MESA AIR GROUP INC
Form 10-Q/A
May 07, 2004

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q/A

(Amendment No.1)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period-ended December 31, 2003

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-15495

Mesa Air Group, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**85-0302351**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
410 North 44th Street, Suite 700, Phoenix, Arizona	**85008**
(Address of principal executive offices)	*(Zip code)*

Registrant s telephone number, including area code:
(602) 685-4000

Indicate by checkmark 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 x No o

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 126-2 of the Exchange Act). Yes x No o

On May 4, 2004 the registrant had outstanding 31,700,874 shares of Common Stock.

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EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2003 for the purpose of amending and restating Item 1 of Part I, containing our unaudited condensed consolidated financial statements and related notes as of December 31, 2003 and for the three months ended December 31, 2003 and 2002. The restatement relates to the accounting for interim financing arrangements and is further discussed in Note 18 to the restated condensed consolidated financial statements included herein. We have also updated Item 2 of Part I, Management Discussion and Analysis of Financial Condition and Results of Operations, to give effect to the restatement. In addition, we have amended Item 6 of Part II to reflect the filing of updated certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and we have filed certifications pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended. Other than the changes regarding the restatement and related disclosures, no other information in this Amendment No. 1 has been updated to reflect any subsequent information or events since the original filing of this Form 10-Q on February 17, 2004. This Amendment should be read together with our Annual Report on Form 10-K/A for the year ended September 30, 2003, as filed with the U.S. Securities and Exchange Commission on December 29, 2003, and amended on January 5, 2004 and May 7, 2004.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

MESA AIR GROUP, INC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)
(As Restated, See Note 18)

	Three Months Ended	
	December 31, 2003	**December 31, 2002**
Operating revenues:		
Passenger	$181,323	$127,677
Freight and other	6,230	5,416
Total operating revenues	187,553	133,093
Operating expenses:		
Flight operations	64,747	49,741
Fuel	35,932	24,485
Maintenance	36,694	30,982
Aircraft and traffic servicing	13,824	13,312
Promotion and sales	1,648	2,401
General and administrative	17,091	8,672
Depreciation and amortization	6,020	3,298
Total operating expenses	175,956	132,891
Operating income	11,597	202
Other income (expense):		
Interest expense	(5,762)	(2,228)
Interest income	496	262
Other income	702	211

Total other expense	(4,564)	(1,755)
Income (loss) before income taxes and minority interest	7,033	(1,553)
Income taxes (benefit)	2,896	(595)
Income (loss) before minority interest	4,137	(958)
Minority interest		3
Net income (loss)	$ 4,137	$ (955)
Income (loss) per common share:		
Basic	$ 0.13	$ (0.03)
Diluted	$ 0.12	$ (0.03)

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands except share amounts)

	December 31, 2003	September 30, 2003
	(As Restated, See Note 18)	
ASSETS		
Current assets:		
Cash and cash equivalents	$139,486	$152,547
Marketable securities	11,076	13,558
Restricted cash	9,268	
Receivables, primarily traffic, net	23,096	25,493
Expendable parts and supplies, net	27,807	25,044
Prepaid expenses and other current assets	21,396	28,202
Deferred income taxes	25,199	28,436
Total current assets	257,328	273,280
Property and equipment, net	341,567	398,192
Lease and equipment deposits	24,823	27,352
Deferred income taxes	5,252	4,484
Intangibles, net	1,222	
Other assets	13,206	13,628
Total assets	$643,398	$716,936
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$153,135	$250,142
Accounts payable	41,449	39,315
Air traffic liability	2,927	3,490
Accrued compensation	5,192	6,581
Income taxes payable		896
Other accrued expenses	34,096	37,428
Total current liabilities	236,799	337,852
Long-term debt, excluding current portion	219,598	199,023

Deferred credits	65,827	63,264
Other noncurrent liabilities	4,610	4,824
Total liabilities	526,834	604,963
Stockholders equity:		
Preferred stock of no par value, 2,000,000 shares authorized; no shares issued and outstanding		
Common stock, no par value, 75,000,000 shares authorized; 31,742,507 and 31,704,625 shares issued and outstanding, respectively	115,036	114,580
Retained earnings (accumulated deficit)	1,528	(2,607)
Total stockholders equity	116,564	111,973
Total liabilities and stockholders equity	$643,398	$716,936

See accompanying notes to condensed consolidated financial statements.

