(70)
Cash flows from (used in) financing activities:		
Unrealized loss on fuel hedge contracts	314	-
Proceeds from borrowings	-	1,500
Repayments of debt	(425)	-
Proceeds from issuance of common stock	-	289
Proceeds from issuance of preferred stock	-	928
Net cash provided by (used in) financing activities	(111)	2,717
Net increase (decrease) in cash and cash equivalents	(2,063)	(400)
Cash, beginning of period	3,215	2,260
Cash, end of period	$1,152	$1,860

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$128	$35
Cash paid during the period for income taxes	$-	$-

Supplemental disclosure of non-cash investing and financing activities:

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

1] Upon issuance of preferred stock, certain common stockholders (See note 7) were granted rights to convert their shares and warrants to preferred stock and warrants. As of March 31, 2010, 101,000 shares of common were converted to 142,000 preferred shares. The Warrant rights associated with the common stock issuance in January 2010 were also exchanged for the warrant rights associated with the preferred stock offering.

2] Warrants valued at $266,000 and a Note payable in the amount of $50,000 were issued in conjunction with the issuance of Senior Secured Debt during the quarter. The fair market valuation of the warrants combined with the face value of the notes were recorded as deferred finance costs and the warrants and notes payable were recorded as current liabilities.

3] Warrants valued at $138,000 were issued in conjunction with the issuance of convertible preferred and common stock during the quarter. The fair market valuation of the warrants combined with the face value of the notes were recorded as deferred finance costs and the warrants and notes payable were recorded as current liabilities.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and, therefore, reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These interim consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Gulfstream International Group, Inc. was incorporated in Delaware in December 2005 as Gulfstream Acquisition Group, Inc., and changed its name to Gulfstream International Group, Inc. in June 2007. We were formed for the purpose of acquiring Gulfstream International Airlines, Inc. ("Gulfstream"), a wholly-owned subsidiary of G-Air Holdings Corp., Inc., and Gulfstream Training Academy, Inc. ("Academy"), collectively referred to as the "Company". References to "the Company," "we," "our," and "us," refer to Gulfstream International Group, Inc. and either or both o Gulfstream or the Academy.

Gulfstream Air Charter, Inc. ("GAC"), a related company, operates charter flights between Miami and Havana. GAC is licensed by the Office of Foreign Assets Control of the U. S. Department of the Treasury as a carrier and travel service provider for charter air transportation between designated U. S. and Cuban airports. Pursuant to a services agreement between Gulfstream and GAC dated August 8, 2003 and amended on March 14, 2006, Gulfstream may provide use of its aircraft, flight crews, the Gulfstream name, insurance, and service personnel, including passenger, ground handling, security, and administrative. Gulfstream also maintains the financial records for GAC. Pursuant to the March 14, 2006 amended agreement, Gulfstream receives 75% of the operating profit generated by GAC's Cuban charter operation. Since January 1, 2008, we have consolidated the results of the Cuba charter business as a variable interest entity pursuant to the requirements of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities and Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). As of December 31, 2009, SFAS No. 167 had been codified under Accounting Standard Update ("ASU") 2009-17.

(2) New Pronouncements

In February 2010, the Financial Accounting Standards Board ("FASB") issued amended guidance to require an SEC filer to evaluate subsequent events through the date the financial statements are filed with the SEC. The amended guidance adds the definitions of an SEC filer and revised financial statements and no longer requires that an SEC filer disclose the date through which subsequent events have been reviewed. It also removes the definition of a public entity. The adoption of the new guidance did not have an impact on the Company's disclosures, consolidated financial position, results of operations and cash flows.

