

MERCURY AIR GROUP INC

Form 10-Q

May 13, 2003

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**UNITED STATES OF AMERICA**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-Q**

(Mark One)

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

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

**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**

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**Mercury Air Group, Inc.**

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

**Delaware**

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

**11-1800515**

*(I.R.S. Employer  
Identification Number)*

**5456 McConnell Avenue, Los Angeles, CA**

*(Address of principal executive offices)*

**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             No

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             No

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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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)
	<u>                    </u>	<u>                    </u>
Total stockholders' equity	33,380,000	34,846,000
	<u>                    </u>	<u>                    </u>
	\$ 142,009,000	\$ 134,686,000
	<u>                    </u>	<u>                    </u>

See accompanying notes to consolidated financial statements

**Table of Contents****MERCURY AIR GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	Nine Months Ended March 31,		Three Months Ended March 31,	
	2003	2002	2003	2002
(Unaudited)				
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
	<u>332,884,000</u>	<u>283,761,000</u>	<u>111,027,000</u>	<u>87,918,000</u>
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
	<u>313,583,000</u>	<u>261,718,000</u>	<u>104,794,000</u>	<u>81,403,000</u>
Gross Margin (Excluding depreciation and amortization)	<u>19,301,000</u>	<u>22,043,000</u>	<u>6,233,000</u>	<u>6,515,000</u>
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		
Write off of capitalized financing costs	1,773,000		40,000	
Interest income	(130,000)	(72,000)	(45,000)	(44,000)
	<u>22,457,000</u>	<u>21,350,000</u>	<u>7,796,000</u>	<u>7,137,000</u>
(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 net of income tax benefit of \$27,000 in 2002 (Note 2)		(42,000)		
Net (Loss) income	<u>\$ (1,926,000)</u>	<u>\$ 380,000</u>	<u>\$ (954,000)</u>	<u>\$ (380,000)</u>

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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



**Table of Contents****MERCURY AIR GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended March 31,	
	2003	2002
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (Loss) income	\$ (1,926,000)	\$ 380,000
Less: Loss from discontinued operations		(42,000)
	<u>(1,926,000)</u>	<u>422,000</u>
(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	
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	
Amortization of deferred gain	(59,000)	(15,000)
Changes in operating assets and liabilities:		
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)	
Accounts payable	5,995,000	(8,533,000)
Accrued expenses and other current liabilities	382,000	(2,167,000)
	<u>3,149,000</u>	<u>1,943,000</u>
Net cash provided by operating activities	3,149,000	1,943,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease in restricted cash	3,780,000	
(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)
	<u>(1,032,000)</u>	<u>2,515,000</u>
Net cash (used in) provided by investing activities	(1,032,000)	2,515,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net reduction of debt instruments	(1,961,000)	(10,436,000)
Early retirement of debt	(13,285,000)	
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	
Proceeds from exercise of stock options	58,000	5,000

Net cash used in financing activities