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MESA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)
(As Restated, See Note 18)

	Three Months Ended	
	December 31, 2003	**December 31, 2002**
Cash Flows from Operating Activities:		
Net income (loss)	$ 4,137	$ (955)
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities: Depreciation and amortization	6,020	3,298
Tax benefit-stock compensation	83	5
Deferred income taxes	2,469	(594)
Unrealized (gain) loss on investment securities	510	689
Amortization of deferred credits	(1,649)	(1,567)
Provision for obsolete expendable parts and supplies	300	300
Provision for doubtful accounts	696	
Minority interest		(3)
Changes in assets and liabilities:		
Net sales of investment securities	1,972	2,785
Restricted cash	(9,268)	
Receivables	1,701	(11,335)
Expendable parts and supplies	(2,283)	(1,934)
Prepaid expenses and other current assets	6,806	5,926
Accounts payable	1,384	959
Income taxes	(896)	(537)
Cost to return aircraft held for sale		(701)
Other accrued liabilities	(4,710)	(1,303)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	7,272	(4,967)
Cash Flows from Investing Activities:		
Capital expenditures	(10,561)	(1,292)
Acquisition of Midway assets, net	(9,160)	
Proceeds from sale of rotable and expendable inventory	385	1,198
Change in other assets	281	343
Net (payments) returns of lease and equipment deposits	1,129	(3,628)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(17,926)	(3,379)

Cash Flows from Financing Activities:		
Principal payments on long-term debt	(3,244)	(3,943)
Proceeds from issuance of common stock	373	275
Common stock purchased and retired		(1,867)
Proceeds from receipt of deferred credits	464	3,120
Distribution to minority interest shareholders		(375)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,407)	(2,790)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,061)	(11,136)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	152,547	45,870
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$139,486	$ 34,734

(Continued)

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MESA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)
(As Restated, See Note 18)

	Three Months Ended	
	December 31, 2003	**December 31, 2002**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 7,268	$ 2,439
Cash paid for income taxes, net	1,265	535
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Aircraft delivered under interim financing	$ 25,295	$ 91,383
Aircraft and debt permanently financed as operating leases	(122,592)	
Long-term debt assumed in Midway asset purchase	24,109	
Inventory and other credits received in conjunction with aircraft financing	427	440

(Concluded)

See condensed accompanying notes to 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 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, 2003, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2004. These condensed 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/A for the fiscal year ended September 30, 2003.

The accompanying condensed consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly-owned operating subsidiaries (collectively Mesa or the Company): Mesa Airlines, Inc. (Mesa Airlines), a Nevada corporation and certificated air carrier; Freedom Airlines, Inc. (Freedom), a Nevada corporation and certificated air carrier; Air Midwest, Inc. (Air Midwest), a Kansas corporation and certificated air carrier; CCAir, Inc. (CCAir), a Delaware corporation; MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development; Regional Aircraft Services, Inc. (RAS) a Pennsylvania company; Mesa Leasing, Inc., a Nevada corporation; Mesa Air Group - Aircraft Inventory Management, LLC (MAG-AIM), an Arizona Limited Liability Company; Ritz Hotel Management Corp., a Nevada Corporation; UFLY, LLC. (UFLY), a Delaware Limited Liability Company; and MAGI Insurance, Ltd. (MAGI), a Barbados, West Indies based captive insurance company. MPD, Inc. provides pilot training in coordination with a community college in Farmington, New Mexico and with Arizona State University in Tempe, Arizona. RAS performs aircraft component repair and overhaul services. UFLY was established in fiscal 2002 to make strategic investments in US Airways common stock. MAGI is a captive insurance company established for the purpose of obtaining more favorable aircraft liability insurance rates. CCAir ceased operations on November 3, 2002 and was dissolved in the second quarter of fiscal 2003. UFLY distributed its assets in the fourth quarter of fiscal 2003 and was subsequently dissolved prior to fiscal year end. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Minority Interest

