MERCURY AIR GROUP INC
Form 10-Q
May 13, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2002.

[ ] 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	11-1800515
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

5456 McConnell Avenue, Los Angeles, CA	90066
(Address of principal executive offices)	(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 [X] 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, 2002
Common Stock, $0.01 Par Value	6,517,949

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MERCURY AIR GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	MARCH 31, 2002	JUNE 30, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$1,780,000	$3,886,000
Trade accounts receivable, net of allowance for doubtful accounts of $1,852,000 at 3/31/02 and $1,653,000 at 6/30/01	48,438,000	53,530,000
Inventories, principally aviation fuel	2,961,000	4,069,000
Prepaid expenses and other current assets	5,013,000	2,882,000
Notes receivable from affiliate (Note 9)	1,400,000	
Net assets of discontinued operations (Note 2)		4,338,000
Total current assets	59,592,000	68,705,000
PROPERTY, EQUIPMENT AND LEASEHOLDS , net of accumulated depreciation and amortization of $56,210,079 at 3/31/02 and $52,165,000 at 6/30/01 (Note 9)	64,262,000	71,779,000
NOTES RECEIVABLE	1,618,000	1,510,000
OTHER ASSETS	7,976,000	9,140,000
	$133,448,000	$151,134,000

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:		
Accounts payable	$23,583,000	$31,764,000
Accrued expenses and other current liabilities	8,367,000	10,357,000
Current portion of long-term debt	7,272,000	7,461,000
Total current liabilities	39,222,000	49,582,000
LONG-TERM DEBT	34,313,000	44,560,000
DEFERRED GAIN (Note 9)	2,212,000	
DEFERRED INCOME TAXES	444,000	380,000
SENIOR SUBORDINATED NOTE (Note 5)	23,170,000	23,030,000
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS EQUITY:		
Preferred Stock $.01 par value; authorized 3,000,000 shares; no shares outstanding		
Common Stock $ .01 par value; authorized 18,000,000 shares; outstanding 6,517,949 shares at 3/31/02; outstanding 6,576,680 shares at 6/30/01	65,000	66,000
Additional paid-in capital	21,254,000	21,442,000
Retained earnings	13,645,000	12,835,000
Accumulated other comprehensive loss (Note 8)	(344,000)	(228,000)
Notes receivable from sale of stock	(533,000)	(533,000)

Total stockholders equity	34,087,000	33,582,000
	$133,448,000	$151,134,000

See accompanying notes to consolidated financial statements

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MERCURY AIR GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Nine Months Ended March 31,		Three Months Ended March 31,	
	2002	**2001**	**2002**	**2001**
Sales and Revenues:				
Sales	$216,203,000	$289,624,000	$66,301,000	$ 90,493,000
Service revenues	67,558,000	69,766,000	21,617,000	23,409,000
	283,761,000	359,390,000	87,918,000	113,902,000
Costs and Expenses:				
Cost of sales	186,603,000	262,124,000	57,025,000	82,055,000
Operating expenses	74,518,000	70,119,000	24,091,000	24,175,000
	261,121,000	332,243,000	81,116,000	106,230,000
Gross Margin (Excluding depreciation and amortization)	22,640,000	27,147,000	6,802,000	7,672,000
Expenses (Income):				
Selling, general and administrative	7,391,000	6,114,000	2,957,000	1,959,000
Provision for bad debts	1,247,000	2,575,000	475,000	676,000
Depreciation and amortization	7,105,000	7,582,000	2,074,000	2,591,000
Interest expense	4,320,000	5,705,000	1,329,000	1,847,000
Costs and expenses of stock offering (Note 1)	985,000			
Loss on sale of property	71,000			
Interest income	(72,000)	(43,000)	(44,000)	(5,000)
	21,047,000	21,933,000	6,791,000	7,068,000
Income from Continuing Operations Before Provision for Income Taxes	1,593,000	5,214,000	11,000	604,000
Provision for Income Taxes	622,000	2,034,000	5,000	236,000
Income from Continuing Operations	971,000	3,180,000	6,000	368,000
(Loss) Income from Discontinued Operations net of income tax (benefit) charge of ($27,000) in 2002 and $36,000 and ($44,000) in 2001	(42,000)	57,000		(69,000)
Net Income	$ 929,000	$ 3,237,000	$ 6,000	$ 299,000
Net Income Per Common Share (Note 6):				
Basic:				
From Continuing Operations	$ 0.15	$ 0.49	$ 0.00	$ 0.06
(Loss) Income from Discontinued Operations	(0.01)	0.01		(0.01)

Net income	$ 0.14	$ 0.50	$ 0.00	$ 0.05
Diluted:				
From Continuing Operations	$ 0.14	$ 0.47	$ 0.00	$ 0.05
(Loss) Income from Discontinued Operations		0.01		(0.01)
Net income	$ 0.14	$ 0.48	$ 0.00	$ 0.04

See accompanying notes to consolidated financial statements

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MERCURY AIR GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)

