MCKESSON CORP
Form NO ACT
June 06, 2014

Total operating expenses
133,205 106,516

Operating income (loss)
(112) 4,718

Other income (expense):

Interest expense
(1,274) (2,143)
Interest income
262 205
Other income
211 4,744

Total other income (expense)
(801) 2,806

Income (loss) before income taxes and minority interest
(913) 7,524
Income taxes
(350) 2,972

Income (loss) before minority interest	(563) 4,552
Minority interest	3 (886)
Net income (loss)	$(560) $3,666
Income (loss) per common share:	
Basic	$(0.02) $0.11
Diluted	$(0.02) $0.11

See accompanying notes to consolidated financial statements.

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MESA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands except share amounts)

	December 31, 2002 (Unaudited)	September 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,734	$ 45,870
Marketable securities	5,043	8,517
Receivables, primarily traffic, net	40,407	29,072
Expendable parts and supplies	22,872	21,238
Aircraft and parts held for sale	23,348	24,546
Prepaid expenses and other current assets	19,885	25,730
Deferred income taxes	14,474	16,228
Total current assets	160,763	171,201
Property and equipment, net	126,304	127,450
Lease and equipment deposits	18,995	15,538
Deferred income taxes	31,389	29,287
Other assets	8,524	8,867
Total assets	$345,975	$352,343
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 16,290	$ 19,036
Accounts payable	25,323	24,434
Air traffic liability	3,839	3,362
Accrued compensation	3,167	5,950
Income taxes payable		510
Other accrued expenses	45,425	45,119
Total current liabilities	94,044	98,411
Long-term debt, excluding current portion	108,524	109,721
Deferred credits	52,925	51,323
Other noncurrent liabilities	2,817	2,821
Total liabilities	258,310	262,276
Minority interest	659	967
Stockholders equity:		
Common stock, no par value, 75,000,000 shares authorized; 31,585,938 and 31,989,886 shares issued and outstanding, respectively	113,083	114,670
Accumulated other comprehensive income	53	
Retained earnings (deficit)	(26,130)	(25,570)
Total stockholders equity	87,006	89,100
Total liabilities, minority interest and stockholders equity	$345,975	$352,343

See accompanying notes to consolidated financial statements.

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MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Three Months Ended	
	December 31, 2002	December 31, 2001
Cash Flows from Operating Activities:		
Net income (loss)	$ (560)	$ 3,666
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	2,609	2,689
Deferred income taxes	(349)	2,972
Unrealized (gain) loss on investment securities	689	(3,314)
Amortization of deferred credits	(1,518)	(927)
Provision for obsolete expendable parts and supplies	300	
Minority interest	(3)	886
Changes in assets and liabilities:		
Receivables	(11,335)	(9,950)
Expendable parts and supplies	(1,934)	1,090
Prepaid expenses and other current assets	5,926	9,043
Accounts payable	959	2,556
Income taxes	(537)	
Cost to return aircraft held for sale	(701)	(208)
Other accrued liabilities	(1,303)	2,420
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(7,757)	10,923
Cash Flows from Investing Activities:		
Capital expenditures	(1,292)	(4,045)
Proceeds from sale of assets held for sale	1,198	
Net purchases (sales) of investment securities	2,785	(14,742)
Change in other assets	343	(482)
Lease and equipment deposits	(3,628)	(3,604)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(594)	(22,873)
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(3,943)	(1,441)
Proceeds from issuance of common stock	280	3
Common stock purchased and retired	(1,867)	
Payment from aircraft manufacturer in deferred credits	3,120	3,250
Contribution from minority interest		5,000
Distribution to minority interest shareholders	(375)	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,785)	6,812
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,136)	(5,138)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	45,870	74,504
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 34,734	$ 69,366

SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 1,373	$ 2,442
Cash paid for income taxes, net	535	313

See accompanying notes to consolidated financial statements.

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MESA AIR GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Business and Basis of Presentation

The accompanying unaudited, consolidated financial statements of Mesa Air Group, Inc. (Mesa or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the unaudited three-month periods have been made. Operating results for the three-month period ended December 31, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2003. These consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the fiscal year ended September 30, 2002.

The consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly owned operating subsidiaries: Mesa Airlines, Inc., Freedom Airlines, Inc., Air Midwest, Inc., CCAir, Inc., MPD, Inc., Regional Aircraft Services, Inc., MAGI Insurance, Ltd., Mesa Air Group Aircraft Inventory Management, LLC as well as the accounts of UFLY, LLC, a 55% owned subsidiary of which the Company is able to exercise significant influence. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Air Transportation Safety and System Stabilization Act

In September 2001, the Company recorded as non-operating income $14.7 million associated with amounts claimed under the Airline Stabilization Act. As of December 31, 2002, the Company has received $12.4 million and the remaining $2.3 million is included in accounts receivable. Amounts paid or payable under the Airline Stabilization Act are subject to audit and adjustment by the Federal Government. Amounts in accounts receivable at December 31, 2002, remain outstanding as the Company has not finalized its claim with the Department of Transportation. The Company believes that it will ultimately collect the remaining amounts outstanding.

