MERCURY AIR GROUP INC
Form 10-Q
November 14, 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 September 30, 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 November 12, 2002**
Common Stock, $0.01 Par Value	6,439,999

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PART 1 FINANCIALS INFORMATION

Item 1. Financial Statements

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

	SEPTEMBER 30, 2002	JUNE 30, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,006,000	$ 5,554,000
Restricted Cash	250,000	3,780,000
Trade accounts receivable, net of allowance for doubtful accounts of $1,869,000 at 9/30/02 and $1,583,000 at 6/30/02	46,059,000	46,958,000
Inventories, principally aviation fuel	6,561,000	2,985,000
Prepaid expenses and other current assets	3,201,000	3,077,000
Note receivable from affiliate	1,400,000	1,400,000
Total current assets	61,477,000	63,754,000
PROPERTY, EQUIPMENT AND LEASEHOLDS, net of accumulated depreciation and amortization of $54,732,000 at 9/30/02 and $53,668,000 at 6/30/02	57,936,000	59,286,000
NOTES RECEIVABLE	2,078,000	2,158,000
DEFERRED INCOME TAXES	766,000	770,000
GOODWILL	4,389,000	4,389,000
OTHER INTANGIBLE ASSETS	208,000	233,000
OTHER ASSETS	4,013,000	4,096,000
	$ 130,867,000	$ 134,686,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 32,329,000	$ 35,085,000
Accrued expenses and other current liabilities	8,072,000	8,459,000
Current portion of long-term debt (Note 5)	14,830,000	14,677,000
Senior Subordinated Note, current (Note 5)	23,228,000	23,179,000
Total current liabilities	78,459,000	81,400,000
LONG-TERM DEBT	13,799,000	14,351,000
DEFERRED GAIN	2,126,000	2,146,000
DEFERRED RENT	2,090,000	1,943,000
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS EQUITY:		
Preferred Stock $0.01 par value; authorized 3,000,000 shares; no shares outstanding		
Common Stock $0.01 par value; authorized 18,000,000 shares; outstanding 6,439,999 shares at 9/30/02 and 6,541,699 at 6/30/02	64,000	65,000
Additional paid-in capital	21,404,000	21,419,000
Retained earnings	17,233,000	17,751,000
Accumulated other comprehensive loss (Note 8)	(355,000)	(316,000)
Notes receivable from sale of stock	(3,953,000)	(4,073,000)

Total stockholders equity	34,393,000	34,846,000
	$ 130,867,000	$ 134,686,000

See accompanying notes to consolidated financial statements

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	**2001**
Sales and Revenues:		
Sales	$ 85,450,000	$ 80,443,000
Service revenues	22,445,000	23,309,000
	107,895,000	103,752,000
Costs and Expenses:		
Cost of sales	76,034,000	70,289,000
Operating expenses	25,796,000	25,739,000
	101,830,000	96,028,000
Gross Margin (Excluding depreciation and amortization)	6,065,000	7,724,000
Expenses (Income):		
Selling, general and administrative	3,224,000	1,960,000
Provision for bad debts	352,000	585,000
Depreciation and amortization	2,029,000	2,304,000
Interest expense	1,320,000	1,526,000
Interest income	(70,000)	(17,000)
	6,855,000	6,358,000
(Loss) Income from Continuing Operations Before Provision for Income Taxes	(790,000)	1,366,000
(Benefit from) Provision for Income Taxes	(308,000)	533,000
(Loss) Income from Continuing Operations	(482,000)	833,000
Loss from Discontinued Operations net of Income Tax benefit of $27,000 (Note 2)		(42,000)
Net (Loss) Income	$ (482,000)	$ 791,000
Net (Loss) Income Per Common Share (Note 6):		
Basic:		
From Continuing Operations	$ (0.07)	$ 0.13
(Loss) from Discontinued Operations	0.00	(0.01)
Net (Loss) Income	$ (0.07)	$ 0.12
Diluted:		
From Continuing Operations	$ (0.07)	$ 0.12
(Loss) from Discontinued Operations	0.00	(0.01)
Net (Loss) Income	$ (0.07)	$ 0.11