In 2001, the Company entered into an agreement to form UFLY for the purpose of making strategic investments in US Airways, Inc. In 2002, UFLY was formally established and was capitalized with $5.0 million from the Company and $5.0 million from other members, which included Jonathan Ornstein, the Company s Chairman and Chief Executive Officer. UFLY distributed its assets in the fourth quarter of fiscal 2003 and was subsequently dissolved prior to September 30, 2003. The Company owned greater than 50% of UFLY in 2003 and therefore the financial results of UFLY were included in the consolidated financial results of the Company for that year. 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, UFLY had a $7,000 investment loss.

3. Acquisitions

In December 2003, the Company announced that it would not be moving forward with either its proposed consent solicitation or exchange offer for Atlantic Coast. Transaction related costs of $5.3 million are included in General and administrative expenses in the three month period ended December 31, 2003.

On December 19, 2003, the Company purchased the assets of Midway Airlines Corporation (Midway) for $9.2 million through Midway s Chapter 7 bankruptcy proceeding. The assets include Midway s operating certificate (which has been subsequently returned to the FAA), six leased CRJ-200 aircraft, two owned CRJ-200 aircraft, all of Midway s CRJ spare parts and support equipment, all aircraft landing and/or takeoff slots at New York LaGuardia and Washington National airports and all related acquisition materials associated with the operation of Midway s CRJ operations. The Company also assumed $24.1 million in debt related to the two CRJ-200 aircraft. The Company purchased the Midway assets in order to meet its 2004 growth plans.

The acquisition was recorded using the purchase method of accounting and, accordingly, the results of operations of the acquired business are included in the consolidated statements of income from the date of acquisition. The purchase price has been allocated to the assets acquired (primarily aircraft and rotable parts) and liabilities assumed based upon preliminary estimates of fair values.

4. Segment Reporting

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 has three airline operating subsidiaries, Mesa Airlines, Freedom Airlines and Air Midwest and various other subsidiaries organized to provide support for the Company s airline operations. The Company had a fourth operating subsidiary, CCAir, which ceased operations on November 3, 2002. The Company has aggregated these operating segments into four reportable segments. Mesa Airlines and Freedom primarily operate the Company s regional jets. Air Midwest operates the Company s Beech 1900 turboprop aircraft. Prior to ceasing operations, CCAir operated a mixed fleet of turboprop aircraft. The Other reportable segment includes Mesa Air Group, RAS, MPD, MAG-AIM, MAGI and UFLY, all of which support Mesa s operating subsidiaries. Operating revenues in the Other segment are primarily sales of rotable and expendable parts to the Company s operating subsidiaries.

Mesa Airlines and Freedom provide passenger service with regional jets under revenue-guarantee contracts with America West, United and US Airways. Mesa Airlines code-share agreement with Frontier terminated on December 31, 2003. Mesa Airlines also provides passenger service with Dash-8 aircraft under revenue-guarantee contracts with United and America West. As of December 31, 2003, Mesa Airlines and Freedom operated a fleet of 116 aircraft 68 CRJs, 36 ERJs and 12 Dash-8 s.

Air Midwest provides passenger service with Beechcraft 1900D aircraft under pro-rate contracts with America West, US Airways and Midwest Airlines. As of December 31, 2003, Air Midwest operated a fleet of 42 Beechcraft 1900D turboprop aircraft.

CCAir provided passenger service with Dash-8 and Jetstream 31 turboprop aircraft under pro-rate revenue contracts with US Airways. CCAir ceased operations on November 3, 2002.

