

MESA AIR GROUP INC
Form DEF 14A
January 06, 2006

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- | | |
|---|--|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material Pursuant to Section 240.14a-12 | |

MESA AIR GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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-

Table of Contents

**MESA AIR GROUP, INC.
410 North 44th Street
Phoenix, Arizona 85008
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on February 7, 2006**

To Our Shareholders:

The 2006 Annual Meeting of Shareholders of MESA AIR GROUP, INC., a Nevada corporation (the Company), will be held at the Phoenix Airport Marriott Hotel, 1101 N. 44th Street, Phoenix, Arizona, on February 7, 2006, at 10:00 a.m., Arizona time, for the following purposes:

1. To elect seven (7) directors to serve for a one-year term;
2. To ratify the selection of Deloitte & Touche LLP as independent registered public accountants for the Company; and
3. To transact such other business as may properly come before the meeting or any postponement(s) or adjournment(s) thereof.

The Board of Directors has fixed the close of business on December 30, 2005, as the record date for the determination of shareholders entitled to notice of and to vote at the meeting or any postponement or adjournment thereof. Shares of the Company's common stock may be voted at the meeting only if the holder is present at the meeting in person or by valid proxy. A copy of the Company's 2005 Annual Report, which includes audited financial statements, was mailed with this Notice and Proxy Statement to all shareholders of record on the record date.

Management of the Company cordially invites you to attend the Annual Meeting. Your attention is directed to the attached Proxy Statement for a discussion of the foregoing proposals and the reasons why the Board of Directors encourages you to vote for approval of Proposals 1 and 2.

By Order of the Board of Directors

JONATHAN G. ORNSTEIN
Chairman of the Board and Chief Executive Officer

Phoenix, Arizona
January 4, 2006

IMPORTANT: IT IS IMPORTANT THAT YOUR STOCK BE REPRESENTED AT THIS MEETING. PLEASE COMPLETE, DATE, SIGN AND PROMPTLY MAIL THE ENCLOSED PROXY CARD IN THE ACCOMPANYING ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

TABLE OF CONTENTS

PROXY STATEMENT

ELECTION OF DIRECTORS (PROPOSAL NO. 1)

BOARD AND COMMITTEE MEETINGS

COMPENSATION OF DIRECTORS

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

REPORT OF AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

DISCLOSURE OF AUDIT AND NON-AUDIT FEES

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

EXECUTIVE COMPENSATION

OPTION GRANTS IN LAST FISCAL YEAR

OPTION EXERCISES

EQUITY COMPENSATION PLANS

EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

COMPARISON OF STOCK PERFORMANCE

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS
(PROPOSAL NO. 2)

Table of Contents

**MESA AIR GROUP, INC.
410 North 44th Street
Phoenix, Arizona 85008
PROXY STATEMENT**

The Board of Directors of MESA AIR GROUP, INC., a Nevada corporation (the Company), is soliciting proxies to be used at the 2006 annual meeting of shareholders of the Company to be held on February 7, 2006, at 10:00 a.m., Arizona time, at the Phoenix Airport Marriott Hotel, 1101 N. 44th Street, Phoenix, Arizona, and any adjournment(s) or postponement(s) thereof (the Annual Meeting). This proxy statement and the enclosed form of proxy will be mailed to shareholders beginning January 6, 2006.

Who Can Vote

Shareholders of record as of the close of business on December 30, 2005 (the Record Date), may vote at the Annual Meeting and at any adjournment or postponement of the meeting. Each shareholder has one vote for each share of Common Stock held of record on the Record Date. On the Record Date, 29,247,993 shares of the Company's common stock, no par value per share (the Common Stock), were issued and outstanding.

How You Can Vote

All valid proxies received by the Secretary of the Company before the Annual Meeting and not revoked will be exercised. All shares represented by proxy will be voted, and where a shareholder specifies by means of his or her proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications so made. If you do not specify on your proxy card how you want to vote your shares and authority to vote is not specifically withheld, we will vote your shares as follows: (i) for the election of the persons named in the proxy to serve as directors; (ii) for the ratification of Deloitte & Touche LLP (Deloitte & Touche) as the independent registered public accountants of the Company; and (iii) to transact such other business as may properly come before the meeting or any postponement(s) or adjournment(s) thereof. Shareholders who hold their shares in street name (i.e., in the name of a bank, broker or other record holder) must vote their shares in the manner prescribed by their brokers.

