

MERCURY AIR GROUP INC

Form 10-Q

February 14, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 December 31, 2004

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 No.)*

90066
(Zip Code)

Registrant's telephone number, including area code:

(310) 827-2737

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 in Rule 12b-2 of the Exchange Act). 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 February 08, 2004**

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Common Stock, \$0.01 Par Value

3,056,355

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
<u>Item 1.</u>	<u>Financial Statements</u> 2
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 17
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 26
<u>Item 4.</u>	<u>Controls and Procedures</u> 27
<u>PART II</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 27
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 28
<u>Item 3.</u>	<u>Default Upon Senior Securities</u> 29
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 29
<u>Item 5.</u>	<u>Other Information</u> 29
<u>Item 6.</u>	<u>Exhibits</u> 29
<u>Signatures</u>	35
Exhibit 10.43	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	

PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

MERCURY AIR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	June 30, 2004
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,316,000	\$ 4,690,000
Restricted cash		15,414,000
Trade accounts receivable, net of allowance for doubtful accounts of \$1,882,000 and \$1,556,000 at December 31 and June 30, 2004, respectively	56,912,000	50,974,000
Inventories	1,619,000	1,165,000
Prepaid expenses and other current assets	3,657,000	5,696,000
Deferred income taxes	1,451,000	1,451,000
TOTAL CURRENT ASSETS	69,955,000	79,390,000
PROPERTY, EQUIPMENT AND LEASEHOLDS, net of accumulated depreciation and amortization of \$24,830,000 and \$24,836,000 at December 31 and June 30, 2004, respectively	7,564,000	10,349,000
NOTES RECEIVABLE, net of allowance for doubtful accounts of \$921,000 and \$1,025,000 at December 31 and June 30, 2004, respectively	1,296,000	521,000
DEFERRED INCOME TAXES	611,000	611,000
GOODWILL	4,411,000	4,389,000
OTHER INTANGIBLE ASSETS, NET	600,000	700,000
RESTRICTED CASH	8,418,000	8,989,000
OTHER ASSETS, NET	1,226,000	1,008,000
TOTAL ASSETS	\$ 94,081,000	\$ 105,957,000
LIABILITIES, MANDATORILY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 36,390,000	\$ 33,552,000
Accrued expenses and other current liabilities	8,559,000	11,825,000
Current portion of long-term debt	1,021,000	139,000
TOTAL CURRENT LIABILITIES	45,970,000	45,516,000
LONG-TERM DEBT	21,221,000	17,790,000
DEFERRED GAIN	9,444,000	8,130,000
OTHER LONG-TERM LIABILITY	335,000	669,000
DEFERRED RENT	943,000	1,257,000
MINORITY INTEREST		182,000

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TOTAL LIABILITIES	77,913,000	73,544,000
COMMITMENTS AND CONTINGENT LIABILITIES		
(Note 4)		
MANDATORILY REDEEMABLE PREFERRED STOCK:		
Series A \$0.01 par value; 1,000,000 shares authorized; 462,627 shares outstanding at December 31 and June 30, 2004, respectively	468,000	518,000
STOCKHOLDERS EQUITY:		
Preferred stock \$0.01 par value; authorized 2,000,000 shares; no shares outstanding		
Common stock \$0.01 par value; authorized 18,000,000 shares; 3,056,355 and 2,954,819 shares outstanding at December 31 and June 30, 2004, respectively	31,000	30,000
Additional paid-in capital	21,473,000	20,737,000
Retained earnings (accumulated deficit)	(2,971,000)	14,596,000
Accumulated other comprehensive income (loss)	193,000	(46,000)
Treasury stock, 8,750 and 24,500 shares at December 31 and June 30, 2004, respectively	(43,000)	(120,000)
Notes receivable from officers	(2,983,000)	(3,302,000)
	<hr/>	<hr/>
TOTAL STOCKHOLDERS EQUITY	15,700,000	31,895,000
	<hr/>	<hr/>
TOTAL LIABILITIES, MANDATORILY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS EQUITY	\$ 94,081,000	\$ 105,957,000
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See accompanying notes to consolidated financial statements.

