MERCURY AIR GROUP INC Form 10-Q May 13, 2003

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

b Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2003

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition period from to

Commission File No. 1-7134

Mercury Air Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

5456 McConnell Avenue, Los Angeles, CA

(Address of principal executive offices)

11-1800515

(I.R.S. Employer Identification Number)

90066

(Zip Code)

(310) 827-2737

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes b No o

Indicate by check mark whether the Registrant is an Accelerated Filer (as defined by rule 12 (b) 2 of the Securities Exchange Act of 1934.) Yes o No b

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

Title Number of Shares Outstanding
As of May 9, 2003

Common Stock, \$0.01 Par Value 6,577,334

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CERTIFICATION

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Item 1. Financial Statements

MERCURY AIR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

_	March 31, 2003	June 30, 2002
	(Unau	ıdited)
SSETS		
URRENT ASSETS:	* • • • • • • • • • • • • • • • • • • •	* * * * * * * * * *
Cash and cash equivalents	\$ 5,976,000	\$ 5,554,000
Restricted Cash		3,780,000
Trade accounts receivable, net of allowance for doubtful		
accounts of \$2,549,000 at 3/31/03 and \$1,583,000 at 6/30/02	53,397,000	46,958,000
Inventories, principally aviation fuel	3,572,000	2,985,000
Prepaid expenses and other current assets	3,015,000	3,077,000
Income taxes receivable	2,513,000	
Note receivable from affiliate	1,400,000	1,400,000
Total current assets	69,873,000	63,754,000
ROPERTY, EQUIPMENT AND LEASEHOLDS, net of ecumulated depreciation and amortization of \$58,314,000 at	02,073,000	03,734,000
/31/03 and \$53,668,000 at 6/30/02	57,329,000	59,286,000
OTES RECEIVABLE	2,926,000	2,158,000
EFERRED INCOME TAXES	764,000	770,000
OODWILL	4,389,000	4,389,000
THER INTANGIBLE ASSETS, NET	1,108,000	233,000
THER INTANGIBLE ASSETS, NET THER ASSETS, NET	5,620,000	4,096,000
		
	\$142,009,000	\$134,686,000
IABILITIES AND STOCKHOLDERS EQUITY URRENT LIABILITIES:		
Accounts payable	\$ 41,080,000	\$ 35,085,000
Accrued expenses and other current liabilities	8,841,000	8,459,000
Current portion of long-term debt (Note 5)	4,122,000	14,677,000
	4,122,000	
Senior Subordinated Note, current (Note 5)		23,179,000
Total current liabilities	54,043,000	81,400,000
ONG-TERM DEBT (Note 5)	26,583,000	14,351,000
ENIOR SUBORDINATED NOTE (Note 5)	23,401,000	
EFERRED GAIN	2,087,000	2,146,000
EFERRED RENT	2,043,000	1,943,000
Total liabilities	108,157,000	99,840,000
OMMITMENTS AND CONTINGENCIES (Note 4)	100,137,000	97,040,000
REFERRED STOCK, Series A \$.01 par value; authorized		
000,000 shares; outstanding 462,627 shares at 3/31/03 (Note 6)	472,000	
TOCKHOLDERS EQUITY:	,	
Preferred Stock \$.01 par value; authorized 2,000,000 shares;		
none outstanding Common Stock \$.01 par value; authorized		
TX UUU UUU shares: outstanding 6 577 334 shares at 3/31/03.		
18,000,000 shares; outstanding 6,577,334 shares at 3/31/03; 6,541,699 at 6/30/02	66,000	65,000

Retained earnings	15,779,000	17,751,000
Accumulated other comprehensive loss (Note 9)	(373,000)	(316,000)
Notes receivable from sale of stock	(3,725,000)	(4,073,000)
Total stockholders equity	33,380,000	34,846,000
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	\$142,009,000	\$134,686,000

