GULFSTREAM INTERNATIONAL GROUP INC
Form 10-Q
May 13, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **March 31, 2009**

or

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

For the transition period from: _____________ to _____________

GULFSTREAM INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-33884**	**20-3973956**
(State or other jurisdiction of incorporation or organization)	*Commission File Number*	*(I.R.S. Employer Identification No.)*

3201 Griffin Road, 4th Floor

Fort Lauderdale, Florida 33312

(Address of principal executive offices) (Zip Code)

(954) 985-1500

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. ü Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer		Accelerated filer	
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company	ü

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

Common stock outstanding at May 13, 2009: 2,959,600 shares.

GULFSTREAM INTERNATIONAL GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1.

Financial Statements.

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2008	March 31, 2009 (Unaudited)
Assets		
Cash and cash equivalents	$ 3,215	$ 1,151
Accounts receivable, net	4,205	4,250
Expendable parts	1,194	1,093
Prepaid expenses	648	823
Total Current Assets	9,262	7,317
Property and Equipment		
Flight equipment	3,366	3,472
Other property and equipment	1,373	1,454
Less - accumulated depreciation	(1,946)	(2,161)
Property and Equipment, net	2,793	2,765
Intangible assets, net	3,778	3,713
Deferred tax assets	2,032	1,583
Other assets	1,505	1,429
Total Assets	$ 19,370	$ 16,807
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	$ 9,566	$ 7,211
Accounts payable - restructured, current portion	2,263	2,232
Long-term debt, current portion	529	552
Engine return liability, current portion	2,432	1,971
Air traffic liability	1,491	1,339
Deferred tuition revenue	728	680
Total Current Liabilities	17,009	13,985

Long-term Liabilities				
Accounts payable - restructured, net of current portion		1,486		1,344
Long-term debt, net of current portion		2,849		2,671
Engine return liability, net of current portion		461		92
Warrant liability		2,229		2,290
Total Liabilities		24,035		20,382
Commitments and Contingencies				
Stockholders' Equity (Deficit)				
Common stock		30		30
Additional paid-in capital		13,088		13,134
Common stock warrants		252		252
Accumulated deficit		(17,721)		(16,991)
Accumulated other comprehensive loss		(314)		
Total Stockholders' Equity (Deficit)		(4,665)		(3,575)
Total Liabilities & Stockholders' Equity (Deficit)	$	19,370	$	16,807

The accompanying notes are an integral part of these consolidated financial statements.

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
Operating Revenues		
Passenger revenue	$ 27,737	$ 17,532
Academy, charter and other revenue	3,518	6,044
Total Operating Revenues	31,255	23,576
Operating Expenses		
Flight operations	3,824	3,065
Aircraft fuel	8,186	3,461
Maintenance	7,577	5,470
Passenger and traffic service	6,653	4,827
Aircraft rent	1,684	1,646
Promotion and sales	2,154	1,303
General and administrative	2,034	1,697
Depreciation and amortization	1,075	287
Total Operating Expenses	33,187	21,756
Operating Profit (Loss)	(1,932)	1,820
Non-operating (Expense) Income		
Interest expense	(154)	(584)
Interest Income	15	7
Other income (expense)	1	(65)
Total non-operating expense	(138)	(642)
Income (Loss) before provision for income taxes	(2,070)	1,178
Income tax provision (benefit)	(784)	448
Net Income (Loss)	$ (1,286)	$ 730
Net Income (Loss) per share:		
Basic	$ (0.44)	$ 0.25

Diluted	$	(0.44)	$	0.19
Shares used in calculating net income (loss) per share:				
Basic		2,949		2,960
Diluted		2,949		3,293

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March 31, 2008	**March 31 2009**
Cash Flows From Operating Activities:		
Net income (loss)	$ (1,286)	$ 730
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,103	287
Deferred income tax provision (benefit)	(787)	449
Amortization of deferred finance costs		339
Share-based compensation	12	47
Write-off of unamortized overhaul costs	573	
Amortization of warrant discount		61
Provision for Bad Debts		2
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(276)	(47)
Decrease (increase) in expendable parts	(129)	101
Decrease (increase) in prepaid expense	202	(175)
Decrease (increase) in other assets	(6)	-
Increase (decrease) in accounts payable and accrued expenses	(635)	(2,355)
Increase (decrease) in accounts payable - restructured		(173)
Increase (decrease) in deferred revenue	27	(199)
Increase (decrease) in engine return liability	(167)	(832)
Net cash provided by (used in) operating activities	(1,369)	(1,765)
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(1,538)	(188)
Net cash provided by (used in) investing activities	(1,538)	(188)
Cash Flows From Financing Activities:		
Change in fair value of open fuel hedge contracts		314
Proceeds from issuance of common stock	883	
Repayments of debt	(374)	(425)
Net cash provided by (used in) financing activities	509	(111)
Net increase (decrease) in cash and cash equivalents	(2,398)	(2,064)

Cash, beginning of period		3,938		3,215
Cash, end of period	$	1,540	$	1,151
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	147	$	128
Cash paid during the period for income taxes	$		$	

The accompanying notes are an integral part of these consolidated financial statements.

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2008 and 2009

(1)

BASIS OF PRESENTATION

Gulfstream International Group, Inc. was incorporated in Delaware in December 2005 as Gulfstream Acquisition Group, Inc., and changed its name to Gulfstream International Group, Inc. in June 2007. We were formed for the purpose of acquiring Gulfstream International Airlines, Inc. (Gulfstream), a wholly-owned subsidiary of G-Air Holdings Corp., Inc., and Gulfstream Training Academy, Inc. (Academy), collectively referred to as the Company . References to the Company, we, our, and us, refer to Gulfstream International Group, Inc. and either or both of Gulfstream or the Academy.