The Other category consists of Mesa Air Group (holding company), MPD, RAS, MAGI, UFLY, MAG-AIM, Mesa Leasing, Inc. and Ritz Hotel Management Corp. Mesa Air Group performs all administrative functions not directly attributable to any specific operating company. These administrative costs are allocated to the operating companies based upon specific criteria including headcount, ASM s and other operating statistics. MPD operates pilot training programs in conjunction with San Juan College in Farmington, New Mexico and Arizona State University in Tempe, Arizona. Graduates of these training programs are eligible to be hired by the Company s operating subsidiaries. RAS primarily provides repair services to the Company s operating subsidiaries. MAGI is a captive insurance company located in Barbados. MAG-AIM is the Company s inventory procurement company. UFLY was established for the purpose of making strategic investments in other airline s common stock.

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Three Months ended December 31, 2003 (000's)	Mesa / Freedom	Air Midwest	CCAir	Other	Eliminations	Total
Total operating revenues	$165,079	$21,160	$	$ 81,463	$ (80,149)	$187,553
Depreciation and amortization	5,158	176		686		6,020
Operating income (loss)	17,878	(2,698)		9,290	(12,873)	11,597
Interest expense	(4,080)	(42)		(1,640)		(5,762)
Interest income	344	2		150		496
Income (loss) before income tax and minority interest	14,817	(2,673)		7,762	(12,873)	7,033
Income tax (benefit)	6,104	(1,101)		3,197	(5,304)	2,896
Total assets	553,639	15,105		338,895	(264,241)	643,398
Capital expenditures (including non-cash)	27,857	44		7,955		35,856

Three Months Ended December 31, 2002 (000's)	Mesa / Freedom	Air Midwest	CCAir	Other	Eliminations	Total
Total operating revenues	$107,309	$23,309	$ 1,254	$ 1,221	$	$133,093
Depreciation and amortization	2,481	179		638		3,298
Operating income (loss)	1,329	(1,455)	(1,423)	1,751		202
Interest expense	(1,805)	(105)	(174)	(144)		(2,228)
Interest income	171	2	2	87		262
Income (loss) before income tax and minority interest	(344)	(1,591)	(1,595)	1,977		(1,553)
Income tax (benefit)	(132)	(609)	(611)	757		(595)
Total assets	302,149	11,200	4,250	433,190	(267,057)	483,732
Capital expenditures (including non-cash)	91,946	16		713		92,675

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.

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.

In the past, the Company has entered into short positions on common equity securities when management believed 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 hedged against downturns in the airline industry. Unlike traditional investing where the investor s 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

$8.3 million and $13.2 million at December 31, 2003 and September 30, 2003, respectively. Unrealized losses that relate to trading securities (including short positions) held at December 31, 2003, and September 30, 2003, were $0.4 million and $2.5 million, respectively.

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6. Restricted Cash

The Company has $9.3 million in restricted cash on deposit with Fleet Capital collateralizing various letters of credit outstanding as of December 31, 2003. The restricted cash on deposit is necessary due to the expiration of Company s line of credit with Fleet Capital on December 7, 2003.

7. Accounts Receivable from Code-Share Partners

The Company has code-share agreements with America West, US Airways, United and Midwest Airlines. The Company s code-share agreement with Frontier expired December 31, 2003. Approximately 99% and 98% of the Company s consolidated passenger revenue for the three months ended December 31, 2003 and 2002, respectively, were derived from these agreements. Accounts receivable from the Company s code-share partners were 67% and 57% of total gross accounts receivable at December 31, 2003 and September 30, 2003, respectively.

8. Deferred Credits

Deferred credits consist of aircraft purchase incentives provided by the aircraft manufacturers and deferred gains on the sale and leaseback of interim financed aircraft. These incentives include credits that may be used to purchase spare parts, pay for training expenses or reduce other aircraft operating costs. These deferred credits and gains are amortized on a straight-line basis as a reduction of lease expense over the term of the respective leases.