See accompanying notes to consolidated financial statements

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MERCURY AIR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended March 31,		Three Months Ended March 31,		
	2003	2002	2003	2002	
		(Unaud	lited)		
Sales and Revenues:					
Sales	\$263,487,000	\$216,203,000	\$ 88,151,000	\$66,301,000	
Service revenues	69,397,000	67,558,000	22,876,000	21,617,000	
	332,884,000	283,761,000	111,027,000	87,918,000	
Costs and Expenses:					
Cost of sales	234,647,000	186,331,000	78,400,000	56,948,000	
Operating expenses	78,936,000	75,387,000	26,394,000	24,455,000	
Operating expenses	78,930,000	73,387,000	20,394,000	24,433,000	
	313,583,000	261,718,000	104,794,000	81,403,000	
Gross Margin (Excluding					
depreciation and amortization)	19,301,000	22,043,000	6,233,000	6,515,000	
Expenses (Income):					
Selling, general and					
administrative	8,205,000	7,769,000	2,746,000	3,031,000	
Provision for bad debts	1,201,000	1,247,000	442,000	475,000	
Depreciation and amortization	6,053,000	7,030,000	2,049,000	2,346,000	
Interest expense	5,355,000	4,320,000	2,564,000	1,329,000	
Costs and expenses of stock offering	-,,	985,000	, ,	, , ,	
Loss on sale of property		71,000			
		71,000			
Write off of capitalized financing	1 772 000		40.000		
costs	1,773,000	(70,000)	40,000	(44.000)	
Interest income	(130,000)	(72,000)	(45,000)	(44,000)	
	22,457,000	21,350,000	7,796,000	7,137,000	
(Loss) Income from Continuing					
Operations Before Provision for					
Income Taxes	(3,156,000)	693,000	(1,563,000)	(622,000)	
(Benefit from) Provision for					
Income Taxes (Note 3)	(1,230,000)	271,000	(609,000)	(242,000)	
(Loss) Income from Continuing					
Operations	(1,926,000)	422,000	(954,000)	(380,000)	
Loss from Discontinued Operations	(1,920,000)	422,000	(934,000)	(300,000)	
net of income tax benefit of					
		(42,000)			
\$27,000 in 2002 (Note 2)		(42,000)			
Net (Loss) income	\$ (1,926,000)	\$ 380,000	\$ (954,000)	\$ (380,000)	
			V: (115.4 (VVI)		

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Net (Loss) income Per Common Share (Note 7):				
Basic:				
From Continuing Operations	\$ (0.30)	\$ 0.06	\$ (0.15)	\$ (0.06)
Loss from Discontinued				
Operations		(0.01)		
•	 	 	 	
Net (Loss) Income	\$ (0.30)	\$ 0.06	\$ (0.15)	\$ (0.06)
Diluted:				
From Continuing Operations	\$ (0.30)	\$ 0.06	\$ (0.15)	\$ (0.06)
Loss from Discontinued	, ,		, ,	` ,
Operations		(0.01)		
•		 	 	
Net (Loss) Income	\$ (0.30)	\$ 0.06	\$ (0.15)	\$ (0.06)

See accompanying notes to consolidated financial statements

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MERCURY AIR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended March 31,

	Waren 31,		
	2003	2002	
	(Unau	audited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (Loss) income	\$ (1,926,000)	\$ 380,000	
Less: Loss from discontinued operations		(42,000)	
(Loss) Income from continuing operations	(1,926,000)	422,000	
Adjustments to derive cash flow from operating activities:			
Provision for bad debts	1,201,000	1,247,000	
Depreciation and amortization	6,053,000	7,030,000	
Deferred income taxes	6,000	64,000	
Deferred rent	100,000	442,000	
Compensation expense related to remeasurement of	,	,	
stock options	318,000	87,000	
Expense related to amortization of executive stock plan	348,000	,	
Amortization of senior subordinated note discount	222,000	140,000	
Management compensation paid in preferred stock	204,000	1,111	
Management compensation applied to exercise of stock			
options	174,000		
Loss on retirement/sale of assets	22,000	71,000	
Write off of capitalized financing costs	1,733,000	71,000	
Amortization of deferred gain	(59,000)	(15,000)	
Changes in operating assets and liabilities:	(37,000)	(15,000)	
Trade and other accounts receivable	(8,586,000)	3,845,000	
Inventories	(587,000)	1,108,000	
Prepaid expenses and other current assets	62,000	(1,798,000)	
Income taxes receivable	(2,513,000)	(1,770,000)	
Accounts payable	5,995,000	(8,533,000)	
Accrued expenses and other current liabilities	382,000	(2,167,000)	
Accided expenses and other current habilities		(2,107,000)	
Net cash provided by operating activities	3,149,000	1,943,000	
CASH FLOWS FROM INVESTING ACTIVITIES:	2.700.000		
Decrease in restricted cash	3,780,000	770.000	
(Increase) Decrease in other assets	(1,073,000)	770,000	
(Increase) Decrease in notes receivables	178,000	(108,000)	
Proceeds from sale of property	79,000	4,758,000	
Additions to property, equipment and leaseholds	(3,996,000)	(2,905,000)	
Net cash (used in) provided by investing activities	(1,032,000)	2,515,000	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net reduction of debt instruments	(1,961,000)	(10,436,000)	
Early retirement of debt	(13,285,000)	(10,100,000)	
Proceeds from refinancing	16,923,000		
Capitalization of deferred financing cost	(3,351,000)		
Repurchase of common stock	(370,000)	(313,000)	
Proceeds from issuance of preferred stock (Note 6)	259,000	(313,000)	
Proceeds from exercise of stock options	58,000	5,000	
rocceus from exercise of stock options	30,000	3,000	

Net cash used in financing activities