3. Minority Interest

In 2001, the Company entered into an agreement to form UFLY, LLC (UFLY), for the purpose of making strategic investments in US Airways, Inc. In 2002, UFLY was formally established and was capitalized with $10.0 million. The Company owns 55% of UFLY. The Company s Chairman and CEO is a minority shareholder/owner and the managing member of UFLY. As the managing member, he receives no additional remuneration or compensation in connection with his role as managing member of UFLY, LLC. Amounts included in the consolidated statements of operations as minority interest reflect the after-tax portion of earnings of UFLY that are applicable to the minority interest partners. For the three months ended December 31, 2002 and December 31, 2001, UFLY had a $7,000 investment loss and a $2.9 million investment gain, respectively.

4. Segment Reporting

Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company s chief operating decision maker in deciding the allocation of resources and assessing performance. The Company is engaged in one line of business, the scheduled and chartered transportation of passengers, which constitutes nearly all of its operating revenues.

5. Marketable Securities

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that all applicable investments be classified as trading securities, available for sale securities or held to maturity securities. All of the Company s investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in current period operations.

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The Company has a cash management program that provides for the investment of excess cash balances primarily in short-term money market instruments, intermediate-term debt instruments and common equity securities of companies operating in the airline industry.

The Company enters into short positions on common equity securities when management believes that the Company may capitalize on downward moves in particular securities and as a hedge against its investment in common stocks of other airlines. Furthermore, by taking a short position in other airline s common stock, the Company is effectively hedging against downturns in the airline industry. Unlike traditional investing where the investors risk is limited to the amount of their investment, when stocks are sold short, there is no limit to the potential price appreciation of the stock thus there is no limit to the investor s loss. The Company marks short positions to market at each reporting period with the associated gain or loss value reflected in other income (expense) in the statement of operations. Included in marketable securities are liabilities related to short positions on common equity securities of $7.4 million and $7.2 million at December 31, 2002 and September 30, 2002, respectively. Unrealized gains (losses) for the period that relate to trading securities (including short positions) held at December 31, 2002, and September 30, 2002, were $(0.7) million and ($5.2) million, respectively.

6. Accounts Receivable from Code Share Partners

The Company has code-share agreements with America West, US Airways, Frontier, and Midwest Express. Approximately 98% of the Company s consolidated passenger revenue for the periods ended December 31, 2002 and 2001 were derived from these agreements. Accounts receivable from the Company s code-share partners were 69% and 57% of total gross accounts receivable at December 31, 2002 and September 30, 2002, respectively.

7. Derivative Financial Instruments

The Company accounts for its fuel hedge derivative instruments as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS 133 requires the Company to record all financial derivative instruments on its balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, the fair market value is recorded on the consolidated balance sheet. Changes in the fair value of the hedge that are considered to be effective, as defined, are recorded in Accumulated other comprehensive income. These deferred gains and losses are recognized in income in the period in which the related aircraft fuel is purchased. Any portion of a change in a derivative s fair value that is considered to be ineffective, as defined, is recorded immediately in Other income (expense) in the consolidated statement of operation. Any portion of a change in a derivative s fair value that the Company excludes from its measurement of effectiveness is required to be recorded immediately in earnings.

The Company is exposed to the effect of changes in the price and availability of aircraft fuel to the extent such exposure is not passed through to its revenue-guarantee code-share partners. Currently approximately 78% of the Company s fuel costs are associated with the Company s America West code-share and US Airways regional jet service agreements, thus these companies bear the risk of increases in the Company s fuel costs under these agreements. From time-to-time the Company utilizes financial derivative instruments as a hedge to mitigate its exposure to the remaining (at risk) aircraft fuel cost. Because aircraft fuel is not traded on organized futures exchanges, liquidity for aircraft fuel hedging is limited. However, the airline industry has found that heating oil contracts are effective instruments for hedging aircraft fuel. The Company does not purchase or hold any derivative financial instruments for trading purposes. The Company currently utilizes financial derivative instruments for short-term time frames when it appears the Company can take advantage of market conditions.

As of December 31, 2002, the Company has hedged approximately 5% of its estimated (at risk) pro-rate fuel expense for the second, third and fourth quarters of fiscal 2003. The Company has recorded approximately $53,000 in unrealized gains, net of tax, in Accumulated other comprehensive income related to these fuel hedges. These unrealized gains are recognized in income in the period in which the related aircraft fuel is purchased.

8. Aircraft and Parts Held for Sale

Aircraft and parts held for sale consists of aircraft and parts that the Company has deemed to be surplus to its operating needs. Included in this account are three Beechcraft 1900D aircraft that have been written down to fair value. The Company has a contract to return the remaining three aircraft to the manufacturer and the returns are anticipated to take place in the second quarter of fiscal 2003.

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Also included in this account is excess rotable inventory valued at net realizable value, less cost to sell.

9. Deferred Credits

Deferred credits consist of manufacturer incentives related to the delivery of aircraft on order and are amortized on a straight-line basis as a reduction of lease expense over the term of the respective leases.