How You Can Revoke Your Proxy

You can revoke your proxy at any time before it is exercised in one of three ways:

(1) by delivering to the Secretary of the Company a written instrument of revocation bearing a date later than the date of the proxy.

(2) by duly executing and delivering to the Secretary of the Company a subsequent proxy relating to the same shares.

(3) by attending the meeting and voting in person, provided that the shareholder notifies the Secretary at the meeting of his or her intention to vote in person at any time prior to the voting of the proxy.

Required Votes

A plurality of votes cast by shareholders who are either present in person or represented by proxy at the meeting is required to elect the seven (7) nominees for Director under Proposal 1. Approval of Proposal 2 requires the affirmative vote of a majority of the shares present and entitled to vote on this proposal at the Annual Meeting. The total number of votes that could be cast at the meeting is the number of votes actually cast plus the number of abstentions. Abstentions are counted as shares present at the meeting for purposes of determining whether a quorum exists and have the effect of a vote against any matter as to which a specific proportion of affirmative votes is required for approval. Proxies submitted by brokers that do not indicate a vote for some or all of the proposals because they do not have discretionary voting authority and

Table of Contents

have not received instructions as to how to vote on these proposals (so-called broker non-votes) are counted for the purpose of determining the presence of or absence of a quorum but are not counted for determining the number of votes cast for or against a proposal.

Dissenter's Rights or Appraisal

Pursuant to applicable Nevada law, there are no dissenter's or appraisal rights relating to the matters to be acted upon at the Annual Meeting.

Other Matters to Be Acted Upon at the Meeting

We do not know of any matters other than the election of directors and the ratification of independent registered public accountants that are expected to be presented for consideration at the Annual Meeting. If any other matters are properly presented at the meeting, the shares represented by proxies will be voted in accordance with the judgment of the persons voting those shares.

Solicitation

The cost of soliciting proxies, including the cost of preparing and mailing the Notice and Proxy Statement, will be paid by the Company. Solicitation will be primarily by mailing this Proxy Statement to all shareholders entitled to vote at the meeting. Proxies may also be solicited by officers and directors of the Company personally or by telephone or facsimile, without additional compensation. The Company may reimburse brokers, banks and others holding shares in their names for others for the cost of forwarding proxy materials and obtaining proxies from beneficial owners.

Communications with the Board of Directors

Stockholders may communicate with any and all members of the Company's Board of Directors by transmitting correspondence by mail or facsimile addressed to one or more directors by name or, for a communication to the entire board, to the Chairman of the Board at the following address and fax number: Mesa Air Group, Inc. c/o Corporate Secretary, 410 North 44th Street, Suite 700, Phoenix, Arizona 85008; facsimile: (602) 685-4352.

Communications from our stockholders to one or more directors will be collected and organized by our Corporate Secretary under procedures adopted by our independent directors. The Corporate Secretary will forward all communications to the Chairman of the Board or to the identified director(s) as soon as practicable, although communications that are abusive, in bad taste or that present safety or security concerns may be handled differently. If multiple communications are received on a similar topic, the Corporate Secretary may, in his discretion, forward only representative correspondence.

The Chairman of the Board will determine whether any communication addressed to the entire Board of Directors should be properly addressed by the entire Board of Directors or a committee thereof. If a communication is sent to the Board of Directors or a committee, the Chairman of the Board or the chairman of that committee, as the case may be, will determine whether a response to the communication is warranted. If a response to the communication is warranted, the content and method of the response may be coordinated with our counsel.

ELECTION OF DIRECTORS (PROPOSAL NO. 1)

General Information

The Company's current directors are Jonathan G. Ornstein, Daniel J. Altobello, Robert Beleson, General Ronald R. Fogleman, Joseph L. Manson, Peter F. Nostrand and Maurice A. Parker. Their terms expire upon the election and qualification of their successors at the Annual Meeting. The Board has nominated each of these current directors as nominees for election as directors in the election to be held at the Annual Meeting.

Table of Contents

The Board intends to vote its proxies for the election of its nominees, for a term to expire at the Company's 2007 Annual Meeting.