MERCURY AIR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended December 31,		Three Months Ended December 31,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Sales and revenues:				
Sales	\$ 246,095,000	\$ 139,890,000	\$ 137,161,000	\$ 74,901,000
Service revenues	32,928,000	31,319,000	16,371,000	16,598,000
Total sales and revenues	279,023,000	171,209,000	153,532,000	91,499,000
Costs and expenses:				
Cost of sales	239,390,000	134,299,000	133,350,000	71,850,000
Operating expenses	30,185,000	29,571,000	15,025,000	15,821,000
Total costs and expenses	269,575,000	163,870,000	148,375,000	87,671,000
Gross margin (excluding depreciation and amortization)	9,448,000	7,339,000	5,157,000	3,828,000
Expenses (income):				
Selling, general and administrative	7,028,000	5,044,000	4,317,000	2,763,000
Provision (recovery) for bad debts	364,000	(24,000)	87,000	(384,000)
Depreciation and amortization	1,254,000	1,426,000	619,000	713,000
Interest and other expense	771,000	527,000	443,000	267,000
Hambro settlement costs		1,799,000		1,799,000
Interest and other income	(241,000)	(241,000)	(17,000)	(32,000)
Asset impairment loss	626,000			
Total expenses (income)	9,802,000	8,531,000	5,449,000	5,126,000
Loss from continuing operations before minority interest and income tax expense	(354,000)	(1,192,000)	(292,000)	(1,298,000)
Minority interest	181,000	4,000		(2,000)
Loss from continuing operations before income tax expense	(173,000)	(1,188,000)	(292,000)	(1,300,000)
Income tax (benefit) expense	(25,000)	239,000	(80,000)	195,000
Loss from continuing operations, net of taxes	(148,000)	(1,427,000)	(212,000)	(1,495,000)
Discontinued operations:				
Loss from discontinued operation, net of income tax (benefit) of (\$251,000) and (\$14,000) for the six months and three months ended December 31, 2003, respectively		(392,000)		(22,000)
Gain on sale of discontinued operations, net of income tax provision of \$14,000	22,000		22,000	

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Net loss	(126,000)	(1,819,000)	(190,000)	(1,517,000)
Accrued preferred stock dividends	20,000	19,000	11,000	9,000
Net loss applicable to common stockholders	\$ (146,000)	\$ (1,838,000)	\$ (201,000)	\$ (1,526,000)
Income (loss) per common share:				
Basic:				
From continuing operations, net of taxes	\$ (0.06)	\$ (0.45)	\$ (0.08)	\$ (0.47)
From discontinued operations, net of taxes		(0.12)		(0.01)
From sale of discontinued operations, net of taxes	0.01		0.01	
Net loss per share	\$ (0.05)	\$ (0.57)	\$ (0.07)	\$ (0.48)
Diluted:				
From continuing operations, net of taxes	\$ (0.06)	\$ (0.45)	\$ (0.08)	\$ (0.47)
From discontinued operations, net of taxes		(0.12)		(0.01)
From sale of discontinued operations, net of taxes	0.01		0.01	
Net loss per share	\$ (0.05)	\$ (0.57)	\$ (0.07)	\$ (0.48)

See accompanying notes to consolidated financial statements.

MERCURY AIR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31,	
	2004	2003
(Unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (126,000)	\$ (1,819,000)
Adjustments to derive cash flow from operating activities:		
Provision for bad debts	364,000	60,000
Depreciation and amortization	1,254,000	4,279,000
Deferred income taxes		(1,001,000)
Deferred rent	(648,000)	(314,000)
Executive loan amortization	180,000	194,000
Minority interest	(181,000)	15,000
Other non-cash items	80,000	(1,000)
Asset impairment loss	626,000	
Hambro settlement costs		1,799,000
Amortization of senior subordinated note discount		88,000
Write-down of note receivable from officer	96,000	105,000
Changes in operating assets and liabilities:		
Trade and other accounts receivable	(7,100,000)	(5,343,000)
Inventories	(454,000)	388,000
Prepaid expenses and other current assets	1,431,000	(35,000)
Accounts payable	2,838,000	2,672,000
Accrued expenses and other current liabilities	(3,386,000)	3,437,000
Net cash provided by (used in) operating activities	(5,026,000)	4,524,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted cash	16,029,000	
Decrease (increase) in other assets	(294,000)	252,000
Decrease in notes receivable	534,000	