9. Notes Payable and Long-Term Debt

In June 2003, the Company completed the private placement of senior convertible notes (collectively, the Notes) due 2023, which resulted in gross proceeds of $100.1 million to the Company. Cash interest is payable on the Notes at a rate of 2.4829% per year on the principal amount at maturity, payable semiannually in arrears on June 16 and December 16 of each year, beginning December 16, 2003, until June 16, 2008. After that date, the Company will not pay cash interest on the Notes prior to maturity, and the Notes will begin accruing compounded interest at a rate of 6.25% until maturity. On June 16, 2023, the maturity date of the Notes, the principal amount of each note will be $1,000. The aggregate amount due at maturity, including interest accrued from June 16, 2008, will be $252 million. The Notes and the note guarantees are senior unsecured obligations and rank equally with the Company s existing and future senior unsecured indebtedness. The Notes and the note guarantees are junior to any secured obligations of the Company and any of its wholly owned subsidiaries to the extent of the collateral pledged.

The Notes are convertible into shares of the Company s common stock at a conversion rate of 39.727 shares per $1,000 in principal amount at maturity of the Notes which equals an initial conversion price of approximately $10.00 per share. This conversion rate is subject to adjustment in certain circumstances. Holders of the Notes may convert their Notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for the Notes falls below certain thresholds; (iii) the Notes have been called for redemption; or (iv) specified corporate transactions occur. The Company may redeem the Notes, in whole or in part, beginning on June 16, 2008, at a redemption price equal to the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the Notes may require the Company to repurchase the Notes on June 16, 2008 at a price of $397.27 per note plus accrued and unpaid cash interest, if any, on June 16, 2013 at a price of $540.41 per note plus accrued and unpaid cash interest, if any, and on June 16, 2018 at a price of $735.13 per note plus accrued and unpaid cash interest, if any. It is the Company s intent to settle the notes in cash if the Holders require repurchase in 2008, 2013 and 2018.

Repayment of the Notes is jointly and severally guaranteed on an unconditional basis by the Company s wholly owned domestic subsidiaries. Except as otherwise specified in the indentures pursuant to which the Notes were issued, there are no restrictions on the ability of such subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. General provisions of applicable state law, however, may limit the ability of any subsidiary to pay dividends or make distributions to the Company in certain circumstances.

Separate financial statements of the Company s subsidiaries are not included herein because the aggregate assets, liabilities, earnings, and equity of the subsidiaries are substantially equivalent to the assets, liabilities, earnings, and equity of the Company on a consolidated basis; the subsidiaries are jointly and severally liable for the repayment of the Notes; and the separate financial statements and other disclosures concerning the subsidiaries are not deemed by the Company to be material to investors.

Also at December 31, 2003, the Company had $144.3 million in notes payable to an aircraft manufacturer for aircraft on interim financing. Under interim financing, the aircraft are recorded as a purchase with debt financing.

Accordingly, the Company reflects the aircraft and debt under interim financing on its balance sheet during the interim financing period. Upon permanent financing, the proceeds from the sale and lease back transaction are used to retire the notes payable to the manufacturer. Any gain recognized on the sale-leaseback transaction is deferred and amortized over the life of the lease.

10. Earnings (Loss) Per Share

The Company accounts for earnings (loss) per share in accordance with SFAS No. 128, Earnings per Share. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented. Diluted net income (loss) per share reflects the potential dilution that could occur if outstanding stock options and warrants were exercised. In addition, dilutive convertible securities are included in the denominator while interest on convertible debt, net of tax, is added back to the numerator. A reconciliation of the numerator and denominator used in computing income (loss) per share is as follows:

	Three Months Ended December 31,	
	2003	**2002**
	(in thousands)	
Share calculation:		
Weighted average shares basic	31,743	31,656
Effect of dilutive outstanding stock options and warrants	1,864	
Effect of dilutive outstanding convertible debt.	10,011	
Weighted average shares diluted	43,618	31,656
Adjustments to net income (loss):		
Net income (loss)	$ 4,137	$ (955)
Interest expense on convertible debt, net of tax	1,008	
Adjusted net income (loss)	$ 5,145	$ (955)

The effect of options to purchase 142,108 shares of common stock in the first quarter of fiscal 2003 would have been antidilutive to the per share calculation. Accordingly, those options were excluded from the calculation.