10. Notes Payable and Long-Term Debt

At December 31, 2002, Mesa had three surplus Beechcraft 1900D aircraft classified as held for sale. Unpaid amounts totaling $8.4 million associated with these aircraft are included under the caption of current portion of long-term debt in the accompanying consolidated balance sheet. These amounts are not due until the aircraft are sold, and the sales proceeds are expected to substantially cover the outstanding debt balances for these aircraft.

The Company has a $35 million line of credit facility with Fleet Capital, which expires on December 7, 2003. The line of credit is secured by certain of the Company s inventory and receivables, with the amount available varying from time to time based on the then current value of the collateral. The Company had $19.7 million in letters of credit outstanding at December 31, 2002, which reduced the amount available under the line of credit with Fleet. There were no amounts outstanding under this facility at December 31, 2002. Based upon available collateral, $2.2 million remained available under the line at December 31, 2002.

11. Weighted Average Shares Outstanding

	Three Months Ended December 31,	
	2002	**2001**
	(in thousands)	
Weighted average shares basic	31,656	32,796
Weighted average shares diluted	31,656	33,030

12. Beechcraft 1900D Cost Reductions

On February 7, 2002, the Company finalized an agreement with Raytheon Aircraft Credit Company (the Raytheon Agreement) to reduce the operating costs of its Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject to the terms and conditions contained therein, Raytheon agreed to provide up to $5.5 million in annual operating subsidy payments to the Company contingent upon satisfying certain spending requirements and, among other things, the Company remaining current on its payment obligations to Raytheon. Approximately $1.4 million was recorded as a reduction to flight operations, maintenance and interest expense during the three months ended December 31, 2002.

In return, the Company granted Raytheon an option to purchase up to 233,068 warrants at a purchase price of $1.50 per warrant. Each warrant entitles the holder to purchase one share of common stock at an exercise price of $10.00 per share. Each of the warrants is exercisable at any time over a three-year period following its date of purchase. Absent an event of default by the Company in which case vesting is accelerated, options to purchase the warrants vest according to the following schedule: 13,401 warrants for fiscal year 2001; 116,534 warrants for fiscal year 2002; 58,267 warrants for fiscal year 2003 and 44,866 warrants for fiscal year 2004. As of December 31, 2002, Raytheon has exercised its option to purchase the 2001 and 2002 warrants.

13. Impairment of Long-Lived Assets

As a result of the inability of the Company to reduce its operating costs and a continued history of operating losses at CCAir, management of CCAir elected to cease operations effective November 3, 2003. As a result of this decision, the Company took a pre-tax restructuring and impairment charge of $19.8 million in the fourth quarter of fiscal 2002. The charge is comprised of $0.7 million of severance and other employee related liabilities, $4.6 million in aircraft related return costs, $7.8 million for future aircraft lease payments, $4.1 million to reduce the value of rotable and expendable inventory to fair market value less costs to sell, $0.9 million to write off the value of equipment and leasehold improvements and $1.7 million to reduce maintenance deposits held by a lessor to net realizable value. Once operations ceased, CCAir stopped making lease payments on its fleet of Dash 8 100 aircraft, thus putting these leases in default. CCAir subsequently returned the aircraft to the lessor. CCAir had after-tax losses of $1.0 million and $2.3 million

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in the three-month periods ended December 31, 2002 and 2001, respectively.

Also in the fourth quarter of fiscal 2002, the Company returned 12 of the 15 B1900D aircraft permitted under its agreement with Raytheon. As a result of unanticipated increases in the cost of meeting return conditions, the Company recorded an additional impairment charge of $3.3 million. The remaining three aircraft are expected to be returned to Raytheon by the end of the second quarter of fiscal 2003. Also in 2002, the Company s sublease of two Shorts 360 aircraft, which the Company had been subleasing to an operator in Europe, expired and the Company did not anticipate the lease to be renewed. As a result, the Company took a charge for $3.6 million to accrue for the remaining lease payments and the future costs of returning these aircraft to the lessor.

The changes in the impairment and restructuring charges for the period ended December 31, 2002 are as follows:

Description of Charge	Reserve Sept. 30, 2001	Cash Utilized	Reserve Dec. 31, 2001	Reserve Sept. 30, 2002	Cash Utilized	Reserve Dec. 31, 2002
Restructuring:						
Severance and other	$	$	$	$ (658)	$ 56	$ (602)
Costs to return aircraft	(4,715)	208	(4,507)	(8,107)	701	(7,406)
Aircraft lease payments	(3,610)		(3,610)	(9,238)		(9,238)
Cancellation of maintenance agreement	(1,200)		(1,200)			
Total	$(9,525)	$208	$(9,317)	$(18,003)	$757	$(17,246)

The reserve balance of $17.2 million above is included in accrued expenses, other non-current liabilities and deferred credits on the accompanying consolidated balance sheets.

14. Other Income (Expense)

Other income (expense) is primarily comprised of the results of the Company s investment activities. The Company s investment gains and losses include 100% of the investment gains and losses of UFLY; the minority interest is deducted out of the Company s operations after income taxes. Other income includes investment gains (losses) from the Company s portfolio of aviation related securities of approximately ($0.1) million and $4.7 million for the three months ended December 31, 2002 and December 31, 2001, respectively.