If unforeseen circumstances make it necessary for the Board of Directors to substitute another person for any of the nominees, we will vote your shares for that other person, or, if no substitute is selected by the Board prior to or at the Annual Meeting, for a motion to reduce the present membership of the Board to the number of nominees available. The information concerning the nominees and their share holdings in the Company has been furnished by the nominees to the Company.

The seven (7) nominees receiving a plurality of votes by shares represented and entitled to vote at the Annual Meeting, if a quorum is present, will be elected as directors of the Company.

The following table sets forth the names and ages of the directors of the Company and certain additional information:

Name	Age	Position
Jonathan G. Ornstein	48	Chairman of the Board
Daniel J. Altobello	65	Director
Robert Beleson	55	Director
Ronald R. Fogleman	64	Director
Joseph L. Manson	56	Director
Peter Nostrand	58	Director
Maurice A. Parker	60	Director

Directors

Biographical information regarding the Company's directors is set forth below.

Jonathan G. Ornstein was appointed President and Chief Executive Officer of the Company effective May 1, 1998. Mr. Ornstein became a director in January 1998. Mr. Ornstein assumed the role of Chairman of the Board in June 1999. On June 21, 2000, Mr. Ornstein relinquished his position as President of the Company. From April 1996 until joining the Company as Chief Executive Officer, Mr. Ornstein served as President and Chief Executive Officer and Chairman of Virgin Express S.A./N.V., a European airline. From 1995 to April 1996, Mr. Ornstein served as Chief Executive Officer of Virgin Express Holdings, Inc. Mr. Ornstein joined Continental Express Airlines, Inc. as President and Chief Executive Officer in July 1994 and, in November 1994, was named Senior Vice President, Airport Services at Continental Airlines, Inc. Mr. Ornstein was previously employed by the Company from 1988 to 1994, as Executive Vice President and as President of the Company's subsidiary, WestAir Holding, Inc.

Daniel J. Altobello has served as a director of the Company since January 1998 and is the current Lead Director. Mr. Altobello also serves as Chair of the Compensation and Corporate Governance/Nominating Committees. Mr. Altobello is the retired Director and Chairman of Onex FoodServices, the parent corporation of Caterair International, Inc. and LSG/SKY Chefs. From 1989 to 1995, Mr. Altobello served as Chairman, President and Chief Executive Officer of Caterair International Corporation. From 1979 to 1989, he held various managerial positions with the food service management and in-flight catering divisions of Marriott Corporation, including Executive Vice President of Marriott Corporation and President of Marriott Airport Operations Group. Mr. Altobello began his management career at Georgetown University as Vice President of Administration Services. He is a member of the board of directors of World Airways, Inc., Media Bay, Inc., Diamond Rock Hospitality Trust, Inc., and JER Investors Trust, Inc.; and is also an advisory director of Thayer Capital Partners and a trustee of Loyola Foundation, Inc. Mr. Altobello obtained a bachelor of arts in English from Georgetown University and a master of business administration from Loyola College.

Robert Beleson was elected as a director of the Company in October 2003. In November 2001, he became the Chief Executive Officer of Christiana Spirits Incorporated, of which Mr. Beleson is also an equity investor.

Table of Contents

Since May 2002, Mr. Beleson has also provided marketing and strategic planning consulting services to select clients in the aviation and wine and spirit industries. This consulting service was formally organized as Brookfield Marketing, L.L.C. on October 1, 2003. From July 2001 to April 2002 he served as Chief Marketing Officer for Avolar, a former division of United Airlines. From March 1996 to December 2000 he served as President of M. Shanken Communications, Inc., New York, N.Y. From May 1991 to February 1996 he served as Chief Marketing Officer for Playboy Enterprises. Mr. Beleson received a bachelor of science from Cornell University School of Industrial and Labor Relations and a master of business administration from Harvard Business School.

General Ronald R. Fogleman, USAF, (Ret.) has been a director of the Company since January 1998 and is currently Audit Committee Chairman. In September 1997, he retired in the rank of General, having served as the Chief of Staff of the United States Air Force from 1994 until 1997 and as Commander-in-Chief of the United States Transportation Command from 1992 until 1994. General Fogleman is the principal partner of Durango Group, L.L.C., a privately held international aviation consulting firm. He currently serves on the board of directors of: AAR Corporation; Alliant Techsystems, Inc.; and World Airways, Inc. On May 31, 2004, General Fogleman became the non-executive Chairman of the Board of World Airways, Inc. Gen. Fogleman also serves on the Board of Fractionair Holding and Alpha Security Group, Corp., two privately held companies. He received a bachelor of arts degree from the United States Air Force Academy and a master's degree in military history and political science from Duke University.

