

MESA AIR GROUP INC
Form 10-Q
May 10, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

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

For the quarterly period-ended March 31, 2005

or

o **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

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

On May 2, 2005, the registrant had outstanding 30,074,943 shares of Common Stock.

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MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | March 31, 2005 | March 31, 2004 | March 31, 2005 | March 31, 2004 |
| (Unaudited) | | | | |
| (In thousands, except per share amounts) | | | | |
| Operating revenues: | | | | |
| Passenger | \$ 255,530 | \$ 202,549 | \$ 511,917 | \$ 383,872 |
| Freight and other | 8,286 | 7,115 | 16,703 | 13,345 |
| Total operating revenues | 263,816 | 209,664 | 528,620 | 397,217 |
| Operating expenses: | | | | |
| Flight operations | 79,115 | 73,931 | 158,339 | 138,678 |
| Fuel | 65,194 | 42,768 | 132,308 | 78,700 |
| Maintenance | 46,928 | 37,192 | 95,534 | 73,886 |
| Aircraft and traffic servicing | 17,591 | 16,028 | 34,368 | 29,852 |
| Promotion and sales | 815 | 1,443 | 2,160 | 3,091 |
| General and administrative | 15,655 | 14,925 | 31,188 | 32,016 |
| Depreciation and amortization | 10,113 | 5,352 | 19,286 | 11,372 |
| Impairment and restructuring charges (credits) | | 11,317 | (1,257) | 11,317 |
| Total operating expenses | 235,411 | 202,956 | 471,926 | 378,912 |
| Operating income | 28,405 | 6,708 | 56,694 | 18,305 |
| Other income (expense): | | | | |
| Interest expense | (10,194) | (5,223) | (18,935) | (10,707) |
| Interest income | 464 | 393 | 1,058 | 610 |
| Other income (expense) | (1,094) | 1,131 | 1,255 | 1,834 |
| Total other income (expense) | (10,824) | (3,699) | (16,622) | (8,263) |
| Income before income taxes | 17,581 | 3,009 | 40,072 | 10,042 |
| Income taxes | 6,733 | 1,240 | 15,348 | 4,139 |
| Net income | \$ 10,848 | \$ 1,769 | \$ 24,724 | \$ 5,903 |
| Income per common share: | | | | |
| Basic | \$ 0.37 | \$ 0.06 | \$ 0.83 | \$ 0.19 |
| Diluted | \$ 0.26 | \$ 0.05 | \$ 0.58 | \$ 0.16 |

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2005 | September 30, 2004 |
|------------------------------------------------------|---------------------------|-------------------------------|
| (Unaudited) | | |
| (In thousands, except share amounts) | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 121,576 | \$ 173,110 |
| Marketable securities | 123,373 | 56,039 |
| Restricted cash | 10,346 | 9,484 |
| Receivables, primarily traffic, net | 21,365 | 30,744 |
| Income tax receivable | 1,495 | 1,466 |
| Expendable parts and supplies, net | 32,057 | 34,790 |
| Prepaid expenses and other current assets | 60,152 | 43,907 |
| Deferred income taxes | 9,298 | 8,855 |
| Total current assets | 379,662 | 358,395 |
| Property and equipment, net | 855,435 | 697,425 |
| Lease and equipment deposits | 40,424 | 31,342 |
| Deferred income taxes | | 5,342 |
| Other assets | 35,699 | 26,550 |
| Investments in corporate bonds and US Treasury notes | | 2,483 |
| Total assets | \$ 1,311,220 | \$ 1,121,537 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 27,323 | \$ 21,850 |
| Short-term debt | 277,519 | 230,969 |
| Accounts payable | 48,879 | 46,821 |
| Air traffic liability | 2,279 | 2,585 |
| Accrued compensation | 7,691 | 7,284 |
| Income taxes payable | 401 | 456 |
| Other accrued expenses | 33,548 | 34,867 |
| Total current liabilities | 397,640 | 344,832 |
| Long-term debt, excluding current portion | 650,459 | 550,613 |
| Deferred credits | 70,408 | 71,451 |
| Deferred income tax liability | 10,006 | |
| Other noncurrent liabilities | 31,557 | 25,737 |
| Total liabilities | 1,160,070 | 992,633 |

Stockholders equity:

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Preferred stock of no par value, 2,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock of no par value and additional paid in capital, 75,000,000 shares authorized; 29,555,741 and 30,066,777 shares issued and outstanding, respectively | 105,107 | 108,173 |
| Retained earnings | 48,399 | 23,675 |
| Unearned compensation on restricted stock | (2,356) | (2,944) |
| Total stockholders equity | 151,150 | 128,904 |
| Total liabilities and stockholders equity | \$ 1,311,220 | \$ 1,121,537 |

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended

March 31,
2005

March 31,
2004

(Unaudited)
(In thousands)

Cash Flows from Operating Activities:

| | | |
|------------------------------------------------------------------------------------------------------|----------------|--------------|
| Net income | \$ 24,724 | \$ 5,903 |
| Adjustments to reconcile net income to net cash flows provided by (used in) operating activities: | | |
| Depreciation and amortization | 19,286 | 11,372 |
| Impairment and restructuring charges (credits) | (1,257) | 11,317 |
| Tax benefit-stock compensation | 57 | 88 |
| Deferred income taxes | 14,905 | 2,810 |
| Unrealized (gain) loss on investment securities | 198 | 37 |
| Amortization of deferred credits | (3,241) | (3,188) |
| Amortization of restricted stock awards | 588 | |
| Provision for obsolete expendable parts and supplies | 600 | 600 |
| Provision for doubtful accounts | 1,704 | 809 |
| Changes in assets and liabilities: | | |
| Net (purchases) sales of investment securities | (65,049) | 13,370 |
| Restricted cash | (862) | (11,638) |
| Receivables | 7,675 | (13,220) |
| Income tax receivable | (29) | |
| Expendable parts and supplies | 2,133 | (5,624) |
| Prepaid expenses and other current assets | (15,119) | (5,248) |
| Accounts payable | 2,058 | (965) |
| Income taxes | (55) | (896) |
| Other accrued liabilities | 1,899 | 1,152 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (9,785) | 6,679 |

Cash Flows from Investing Activities:

| | | |
|----------------------------------------------------------------|-----------------|-----------------|
| Capital expenditures | (28,227) | (25,716) |
| Acquisition of Midway assets, net | | (9,160) |
| Proceeds from sale of rotatable and expendable inventory | | 1,078 |
| Change in other assets | (2,688) | (90) |
| Net returns (payments) of lease and equipment deposits | (10,208) | (428) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (41,123) | (34,316) |

Cash Flows from Financing Activities:

| | | |
|--------------------------------------|----------|---------|
| Principal payments on long-term debt | (12,942) | (6,046) |
|--------------------------------------|----------|---------|

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| | | |
|-----------------------------------------------------------------------------|-------------------|-------------------|
| Proceeds from short-term debt | 13,241 | |
| Proceeds from senior convertible notes | | 100,000 |
| Debt issue costs | | (3,009) |
| Common stock purchased and retired | (3,430) | (343) |
| Proceeds from exercise of stock options and issuance of warrants | 307 | 420 |
| Proceeds from receipt of deferred credits | 2,198 | 980 |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (626) | 92,002 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (51,534) | 64,365 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 173,110 | 152,547 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 121,576 | \$ 216,912 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 17,192 | \$ 10,983 |
| Cash paid for income taxes, net | 650 | 2,770 |
| SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Aircraft delivered under interim financing | \$ 160,883 | \$ 252,075 |
| Aircraft and debt permanently financed as operating leases | | 197,300 |
| Long-term debt assumed in Midway asset purchase | | 24,109 |
| Inventory and other credits received in conjunction with aircraft financing | | 1,504 |

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Business and Basis of Presentation

The accompanying unaudited, condensed 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 periods presented have been made. Operating results for the six-month period ended March 31, 2005, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2005. These condensed 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, 2004.

The accompanying condensed consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly-owned operating subsidiaries (collectively Mesa or the Company): Mesa Airlines, Inc. (Mesa Airlines), a Nevada corporation and certificated air carrier; Freedom Airlines, Inc. (Freedom), a Nevada corporation and certificated air carrier; Air Midwest, Inc. (Air Midwest), a Kansas corporation and certificated air carrier; MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development; Regional Aircraft Services, Inc. (RAS) a Pennsylvania corporation; Mesa Leasing, Inc., a Nevada corporation; Mesa Air Group Aircraft Inventory Management, LLC (MAG-AIM), an Arizona Limited Liability Company; Ritz Hotel Management Corp., a Nevada Corporation; and MAGI Insurance, Ltd. (MAGI), a Barbados, West Indies based captive insurance company. MPD, Inc. provides pilot training in coordination with a community college in Farmington, New Mexico and with Arizona State University in Tempe, Arizona. RAS performs aircraft component repair and overhaul services. MAGI is a captive insurance company established for the purpose of obtaining more favorable aircraft liability insurance rates. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Segment Reporting

