

MESA AIR GROUP INC
Form 10-Q
May 15, 2007

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period-ended March 31, 2007
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE 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 100,
Phoenix, Arizona**

(Address of principal executive offices)

85008

(Zip code)

Registrant's telephone number, including area code:

(602) 685-4000

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 last 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

On May 1, 2007, the registrant had outstanding 31,410,065 shares of Common Stock.

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Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements****MESA AIR GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended		Six Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2007	2006	2007	2006
	(Unaudited)			
	(In thousands, except per share data)			
Operating revenues:				
Passenger	\$ 326,140	\$ 305,652	\$ 665,114	\$ 621,066
Freight and other	10,291	6,412	18,930	14,615
Gross operating revenues	336,431	312,064	684,044	635,681
Impairment of contract incentives	(25,324)		(25,324)	
Net operating revenues	311,107	312,064	658,720	635,681
Operating expenses:				
Flight operations	95,107	90,833	191,829	180,697
Fuel	105,103	103,157	222,901	208,006
Maintenance	72,684	47,606	136,088	103,144
Aircraft and traffic servicing	23,914	18,310	45,289	34,520
Promotion and sales	1,807	882	3,380	1,654
General and administrative	16,208	14,515	33,670	32,906
Depreciation and amortization	10,255	8,824	20,965	18,007
Bankruptcy settlement	(1,473)		(2,093)	
Impairment of long-lived assets	12,367		12,367	
Total operating expenses	335,972	284,127	664,396	578,934
Operating (loss) income	(24,865)	27,937	(5,676)	56,747
Other income (expense):				
Interest expense	(9,490)	(8,710)	(20,160)	(18,296)
Interest income	3,902	2,600	8,446	5,598
Other expense	(8,108)	(13,229)	(7,972)	(14,326)
Total other expense	(13,696)	(19,339)	(19,686)	(27,024)
(Loss) income before taxes	(38,561)	8,598	(25,362)	29,723
Income tax (benefit) provision	(14,575)	3,310	(9,389)	11,443

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Net (loss) income	\$ (23,986)	\$ 5,288	\$ (15,973)	\$ 18,280
Income (loss) per common share:				
Basic	\$ (0.75)	\$ 0.15	\$ (0.49)	\$ 0.58
Diluted	\$ (0.75)	\$ 0.14	\$ (0.49)	\$ 0.48

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MESA AIR GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2007	September 30, 2006
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,056	\$ 35,559
Marketable securities	141,495	186,764
Restricted cash	12,555	12,001
Receivables, net	60,136	47,382
Income tax receivable	539	615
Expendable parts and supplies, net	38,406	32,771
Prepaid expenses and other current assets	157,908	139,563
Deferred income taxes	4,505	4,115
Total current assets	459,600	458,770
Property and equipment, net	673,432	669,912
Lease and equipment deposits	22,869	27,389
Equity method investments	10,241	12,510
Other assets	38,085	69,632
Total assets	\$ 1,204,227	\$ 1,238,213

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 34,059	\$ 29,659
Short-term debt		123,076
Accounts payable	73,303	56,097
Air traffic liability	5,347	6,677
Accrued compensation	4,469	4,545
Income taxes payable	113	1,008
Other accrued expenses	43,794	42,001
Total current liabilities	161,085	263,063
Long-term debt, excluding current portion	657,446	542,569
Deferred credits	101,315	101,723
Deferred income taxes	35,353	44,531
Other noncurrent liabilities	24,106	22,117
Total liabilities	979,305	974,003

Stockholders equity:

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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; 30,705,950 and 33,904,053 shares issued and outstanding, respectively	126,386	149,701
Retained earnings	98,536	114,509
Total stockholders' equity	224,922	264,210

See accompanying notes to condensed consolidated financial statements.

Table of Contents**MESA AIR GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended	
	March 31,	March 31,
	2007	2006
	(Unaudited)	
	(In thousands)	
Cash Flows from Operating Activities:		
Net (loss) income	\$ (15,973)	\$ 18,280
Adjustments to reconcile (loss) income to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	20,965	18,007
Impairment chargeS	37,691	
Deferred income taxes	(9,568)	8,265
Unrealized (gain) loss on investment securities	4,776	962
Loss from equity metod investment	3,579	
Amortization of deferred credits	(6,397)	(5,688)
Amortization of restricted stock awards	707	589
Other	994	
Gain (Loss) on Sale of Assets	(254)	
Stock option expense	662	1,450
Excess tax benefit from stock compensation		(2,609)
Provision for obsolete expendable parts and supplies		(17)
Provision for doubtful accounts	773	540
Changes in assets and liabilities:		
Net (purchases) sales of investment securities	40,493	(40,274)
Receivables	(12,527)	8,496
Income tax receivables	76	(505)
Expendable parts and supplies	(5,610)	1,911
Prepaid expenses and other current assets	(18,345)	(8,469)
Contract incentive payments		(20,000)
Accounts payable	17,206	(7,025)
Income taxes payable	(895)	(254)
Other accrued liabilities	2,376	3,530
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	60,729	(22,811)
Cash Flows from Investing Activities:		
Capital expenditures	(13,468)	(9,164)
Proceeds from sale of flight equipment	24	16,034
Change in restricted cash	(554)	(2,824)
Equity method investment	(1,310)	
Change in other assets	4,694	1,147
Net returns (payments) of lease and equipment deposits	4,520	1,356

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(6,094)	6,549
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(27,444)	(16,015)
Proceeds from exercise of stock options and issuance of warrants	148	5,565
Proceeds (payments) on financing rotatable inventory		(17,768)
Tax benefit-stock compensation		2,609
Common stock purchased and retired	(24,831)	(193)
Proceeds from receipt of deferred credits	5,989	1,917
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(46,138)	(23,885)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,497	(40,147)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	35,559	143,428
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 44,056	\$ 103,281
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	20,087	19,310
Cash paid for income taxes, net	1,000	6,618
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Short-term debt permanently financed 135,378 as long-term debt	135,378	
Aircraft delivered under interim financing	23,644	27,516
Conversion of convertible debentures to common stock		62,278
Inventory and other credits received in conjunction with aircraft financing	1,000	4,604

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 cons