In January 2010, the FASB issued authoritative guidance to require additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements and the transfers between Levels 1, 2, and 3. The disclosure requirements are related to recurring and nonrecurring fair value measurements. The adoption of the new guidance did not have an impact on the Company's consolidated financial position, results of operations and cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). As of December 31, 2009, SFAS No. 167 had been codified under Accounting Standard Update ("ASU") 2009-17. SFAS No. 167 amends FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46(R)) to require an enterprise to qualitatively assess the determination of the primary beneficiary of a variable interest entity ("VIE") based on whether the entity (1) has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) has the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Also, SFAS No. 167 requires an ongoing reconsideration of the primary beneficiary, and amends the events that trigger a reassessment of whether an entity is a VIE. Enhanced disclosures are also required to provide information about an enterprise's involvement in a VIE. The standard was effective for the Company beginning in the first quarter of 2010. The adoption of the new standard did not have an impact on our consolidated financial position, results of operations and cash flows.

(3) Earnings Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period presented. Diluted net loss per share reflects the potential dilution that could occur from common stock issuable through stock based compensation including stock options, restricted stock awards, warrants and other convertible securities, as well as warrants issued by Gulfstream.

The computation of per share earnings for the 3 months ended March 31 2009 and 2010 is as follows and includes the effect of warrants issued by Gulfstream International Airlines, Inc. ("GIA"), a subsidiary of the Company:

	Three months Ended March 31, 2009	Three months Ended March 31, 2010
Net income (loss)	$730,000	$(1,403,000)
Effect of GIA warrants	-	-
Net income (loss) — diluted	$730,000	$(1,403,000)
Weighted average of shares outstanding — basic	2,957,000	3,657,000
Weighted average of shares outstanding — diluted	3,293,000	3,657,000
Earnings (loss) per common share:		
Basic	$0.25	$(0.38)
Diluted	$0.19	$(0.38)

The effect on net income of the Subsidiary warrants is calculated in accordance with AS260 "Earnings Per Share", paragraph 62(a) as follows:

Earnings Per Share of Subsidiary:		
Net income (loss)	$2,131,000	$(587,000)
Add: GIA's portion of consolidated tax benefit (provision)	(810,000)	-
Adjusted net income	$1,321,000	$(587,000)
Basic weighted average shares	19,575,000	19,575,000
Dilutive effect of warrants (1)	1,957,000	(1)
Diluted weighted average shares	21,532,000	19,575,000

Earnings per common share:		
Basic	$0.07	$(0.03)
Diluted	$0.06	$(0.03)
Effect on Net Income of Subsidiary Warrants:		
Proportionate share of Subsidiary income included in basic earnings per share (2)	$1,321,000	$(587,000)
Proportionate share of Subsidiary income included in diluted earnings per share (3)	1,200,937	(587,000)
Difference	$120,063	$-

(1) For the periods indicated above, there were 1,957,000 warrants that have been excluded from the Subsidiary weighted average shares outstanding because the effect on earnings (loss) per share would have been anti-dilutive.
(2) Calculated as the number of Subsidiary outstanding shares times Subsidiary basic earnings per share
(3) Calculated as the number of Subsidiary outstanding shares times Subsidiary diluted earnings per share

For the three months ended March 31, 2010, there were 1,198,000 shares attributable to stock options and warrants that have been excluded from the weighted average shares outstanding because the effect on losses per share would have been anti-dilutive.

(4) Segment Results

2010	Airline and Charter	Academy	Parent	Intercompany Eliminations	Total
Operating revenues	$ 21,738	$ 440	$ -	$ (124)	$ 22,054
Operating expenses	22,287	521	338	-	23,022
Loss from operations	$ (549)	$ (81)	$ (338)	$ -	$ (968)
Net income (loss)	$ (574)	$ (69)	$ (760)	$ -	$ (1,403)
Depreciation and amortization	$ 304	$ 3	$ -	$ -	$ 307
Interest expense	43	-	525	-	568
Interest income	-	-	-	-	-
Gain on modifcation of Debt	194	-	-	-	194
Income tax provision	-	-	-		-
Capital expenditures	62	17	-	-	79
Total assets	7,349	2,209	17,857	(12,580)	14,835

2009	Airline and Charter	Academy	Parent	Intercompany Eliminations	Total
Operating revenues	$23,459	$379	$-	$(262)	$23,576
Operating expenses	21,281	560			