See accompanying notes to consolidated financial statements

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	$ (482,000)	$ 791,000
Less: Loss from discontinued operations		(42,000)
(Loss) Income from continuing operations	(482,000)	833,000
Adjustments to derive cash flow from operating activities:		
Bad debt expense	352,000	585,000
Depreciation and amortization	2,029,000	2,304,000
Deferred income taxes	4,000	12,000
Deferred rent	147,000	147,000
Compensation expense related to remeasurement of stock options	318,000	12,000
Expense related to amortization of executive stock plan	120,000	
Amortization of senior subordinated note discount	49,000	47,000
Loss on retirement of assets	41,000	
Amortization of deferred gain	(20,000)	
Changes in operating assets and liabilities:		
Trade and other accounts receivable	547,000	3,644,000
Inventories	(3,576,000)	(313,000)
Prepaid expenses and other current assets	(124,000)	(690,000)
Accounts payable	(2,756,000)	(5,687,000)
Accrued expenses and other current liabilities	(387,000)	(3,722,000)
Net cash used in operating activities	(3,738,000)	(2,828,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted cash	3,530,000	
Increase in other assets	(37,000)	(17,000)
(Increase) decrease in notes receivables	80,000	(413,000)
Proceeds from sale of property	35,000	
Additions to property, equipment and leaseholds	(610,000)	(1,326,000)
Net cash provided by (used in) investing activities	2,998,000	(1,756,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Credit-Facility	11,275,000	4,000,000
Reduction of debt instruments	(11,674,000)	(6,663,000)
Repurchase of common stock	(370,000)	
Net cash used in financing activities	(769,000)	(2,663,000)
Effect of exchange rate changes on cash	(39,000)	
NET DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(1,548,000)	(7,247,000)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		4,236,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,554,000	3,886,000

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,006,000	$ 875,000
CASH PAID DURING THE PERIOD:		
Interest	$ 1,221,000	$ 1,498,000
Income taxes	$ 4,539,000	

See accompanying notes to consolidated financial statements

MERCURY AIR GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

(Unaudited)

NOTE 1 GENERAL:

BUSINESS:

Mercury Air Group, Inc. (the Company), a Delaware Corporation, was organized in 1956 and provides a broad range of services to the aviation industry through four principal operating units: fixed base operations, cargo operations, fuels sales, and government contract 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. Cargo operations consist of cargo handling, space logistics operations and general cargo sales agent 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. 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).

RISKS AND UNCERTAINTIES:

In regard to the Senior Secured Credit Facility, the Company was in noncompliance with the minimum net earnings covenant requirement for the first quarter of fiscal 2003 and for the second and third quarters of fiscal 2002. The Company was also in noncompliance with the maximum capital expenditure covenant of the Senior Secured Credit Facility and for the Senior Subordinated 12% Note (the Note) for the fiscal year ended June 30, 2002. As a result, the Company has been engaged in discussions with the Senior Secured Credit Facility Lenders (the Lenders) and the Note Holder regarding waivers and/or cures for the noncompliance with these debt covenants. Until such time that waivers are received or a cure is accomplished, the Lenders and the Note Holder have the right to provide the Company with written notice declaring the total obligations associated with the Senior Secured Credit Facility and the Note to be immediately due and payable. Neither the Lenders nor the Note Holder has exercised this right.

In October 2002, the Company received written notice from the Lenders that as a result of the noncompliance with these debt covenants, the Lenders are under no obligation to make any additional loans under the Senior Secured Credit Facility, although they are not precluded from making additional loans. In November 2002, the Company received written notice from the Note Holder constituting a Subordinated Default Notice whereby the Note Holder advised the Company of the event of default, and while not declaring the outstanding principal and accrued interest immediately due and payable, the Note Holder reserves all rights to take any action allowable under the Note Agreement, including the acceleration of the maturity date. This notice also advised the Company that the Note Holder is due additional interest at the default rate until such defaults are cured or waived. The default interest represents an additional 2.0% per annum over the stated interest rate of 12.0% on the outstanding balance and was retroactive to June 30, 2002.