11. 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. The amount was subsequently reduced to $5.3 million as a result of a reduction in the Company s fleet of B1900D aircraft. Approximately $1.3 million and $1.4 million was recorded as a reduction to expense during the three months ended December 31, 2003 and December 31, 2002, respectively.

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, 2003, Raytheon has exercised its option to purchase the 2001, 2002, and 2003 warrants.

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12. Impairment of Long-Lived Assets

CCAir Impairment and Restructuring

As a result of the inability of CCAir to reduce its operating costs and its continued history of operating losses, as well as receiving a notification by US Airways of their intent to cancel CCAir s pro-rate contract effective November 3, 2002, management at CCAir elected to cease operations as of that date. As a result, the Company took a pretax restructuring and impairment charge of $19.8 million in fiscal 2002, including $7.8 million for future aircraft lease payments, $4.6 million in aircraft related return costs, $4.1 million to reduce the value of rotable and expendable inventory to fair market value less costs to sell, $1.7 million to reduce maintenance deposits held by a lessor to net realizable value, $0.9 million to write off the value of equipment and leasehold improvements and $0.7 million of severance and other employee related liabilities. Once operations ceased, CCAir stopped making lease payments on its fleet of Dash 8-100 aircraft. CCAir subsequently returned the aircraft to the lessors. At the time of the shutdown, it was the Company s intention to maintain the legal entity of CCAir as well as its operating certificate with the possibility of either restructuring the airline and operating it under amended labor agreements in the future or affecting a sale of CCAir.

In fiscal 2003, CCAir surrendered its operating certificate to the FAA and filed articles of dissolution with the State of Delaware. As a result of these events and CCAir s lack of liquidity, it became clear that CCAir would be unable to pay any of its obligations. In fiscal 2003, in light of CCAir s inability to pay its obligations and the resulting dissolution, the Company reversed the restructuring charges recorded in fiscal 2002 by approximately $12 million. The reversal of these charges was precipitated by the dissolution of CCAir and the Company s subsequent determination, after consultation with counsel, that the Company should not be held legally responsible for the obligations incurred solely by CCAir and not guaranteed by the Company.

At December 31, 2003, $0.5 million of accrued severance and other remains with respect to this impairment and restructuring.

Shorts 360 Impairment

The Company s sublease of two Shorts 360 aircraft to an operator in Europe expired in fiscal 2002 and the Company did not anticipate the lease to be renewed. As a result, the Company took a charge for $3.6 million in fiscal 2002 to accrue for the remaining lease payments and the future costs of returning these aircraft to the lessor.

At December 31, 2003, $2.2 million of accrued aircraft return costs and $1.0 million of accrued aircraft lease payments remain with respect to this impairment.

The changes in the impairment and restructuring charges for the period ended December 31, 2003 and 2002 are as follows:

Description of Charge	Reserve Oct. 1, 2002	Non Cash Utilized	Cash Utilized	Reserve Dec. 31, 2002
Restructuring:				
Severance and other	$ (658)	$	$ 56	$ (602)
Costs to return aircraft	(8,107)		701	(7,406)
Aircraft lease payments	(9,238)	129		(9,109)

Total	$(18,003)	$ 129	$ 757	$(17,117)

Description of Charge	**Reserve Oct. 1, 2003**	**Non Cash Utilized**	**Cash Utilized**	**Reserve Dec. 31, 2003**
Restructuring:				
Severance and other	$ (548)	$	$ 44	$ (504)
Costs to return aircraft	(2,217)			(2,217)
Aircraft lease payments	(1,188)	129	36	(1,023)
Total	$(3,953)	$ 129	$ 80	$(3,744)

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The reserve balance of $3.7 million above is included in accrued expenses, other non-current liabilities and deferred credits on the accompanying consolidated balance sheets.

13. Other Income (Expense)

Other inco