Joseph L. Manson has been a director of the Company since July 2001. Mr. Manson joined the Washington, D.C. office of the law firm Baker & Hostetler LLP as a partner in February 2005. Prior to Baker & Hostetler, Mr. Manson was employed with Piper Rudnick LLP (which merged with Verner Liipfert Bernhard McPherson and Hand), from 1974. Mr. Manson received a bachelor of science from the University of Virginia and a doctorate in jurisprudence from Emory University.

Peter F. Nostrand was elected to the Board in April 2005. Mr. Nostrand is currently the Chairman, President and Chief Executive Officer of SunTrust, Greater Washington where he has served in a variety of functional divisions including International, National, Energy, Commercial and Retail beginning in June 1973. Mr. Nostrand received a bachelor of arts from Amherst College and a master of education from the University of Virginia.

Maurice A. Parker has been a director of the Company since November 1998. Mr. Parker has served as Executive Director of Regional Aviation Partners since April 2001. From 1978 to January 1997, Mr. Parker served as a Federal Mediator for the National Mediation Board of the United States government. From 1997 to the present, Mr. Parker has worked as an independent arbitrator, mediator and consultant. Mr. Parker obtained a bachelor of science in technical education from the University of Houston and a doctorate in jurisprudence from South Texas College of Law.

BOARD AND COMMITTEE MEETINGS

Information concerning the three Committees maintained by the Board of Directors is set forth below. The Board Committees currently consist only of Directors who are not employees of the Company and who are independent within the meaning of the listing standards of the NASD and, with respect to the Audit Committee, Section 10A of the Securities Exchange Act of 1934 (Exchange Act).

The Board held nine meetings during the 2005 fiscal year. No director attended less than 75% of the Board meetings while serving as such director, or less than 75% of all committee meetings on which he or she served as a committee member.

The Company does not have a formal policy regarding attendance by members of the Board of Directors at our annual meeting of stockholders, but strongly encourages directors to attend.

At various times throughout the year non-management directors hold meetings without the presence of management personnel. The Lead Director chairs these meetings and is also the Chair of the Nominating/ Corporate Governance Committee.

Table of Contents

The audit, nominating and compensation committees are the standing committees of the Board. The fiscal year 2005 committees were comprised as follows:

Audit	Nominating/Corporate Governance	Compensation
Ronald R. Fogleman*	Daniel J. Altobello*	Daniel J. Altobello*
Peter Nostrand	Peter Nostrand	Peter Nostrand
Robert Beleson	Robert Beleson	Robert Beleson

* Chairman

The Audit Committee of the Board (the Audit Committee) held eight meetings during fiscal 2005. The Audit Committee, among other things, recommends the Company's independent registered public accountants, reviews the Company's financial statements, makes reports and recommendations regarding the adequacy of internal accounting controls made by the independent registered public accountants and considers such other matters with respect to the accounting, auditing and financial reporting procedures as it may deem appropriate or as may be brought to its attention.

The Audit Committee acts under a written charter adopted and approved by the Board in May 2000. The Audit Committee Charter was amended in April 2002 and July 2004 and was attached as an exhibit to the Company's 2004 Annual Meeting Proxy Statement. The Audit Committee is composed of outside directors who are not officers or employees of the Company or its subsidiaries. In the opinion of the Board and as independent is defined under current standards of the NASD (including the heightened independence requirements of audit committee members), these directors are independent of management and free of any relationship that would interfere with their exercise of independent judgment as member of this committee.

The Nominating/Corporate Governance Committee of the Board (the Nominating/Corporate Governance Committee) met twice in fiscal 2005. A Corporate Governance/Nominating Committee charter was adopted in August 2004 and amended in July 2005. The Nominating/Corporate Governance Committee is responsible for identifying and nominating individuals qualified to serve on the Board and the Committees of the Board, as well as reviewing the effective corporate governance policies and procedures and recommending any applicable modifications thereto. The Nominating/Corporate Governance Committee will consider, but is not required to approve, nominations for directors by shareholders for any annual meeting of the Company, provided a written recommendation is received by the Company no later than the date shareholder proposals must be submitted for consideration prior to such annual meeting.