In addition to having had discussions with the Lenders and the Note Holder regarding waivers for these debt covenants, the Company has also engaged a financial advisor and is in discussions with other lenders to provide new financing to replace the Senior Secured Credit Facility and the Note. There can be no assurance that the Company could obtain the financing necessary, which may result in the Company having inadequate financial resources to meet this obligation if the Lenders and/or the Note Holder exercise their right to declare the outstanding obligations associated with the Senior Secured Credit Facility and the Note to be immediately due and payable. However, the Company believes it will be able to secure new financing to replace the Senior Secured Credit Facility and the Note even in the event of the Lenders and the Note Holder exercising their right to accelerate the maturity dates.

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On November 6, 2002 National Airlines, Inc. (National), a customer of the Company s MercFuel, Inc. (MercFuel) subsidiary, announced that they were ceasing operations effective on that date. The Company has been providing fuel to National since May 1999. In December 2000, National filed for bankruptcy protection and the Company continued to sell fuel to National on a secured basis under the auspices of the bankruptcy court. Sales by MercFuel to National for the three months ended September 30, 2002 and 2001 were $17.5 million and $15.1 million, respectively, representing 16.2% and 14.5% of the Company s consolidated revenue for those periods. As of November 6, 2002, the Company estimates the outstanding account receivable from National to be $375 thousand which is adequately secured.

As a result of National s cessation of operations in November 2002 and the limited access to additional borrowings under the Company s credit facility, the Company may encounter difficulties in meeting its near-term working capital requirements. The Company is in discussions with its major suppliers to extend additional credit terms to enable the Company to meet its working capital requirements. The Company believes that upon securing the new financing, it will have sufficient liquidity to meet its ongoing working capital requirements.

Accounts receivable is comprised primarily of trade receivables from customers and is net of an allowance for doubtful accounts. The Company s credit risk is based in part on the following: 1) substantially all receivables are related to a single industry, aviation, 2) there is a concentration of credit risk as there are several customers who at any time have significant balances owed to the Company, and 3) significant balances are owed by certain customers that are not adequately capitalized. In addition, significantly higher fuel prices for extended periods of time have a negative impact on the aviation industry as it substantially increases airlines operating expenses. Smaller airlines with lower levels of capital may be more seriously impacted. The Company assesses its credit portfolio on an ongoing basis and establishes allowances which it believes are adequate to absorb potential credit problems that can be reasonably anticipated.

The Company purchases fuel from a limited number of suppliers. If the Company s relationship with any of these key suppliers terminates, the Company may not be able to obtain a sufficient quantity of fuel on favorable terms or may experience difficulty in obtaining fuel from alternative suppliers. Furthermore, difficulties faced by these suppliers or fuel shortages or the inability to obtain fuel from alternate sources at acceptable prices and terms, could impair the Company s ability to sell fuel to its customers at competitive prices and terms

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, 2002 and the notes thereto. The results of operations for the three months ended September 30, 2002 are not necessarily indicative of results for the full year.

NEW ACCOUNTING PRONOUNCEMENTS:

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. Had the non-amortization provisions of SFAS No. 142 not been adopted, amortization of goodwill would have been $0.1 million for the quarter ended September 30, 2002. The pro forma net loss would have been $0.6 million an increase of $0.1 million, or a loss of $0.09 per share versus the net loss of $0.5 million or $0.07 per share actually reported. For the quarter ended September 30, 2001, the pro forma net income before goodwill amortization was $0.9 million or $0.13 per share fully diluted compared to the net income of $0.8 million or $0.11 per share actually reported. 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 impact on the Company s first quarter for 2003 results were immaterial. The company has not yet determined whether there will be an impairment to its recorded goodwill as of June 30, 2002.

Effective July 1, 2002, the Company adopted 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

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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 adoption of SFAS No. 144 did not have a material effect on the Company s consolidated financial position on results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements Nos, 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections , which rescinds and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company believes that SFAS No. 145 will not have a material effect on the Company s consolidated financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that cost associated with an exit or disposal activity be recognized when incurred as opposed to an entity s commitment to an exit plan as previously allowed. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not believe that SFAS No. 146 will have a material effect on the Company s consolidated financial position or results or operations.