Gulfstream Air Charter, Inc. (GAC), a related company which is owned by Thomas L. Cooper, operates charter flights between Miami and Havana. GAC is licensed by the Office of Foreign Assets Control of the U. S. Department of the Treasury as a carrier and travel service provider for charter air transportation between designated U. S. and Cuban airports.

Pursuant to a services agreement between Gulfstream and GAC dated August 8, 2003 and amended on March 14, 2006, Gulfstream may provide use of its aircraft, flight crews, the Gulfstream name, insurance, and service personnel, including passenger, ground handling, security, and administrative. Gulfstream also maintains the financial records for GAC. Pursuant to the March 14, 2006 amended agreement, Gulfstream receives 75% of the operating profit generated by GAC s Cuban charter operation. We have consolidated the results of the Cuba charter business as a variable interest entity since January 1, 2008 pursuant to the requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*.

All intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

The accompanying consolidated financial statements have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States, have been condensed or omitted pursuant to those rules and regulations. However, the Company believes that the disclosures made are adequate to make the information presented not misleading when read in conjunction with the audited financial statements and notes thereto included in Gulfstream s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission. Management believes that the financial statements contain all adjustments necessary for a fair statement of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

(2)

NEW ACCOUNTING PRONOUNCEMENTS

In April 2009 the FASB issued FSP FAS 157 4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157 4). This FASB Staff Position (FSP) provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP shall be effective for interim and annual reporting periods ending after June 15, 2009. The Company maintains its excess cash in cash type instruments such as certificates of deposits or money market funds, which are defined as cash, and as such would not be covered by FASB 157.

In April 2009 the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies . This FASB Staff Position (FSP) amends and clarifies FASB Statement No. 141 (revised 2007), *Business Combinations,* to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP shall be effective for assets or liabilities arising from contingencies in business combinations

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the Three Months Ended March 31, 2008 and 2009

(2)

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management does not believe the adoption of this standard will have a material impact on the Company s consolidated financial position or results of operations.

In April 2009 the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments . This FASB Staff Position (FSP) amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. Management does not believe the adoption of this standard will have a material impact on the Company s consolidated financial position or results of operations.

Management does not believe that any other recently issued, but not yet effective, accounting standard if currently adopted would have a material effect on the accompanying financial statements.

(3)

SHARE-BASED COMPENSATION

The Company accounts for share-based compensation in accordance with SFAS No. 123R, Share-Based Payment .

Our Stock Incentive Plan (Plan) was adopted by the board of directors of Gulfstream and approved by our stockholders in 2006. Our Plan provides for the granting of incentive stock options, non-incentive stock options, stock appreciation rights, or other stock-based awards to those of our employees, directors or consultants who are selected by members of a committee comprised of members of our compensation committee (the Committee). On the date of the grant, the exercise price must equal at least 100% of the fair market value in the case of incentive stock options, or 110% of the fair market value with respect to optionees who own at least 10% of the total combined voting power of all classes of stock. The plan authorizes 350,000 shares of our common stock to be issued under the plan. The Committee will administer the plan.

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. The Company uses an estimated forfeiture rate of 0% due to limited experience with historical employee forfeitures. The Black-Scholes option pricing model also requires assumptions for risk free interest rates, dividend rate, stock volatility and expected life of an option grant. The risk free interest rate is based on the U.S. Treasury Bill rate with a maturity based on the expected life of the options. Dividend rates are based on the Company's dividend history. The stock volatility factor is based on the NYSE Amex Airline Stock Index. Expected life is determined using the simplified method permitted by Staff Accounting Bulletin No. 107 of the Securities and Exchange Commission, since the Company does not have sufficient historical expected life experience. The fair value of each option grant is recognized as compensation expense over the vesting period of the option on a straight line basis.

During the three months ended March 31, 2009, the Company granted options to employees and directors to purchase 138,000 shares of common stock at an exercise price of $2.00 per share. The options vest 20% at grant date and 20% annually thereafter. The options expire ten years after the date of grant. During 2008, the Company did not grant any options. The fair value of options granted during the three months ended March 31, 2009, ranged from $0.81 to $0.96 per share, with a weighted-average fair value of $0.88 per share.

The unaudited Consolidated Statement of Operations for the three months ended March 31, 2009 and 2008 reflects share-based compensation expense of $47,041 and $12,428, respectively. At March 31, 2009, there was a total of $176,882 of unrecognized compensation expense related to non-vested stock-based compensation arrangements under the Plan. The expense is expected to be recognized over a weighted average period of approximately four years.

GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the Three Months Ended March 31, 2008 and 2009

(3)

SHARE-BASED COMPENSATION (Continued)

At March 31, 2009, an aggregate of 350,000 shares of common stock are reserved for issuance under the Plan. Stock option grants were outstanding for an aggregate of 348,324 shares of stock, and 1,676 shares remained available for grant.

(4)

EARNINGS PER SHARE

The Company computes earnings per share in accordance with the provisions of SFAS No. 128, "Earnings per Share." Under the provisions of SFAS No. 128, basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period presented. Diluted net income per share reflects the potential dilution that could occur from common stock issuable through stock based compensation including stock options and restricted stock awards, warrants and other convertible securities, and warrants issued by Gulfstream, a subsidiary of the Company.

The computation of per share earnings for the three months ended March 31, 2008 and 2009 is as follows and includes the effect of warrants issued by Gulfstream, a subsidiary of the Company:

		Three Months Ended March 31,	
		2008	2009
Net income (loss)	$	(1,286,000	