In evaluating the suitability of potential nominees for membership on the Board, the Nominating/Corporate Governance Committee will consider the Board's current composition, including expertise, diversity, and balance of inside, outside and independent directors, and consider the general qualifications of the potential nominees, such as:

Unquestionable integrity and honesty;

The ability to exercise sound, mature and independent business judgment in the best interests of the shareholders as a whole;

Recognized leadership in business or professional activity;

A background and experience that will complement the talents of the other Board members;

Willingness and capability to take the time to actively participate in Board and Committee meetings and related activities;

Ability to work professionally and effectively with other Board members and the Company's management;

5

Table of Contents

An age to enable the Director to remain on the Board long enough to make an effective contribution; and

Lack of realistic possibilities of conflict of interest or legal prohibition.

The Committee will also see that all necessary and appropriate inquiries are made into the backgrounds of such candidates. Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating/Corporate Governance Committee may also consider such other factors as it may deem to be in the best interests of the Company and its stockholders.

In obtaining the names of possible new nominees, the Committee may make its own inquiries and will receive suggestions from other Directors, stockholders and other sources. All potential nominees must first be considered by the Committee before being contacted as possible nominees and before having their names formally considered by the full Board.

The compensation committee of the Board (the Compensation Committee) operates under a charter adopted in February 2004 and held two meetings during the 2005 fiscal year. The Compensation Committee is responsible for allocating cash compensation and stock options to senior executive officers of the Company.

It is expected that all current committee members will be nominated for re-election to such committees at a Board meeting to be held immediately following the Annual Meeting.

The Board of Directors has adopted Corporate Governance Guidelines, charters for its Audit, Compensation and Corporate Governance & Nominating Committees and Code of Conduct for directors, officers and employees of Mesa Air Group, Inc., its subsidiaries and affiliated companies. You can obtain copies of our current committee charters, codes and policies in the Corporate Governance section of our website (www.mesa-air.com) or by writing to our Corporate Secretary at 410 North 44th Street, Suite 700, Phoenix, Arizona 85008.

COMPENSATION OF DIRECTORS

Fees

The following fees were paid to Directors who were not employees of the Company during fiscal 2005. Directors who are full-time employees of the Company receive no additional compensation for serving as directors. Board members also are reimbursed for all expenses associated with attending Board or Committee meetings.

Annual Retainer	\$ 15,000
Fee for each Board meeting	\$ 1,000
Fee for each telephonic Board meeting	\$ 500
Fee for each Committee meeting	\$ 500
Lead Director Retainer	\$ 10,000
Compensation Committee Chairman Retainer	\$ 10,000
Audit Committee Chairman Retainer	\$ 20,000

Stock Options

Under the Outside Director's Stock Option Plan, each non-employee director receives an annual grant of options to purchase 3,000 shares of Common Stock, plus the number of options to purchase Common Stock equivalent to a cash value of \$20,000 as calculated pursuant to the Black-Scholes Valuation Method (collectively, the Formula Amount), at a risk-free rate of a ten-year zero coupon bond. Each non-employee director receives the additional Formula Amount on April 1st of each year thereafter. Upon being appointed a non-employee director after April 1, such director is granted a pro-rata portion of the Formula Amount and receives options pursuant to the plan on April 1st of each succeeding year. The amount of pro rata options

Table of Contents

granted to each new non-employee director is calculated by dividing the number of days prior to April 1st by the number of days in the calendar year and multiplying the quotient by the Formula Amount.

Other Benefits

Each non-employee director, and certain family members of such director, receives free travel on Mesa Airlines and free or reduced-fare travel on certain other partner air carriers at no cost to the Company or the director. The Company believes that the directors' use of free air travel is de minimis and did not maintain any records of non-employee directors' travel during fiscal 2005.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year 2005, the Compensation Committee consisted of Messrs. Altobello and Beleson and, following the resignation of Ms. Julie Silcock in April 2005, Mr. Nostrand. None of the members of the committee held any executive officer position or other employment with the Company prior to or during such service.