NOTE 2 DISCONTINUED OPERATIONS:

On July 3, 2001, the Company completed the sale of its subsidiary, RPA Airline Automation Services, Inc. (RPA), which provided airline revenue accounting and management information software consisting of proprietary software programs which are marketed to foreign and domestic airlines. During the quarter ended September 30, 2001, the Company recorded a loss of $42,000 related to the sale of a building that had previously been RPA s corporate headquarters. At September 30, 2002, the Company no longer retained any significant assets or liabilities related to RPA.

NOTE 3 INCOME TAXES:

Income taxes have been computed based on the estimated annual effective income tax rate for the respective periods.

NOTE 4 LITIGATION:

In April 2000, Mercury filed a collection action against AER Global Logistics (AER) in the state of New York. AER filed a counterclaim for $5.0 million alleging among other things, tortious interference with contract. Mercury believes that this claim is without merit, and accordingly, does not believe this matter will have a significant impact on it financial position or operating results.

On April 3, 2001 Mercury received notice of an action filed by Skylink Express, Inc. in the Superior Court of Justice Ontario, Canada against Excel Cargo, Inc. and others for damages to aircraft occurring on November 30, 1999 and January 10, 2000 at Mirabel International Airport Quebec for a total amount of $2.5 million Canadian ($1.65 million U.S) plus interest and fees. Mercury does not believe the outcome of this claim will have a significant impact on its financial position or operating results.

On November 30, 2001, the Company received notice of a counter-complaint filed by UPS against the Company and a third party seeking indemnification and reimbursement in the amount of $0.5 million for the costs incurred as a result of the fuel spill at the Ontario, California Airport. The Company has provided a response to UPS denying such claim and on September 28, 2001, filed a lawsuit seeking reimbursement for damages. Mercury does not believe the outcome of this claim will have a significant impact on its financial position or operating results.

On May 1, 2002, Mercury received a Notice of Violation (NOV) for its Fort Wayne, Indiana facility alleging that Mercury s Spill Prevention, Control and Countermeasure Plan (SPCC) does not meet certain federal regulatory guidelines. Specifically, the EPA alleged that Mercury s SPCC failed to provide for proper parking, secondary containment, and proper drainage of its refueler trucks. The EPA has requested that Mercury submit a written response to its allegations. The Company is in the process of responding to the EPA. Mercury intends to fully comply with all EPA requirements.

On October 31, 2002 a complaint was filed before the National Labor Relations Board Region 12 on behalf of the Transport Workers Union of America, Local 525, AFL-CIO alleging that Maytag Aircraft Corporation has been engaging in unfair labor practices as set forth in the National Labor Relations Act at its Patrick Air Force Base location. The Company is in the process of responding to this compliant which is now scheduled for a hearing in April of 2003. Mercury does not believe that the outcome of this claim will have a significant impact its consolidated financial position or operating results.

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The Company is also a defendant in certain litigation arising in the normal course of business. In the opinion of management, the ultimate resolution of such litigation will not have a significant effect on its financial position or operating results.

NOTE 5 DEBT:

On September 10, 1999, the Company issued, in a private placement, a $24.0 million senior Subordinated 12% Note (the Note) due 2006 with detachable warrants to purchase 503,126 shares of the Company s common stock exercisable at $6.50 per share for seven years. On November 16, 2001, the agreement was amended to reduce the warrant exercise price to $5.50 per share. The Note agreement contains covenants that, among other matters, limit senior indebtedness, the disposition of assets and unfunded capital expenditures. The covenants also included a ratio test for interest coverage, leverage, fixed charge coverage and debt service. In addition, the Company has a Note Payable to banks that consists principally of a credit facility (the Senior Secured Credit Facility), which provides for a term loan (Term Loan), an acquisition line (Acquisition Line) and a revolving line of credit (Revolver). The Senior Secured Credit Facility expires in March 2004. As of September 30, 2002, the Company had $0.4 million outstanding on the Term Loan, $5.8 million outstanding on the Acquisition Line, and $7.1 million outstanding on the Revolver. There is also $16.5 million of the Senior Secured Credit Facility utilized to issue stand-by letters of credit as of September 30, 2002. The Senior Secured Credit Facility contains covenants that require the maintenance of certain financial ratios, minimum tangible net worth (as defined), minimum profitability levels, maximum leverage and minimum debt service coverage and quick ratios and limitation on annual capital expenditures. Additionally, the Company is prohibited from paying dividends in excess of $400,000 per year.