	NINE MONTHS ENDED MARCH 31,	
	2002	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 929,000	$ 3,237,000
Less: (Loss) Income from discontinued operations	(42,000)	57,000
Income from continuing operations	971,000	3,180,000
Adjustments to derive cash flow from Operating activities:		
Loss on sale of property	71,000	
Provision for bad debts	1,247,000	2,575,000
Depreciation and amortization	7,105,000	7,582,000
Deferred income taxes	64,000	
Amortization of senior subordinated note discount	140,000	140,000
Amortization of deferred gain	(15,000)	
Changes in operating assets and liabilities:		
Trade and other accounts receivable	3,845,000	(11,310,000)
Inventories	1,108,000	195,000
Prepaid expenses and other current assets	(2,131,000)	(1,264,000)
Accounts payable	(8,181,000)	5,181,000
Accrued expenses and other current liabilities	(1,990,000)	3,239,000
Net cash provided by operating activities	2,234,000	9,518,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in other assets	479,000	1,596,000
Increase in notes receivable	(108,000)	
Acquisition of businesses		(10,400,000)
Proceeds from sale of property	4,758,000	
Additions to property, equipment and leaseholds	(2,905,000)	(4,405,000)
Net cash provided by (used in) investing activities	2,224,000	(13,209,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	10,250,000	11,969,000
Reduction of long-term debt	(20,686,000)	(9,654,000)
Reduction of note receivable from sale of stock		75,000
Repurchase of common stock	(313,000)	
Proceeds from issuance of common stock	5,000	257,000
Net cash (used in) provided by financing activities	(10,744,000)	2,647,000
Effect of exchange rate changes on cash	(116,000)	
Net Cash provided by Discontinued Operations	4,296,000	354,000

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(6,402,000)	(1,044,000)
CASH AND CASH EQUIVALENTS, beginning of period	3,886,000	2,143,000
CASH AND CASH EQUIVALENTS, end of period	$1,780,000	$1,453,000
CASH PAID DURING THE PERIOD:		
Interest	$4,250,000	$3,816,000
Income taxes paid (refunded)	$470,000	($715,000)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:		
Note receivable from affiliate related to the sale of property (Note 9)	$1,400,000	

See accompanying notes to consolidated financial statements

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MERCURY AIR GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2002

(Unaudited)

Note 1 General:

Business:

Mercury Air Group, Inc., (the Company) a Delaware corporation, provides a broad range of services to the aviation industry through four principal operating units: fuel sales, cargo operations, fixed base operations and U.S. government contract services. Fuel sales include the sale of fuel and delivery of fuel primarily to domestic and international commercial airlines, business aviation and air freight airlines. Cargo operations consist of cargo handling, space logistics operations and general cargo sales agent services. Fixed base operations (FBOs) include fuel sales, into-plane services, ground support services, aircraft hangar and tie-down facilities and maintenance at certain locations for commercial, private, general aviation and military aircraft. Government contract services consist of aircraft refueling and fuel storage operations, base operating support (BOS) services, air terminal and ground handling services and weather observation and forecasting services performed principally for agencies of the United States government. Additionally, the Company had a fifth operating unit, RPA Airline Automation Services, Inc. (RPA) which was sold on July 3, 2001 and is classified as a discontinued operation (see Note 2).

MercFuel, Inc:

On March 7, 2001, the Company announced its plan to create an independent publicly traded company, MercFuel, Inc. (MercFuel). MercFuel was organized in Delaware on October 27, 2000 as a wholly owned subsidiary of the Company. On January 1, 2001, the Company transferred to MercFuel, the assets and liabilities of its Fuel Sales division. On May 16, 2001 and amended twice thereafter, MercFuel filed a registration statement related to the proposed sale of 1,200,000 shares of common stock (the Offering). On April 30, 2001, MercFuel agreed to sell 239,942 shares of common stock in a private placement at a per share price of $4.35. Due to market conditions, the Company was not able to complete the Offering and the proceeds of the private placement have been returned. The Company incurred $985,000 of expenses associated with the Offering and private placement which were expensed in the quarter ended December 31, 2001. The Company has also elected to withdraw MercFuel s application for registration of its common stock; depending on market conditions and other factors, the Company may re-file a registration statement at a later point in time. The Company may pursue various financing options with respect to MercFuel.

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Basis of Presentation:

The accompanying unaudited financial statements reflect all adjustments (consisting of normal, recurring accruals only) which are necessary to fairly present the results for the interim periods. Such financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all the information or footnotes necessary for a complete presentation. They should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended June 30, 2001 and the notes thereto. The results of operations for the nine months ended March 31, 2002 are not necessarily indicative of results for the full year.

New Accounting Pronouncements:

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations. SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. The adoption of SFAS No. 141 did not have an impact on the Company s financial statements.

In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. The Company has elected to adopt SFAS No. 142 on July 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS. No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company has not yet determined what impact the adoption will have on its financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , which supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. This new statement also supersedes certain aspects of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, with regard to reporting the effects of a disposal of a segment of a business and will require expected future operating losses from discontinued operations to be reported in discontinued operations in the period incurred (rather than as of the measurement date as presently required by APB Opinion No. 30). In addition, more dispositions may qualify for discontinued operations treatment. The provisions of this statement are required to be applied on July 1, 2002. The Company has not yet determined what effect this statement will have on its financial statements.

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Note 2 Discontinued Operations:

On July 3, 2001, the Company completed the sale of the net assets of its subsidiary, known as RPA Airline Automation Services, Inc. (RPA),which provides airline revenue accounting and management information software consisting of proprietary software programs which are marketed to foreign and domestic airlines. The Company has reclassified its consolidated financial statements to reflect the sale of RPA and to segregate the revenues, direct costs and expenses (excluding allocated costs), assets and liabilities, and cash flows of RPA. The net operating results, net assets and net cash flows of this business have been reported as Discontinued Operations in the accompanying consolidated financial statements. Summarized income statement information for the nine months ended March 31, 2001 and balance sheet information as of June 30, 2001 are as follows:

Income Statement Information:	**Nine Months Ended March 31, 2001**
Service revenues	$4,049,000
Operating expense	3,723,000
Gross margin	326,000
Other expense	233,000
Income before income taxes	93,000
Income tax charge	36,000
Net income	$ 57,000

Balance Sheet Information:	**June 30, 2001**