REPORT OF AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee assists the Board in fulfilling its responsibility for oversight of the internal control, accounting, auditing and financial reporting practices of the Company. Specific responsibilities of the Audit Committee include:

reviewing and discussing the Company's audited financial statements with management;

reviewing the Company's quarterly reports with the Company's independent registered public accountants;

discussing with the Company's independent registered public accountants information relating to the independent registered public accountants' judgments about the quality of the Company's accounting policies and financial reporting practices;

recommending to the Board that the Company include the audited financials in its Annual Report on Form 10-K; and

overseeing compliance with the Securities and Exchange Commission requirements for disclosure of registered public accountants' services and activities.

The Committee regularly meets with management to consider the adequacy of the Company's internal controls and the integrity of its financial reporting. The Committee discusses these matters with the Company's independent registered public accountants and with appropriate Company financial personnel and internal auditors.

The Committee regularly meets privately with management, the independent registered public accountants and the internal auditors. Each of the independent registered public accountants has unrestricted access to the Committee.

The Committee retains and, if circumstances warrant, replaces the independent registered public accountants and regularly reviews their performance and independence from management. The Committee also pre-approves all audit and permitted non-audit services and related fees.

The Board of Directors has determined that none of the Directors serving on the Committee has a relationship to the Company that may interfere with their independence from the Company and its management. As a result, each Director who serves on the Committee is independent as required by NASD listing standards and Section 10A of the Exchange Act.

Table of Contents

The Board of Directors has adopted a written charter setting out the roles and responsibilities the Committee is to perform. The Board has determined that Peter F. Nostrand of the Audit Committee is an audit committee financial expert, as such term is defined in Item 401(h) of Regulation S-K.

Management has primary responsibility for the Company's financial statements and the overall reporting process, including the Company's system of internal controls.

Review of Audited Financial Statements

The Audit Committee has reviewed the Company's financial statements for the fiscal year ended September 30, 2005, as audited by Deloitte & Touche LLP, the Company's independent registered public accountants, and has discussed these financial statements with management. In addition, the Audit Committee has discussed with Deloitte & Touche LLP and expects to receive from Deloitte & Touche LLP the written disclosures required by Statement of Auditing Standards No. 61, Securities and Exchange Commission Rule 2-07 and the Independence Standards Board Standard No. 1 in January 2006 and has discussed with Deloitte & Touche LLP its independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements for the fiscal year ended September 30, 2005 be included in the Company's Annual Report on Form 10-K, for filing with the Securities and Exchange Commission.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting. Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent registered public accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with accepted auditing standards of the Public Company Accounting Oversight Board, that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America and that the Company's independent registered public accountants are in fact independent.

AUDIT COMMITTEE

Ronald R. Fogleman
Peter Nostrand
Robert Beleson

DISCLOSURE OF AUDIT AND NON-AUDIT FEES

Pre-approval Policy

In August 2003, the Audit Committee adopted a Pre-approval Policy (Policy) governing the approval of all audit and non-audit services performed by the independent registered public accountants in order to ensure that the performance of such services does not impair the independent registered public accountants.

According to the Policy, the Audit Committee will annually review and pre-approve the services and fees that may be provided by the independent registered public accountants during the following year. The Policy specifically describes the services and fees related to the annual audit, other services that are audit-related, preparation of tax returns and tax related compliance services and all other services that have the pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period.

Table of Contents

Any service to be provided by the independent registered public accountants that has not received general pre-approval under the Policy is required to be submitted to the Audit Committee for approval prior to the commencement of a substantial portion of the engagement. Any proposed service exceeding pre-approved cost levels is also required to be submitted to the Audit Committee for specific approval.

The Audit Committee will revise the list of general pre-approved services from time to time based on subsequent determinations. The Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accountant to management.