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 three airline operating subsidiaries, Mesa Airlines, Freedom Airlines and Air Midwest and various other subsidiaries organized to provide support for the Company s airline operations. The Company has aggregated these operating subsidiaries into three reportable segments: Mesa Airlines, Air Midwest/ Freedom and Other. Mesa Airlines operates all of the Company s regional jets and Dash-8 aircraft. Air Midwest and Freedom operate the Company s Beech 1900 turboprop aircraft. The Other reportable segment includes Mesa Air Group, RAS, MPD, MAG-AIM, MAGI, Mesa Leasing, Inc. and Ritz Hotel Management Corp., all of which support Mesa s operating subsidiaries. Prior to October 2004, the Company operated regional jets in both Mesa and Freedom. In October 2004, the Company completed its transition of regional jets from Freedom into Mesa and transferred a B1900D aircraft from Air Midwest into Freedom. As such, the Company has aggregated Freedom with Air Midwest beginning in the first quarter of fiscal 2005. Operating revenues in the Other segment are primarily sales of rotatable and expendable parts to the Company s operating subsidiaries.

Mesa Airlines provides passenger service with regional jets under revenue-guarantee contracts with America West, United and US Airways. Mesa Airlines code-share agreement with Frontier terminated on December 31, 2003. Mesa Airlines also provides passenger service with Dash-8 aircraft under revenue-guarantee contracts with United and America West. As of March 31, 2005, Mesa Airlines operated a fleet of 152 aircraft 100 CRJs, 36 ERJs and 16 Dash-8s.

Table of Contents**MESA AIR GROUP, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

Air Midwest and Freedom provide passenger service with Beechcraft 1900D aircraft under pro-rate contracts with America West, US Airways and Midwest Airlines as well as independent operations as Mesa Airlines. As of March 31, 2005, Air Midwest and Freedom operated a fleet of 26 Beechcraft 1900D turboprop aircraft.

The Other category consists of Mesa Air Group (holding company), RAS, MPD, MAG-AIM, MAGI, Mesa Leasing, Inc. and Ritz Hotel Management Corp. 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, available seat miles (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. RAS primarily provides repair services to the Company's operating subsidiaries. MAGI is a captive insurance company located in Barbados. MAG-AIM is the Company's inventory procurement company.

| Three Months Ended March 31, 2005 (000 \$) | Mesa | Air Midwest/ Freedom | Other | Eliminations | Total |
|---------------------------------------------------|-------------|-------------------------------------|--------------|---------------------|--------------|
| Total operating revenues | \$ 247,667 | \$ 13,813 | \$ 67,159 | \$ (64,823) | \$ 263,816 |
| Depreciation and amortization | 8,891 | 53 | 1,169 | | 10,113 |
| Operating income (loss) | 32,640 | (3,725) | 9,082 | (9,592) | 28,405 |
| Interest expense | (7,344) | | (2,991) | 141 | (10,194) |
| Interest income | 459 | 3 | 143 | (141) | 464 |
| Income (loss) before income tax | 23,620 | (3,713) | 7,266 | (9,592) | 17,581 |
| Income tax (benefit) | 9,046 | (1,422) | 2,783 | (3,674) | 6,733 |
| Total assets | 1,432,752 | 11,010 | 249,303 | (381,845) | 1,311,220 |
| Capital expenditures (including non-cash) | 124,830 | | 16,729 | | 141,559 |

| Three Months Ended March 31, 2004 (000 \$) | Mesa/ Freedom | Air Midwest | Other | Eliminations | Total |
|---------------------------------------------------|--------------------------|------------------------|--------------|---------------------|--------------|
| Total operating revenues | \$ 187,035 | \$ 20,887 | \$ 74,898 | \$ (73,156) | \$ 209,664 |
| Depreciation and amortization | 4,477 | 166 | 709 | | 5,352 |
| Operating income (loss) | 11,963 | (4,072) | 10,506 | (11,689) | 6,708 |