In regard to the Senior Secured Credit Facility, the Company was in noncompliance with the minimum net earnings covenant requirement for the first quarter of fiscal 2003 and for the second and third quarters of fiscal 2002. The Company was also in noncompliance with the maximum capital expenditure covenant of the Senior Secured Credit Facility and for the Note for the fiscal year ended June 30, 2002. As a result, the Company has been engaged in discussions with the Senior Secured Credit Facility Lenders (the Lenders) and the Note Holder regarding waivers and/or cures for the noncompliance with these debt covenants. Until such time that waivers are received or a cure is accomplished, the Lenders and the Note Holders have the right to provide the Company with written notice declaring the total obligations associated with the Senior Secured Credit Facility and the Note to be immediately due and payable. Neither the Lenders nor the Note Holder has exercised this right.

In October 2002, the Company received written notice from the Lenders that as a result of the noncompliance with these debt covenants, the Lenders are under no obligation to make any additional loans under the Senior Secured Credit Facility, although they are not precluded from making additional loans. In November 2002, the Company received written notice from the Note Holder constituting a Subordinated Default Notice whereby the Note Holder advised the Company of the event of default, and while not declaring the outstanding principal and accrued interest immediately due and payable, the Note Holder reserves all rights to take any action allowable under the Note Agreement, including the acceleration of the maturity date. This notice also advised the Company that the Note Holder is due additional interest at the default rate until such defaults are cured or waived. The default interest represents an additional 2.0% per annum over the stated interest rate of 12.0% on the outstanding balance and was retroactive to June 30, 2002.

In addition to having had discussions with the Lenders and the Note Holder regarding waivers for these debt covenants, the Company has also engaged a financial advisor and is in discussions with other lenders to provide new financing to replace the Senior Secured Credit Facility and the Note. There can be no assurance that the Company could obtain the financing necessary, which may result in the Company having inadequate financial resources to meet this obligation if the Lenders and/or the Note Holder exercise their right to declare the outstanding obligations associated with the Senior Secured Credit Facility and the Note to be immediately due and payable. However, the Company believes it will be able to secure new financing to replace the Senior Secured Credit Facility and the Note even in the event of the Lenders and the Note Holder exercising their right to accelerate the maturity dates.

As of September 30, 2002, the total principal amount outstanding on the Senior Secured Credit Facility and the Note, amounting to $13.3 million and $23.2 million respectively, was classified on the Company s Balance Sheet as Current portion of long-term debt and Senior Subordinated Note, current.

NOTE 6 EARNINGS PER SHARE:

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and potential common shares except for amounts that are antidilutive. Potential common shares include stock options and shares resulting from the assumed conversion of subordinated debentures, when dilutive.

	Three Months Ended September 30, 2002		Three Months Ended September 30, 2001	
	Diluted	**Basic**	**Diluted**	**Basic**
Weighted average number of common Shares outstanding during the period	6,463,000	6,463,000	6,577,000	6,577,000
Common share equivalents resulting from the assumed exercise of stock options			163,000	
Common shares resulting from the assumed conversion of debentures			36,000	
Weighted average number of common and common equivalent shares outstanding during the period	6,463,000	6,463,000	6,776,000	6,577,000

NOTE 7 SEGMENT REPORTING:

The Company operates and reports its activities through four principal units: 1) Fuel Sales, 2) Fixed Based Operations, 3) Cargo Operations and 4) Government Contract Services.