Fees

The following table sets forth the aggregate fees billed by Deloitte & Touche LLP for fiscal 2004 and 2005:

Year	Audit Fees(1)	Audit Related Fees(2)	Tax Fees(3)	All Other Fees(4)	Total
2004	\$ 435,000	\$ 356,000	\$ 355,000	\$ 18,000	\$ 1,164,000
2005	\$ 1,401,000	\$ 113,000	\$ 122,000	\$ 72,000	\$ 1,708,000

- (1) Includes fees for the annual audit and quarterly reviews. For fiscal year 2005, this category also includes fees for the audit of internal controls, as required by Section 404 of the Sarbanes-Oxley Act of 2002.
- (2) Includes fees for services for miscellaneous compliance audits and other SEC filings.
- (3) Includes fees for annual federal and state income tax compliance services. For fiscal year 2004, this category also includes property tax fees.
- (4) Includes miscellaneous tax consulting services.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of September 30, 2005 by (i) each director of the Company, (ii) each of the Company's officers named in the Summary Compensation Table (collectively, the Named Executive Officers), (iii) each person who is known by the Company to be the beneficial owner of more than five percent of the Company's outstanding Common Stock, and (iv) all directors and executive officers as a group. Except as otherwise indicated below, each person named has sole voting and investment power with respect to the shares indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership			
	Shares(1)	Options/ Warrants(1)	Total(1)	Percent(1)
State Street Research & Management Co One Financial Center, 30th Floor Boston, MA 02111-2690	2,427,180		2,427,180	8.3%
Bricoleur Capital Management, LLC 12330 El Camino Real, Suite 100 San Diego, CA 92130	1,642,330		1,642,330	5.6%
Barclays Global Investors, N.A.	2,270,418		2,270,418	7.8%

45 Fremont Street
San Francisco, CA 94105

Table of Contents

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership			
	Shares(1)	Options/ Warrants(1)	Total(1)	Percent(1)
Directors				
Jonathan G. Ornstein(2)	138,328	1,664,846	1,803,174	6.2%
Daniel J. Altobello	6,000	66,571	72,571	*
Ronald R. Fogleman(3)	1,220	54,533	55,753	*
Joseph L. Manson	10,000	30,454	40,454	*
Robert Beleson	1,000	14,416	15,416	*
Maurice A. Parker	2,000	32,829	34,829	*
Peter F. Nostrand	0	6,998	6,998	*
Officers				
Michael J. Lotz	11,340	573,120	584,460	2.0%
George Murnane III	3,500	196,475	199,975	*
Michael Ferwerda	0	85,000	85,000	*
Brian S. Gillman	0	109,500	109,500	*
F. Carter Leake	0	130,000	130,000	*
All directors and officers as a group (12 Individuals)	173,328	2,964,742	3,138,130	10.8%

(1) Includes options and warrants exercisable on September 30, 2005 or within 60 days thereafter. Number of shares as reported by each company's Schedule 13G. Holdings of less than 1% are indicated by *. Based upon 28,868,167 shares issued and outstanding as of September 30, 2005.

(2) Includes 65,902 shares held by Mr. Ornstein's children, mother and spouse.

(3) Includes 1,200 shares of common stock held by B Bar J Pension Fund, which is controlled by Gen. Fogleman.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, as well as persons beneficially owning more than 10% of the outstanding Common Stock, to file certain reports of ownership with the Securities and Exchange Commission within specified time periods. Such officers, directors and shareholders are also required by Securities and Exchange Commission rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of such forms all requirements received by it, or written representations from certain reporting persons, the Company believes that between October 1, 2004 and September 30, 2005, all Section 16(a) filing requirements applicable to its officers, directors and 10% shareholders were met.

Table of Contents**EXECUTIVE COMPENSATION**

The following table sets forth compensation for fiscal years 2005, 2004 and 2003 of the Chief Executive Officer and the four other most highly compensated executive officers of the Company whose total annual salary and bonuses exceeded \$100,000 at the end of fiscal 2004 (the Named Executive Officers).

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Awards		
		Salary(\$)	Bonus(\$)	Other Annual	Restricted	Securities	All Other
				Compensation	Stock Awards	Under-Lying	Compensation
				(\$)(1)(2)	(\$)(3)	Options (#)	(\$)(4)
Jonathan G. Ornstein Chief Executive Officer	2005	348,173	436,586	514,278		150,000	2,334
	2004	250,000	432,500	361,296	1,964,787	150,000	1,862,076
	2003	200,000	420,000	259,782		150,000	2,377
Michael J. Lotz President & Chief Operating Officer	2005	296,250	333,990	358,501		100,000	2,350
	2004	212,500	330,625	223,734	1,568,663	100,000	1,487,000
	2003	175,000	320,00				