

Anything two people know is not a secret

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Great Lakes Airlines will go only as far as Raytheon carries them

The Spencer, Iowa expatriate should have had a name change a long time ago. This regional commuter airline has been allowed to exist because of the generosity and maneuvering of Raytheon. Had they not been agreeable to repeated uses of creative financing, Great Lakes would have ceased to exist long ago.

When your biggest creditor is also your largest shareholder, someone has someone else over the barrel.

Yet, every time Great Lakes neared the precipice, Raytheon has ridden to the rescue. The survival of Great Lakes has been legendary. They once had a current, or "quick," ratio (accounting jargon) of a negative dozens to one. A viable company should have a current ratio of at least one to one, probably higher. What that shows is an ability to pay current obligations from current assets. Great Lakes couldn't do that but Raytheon simply looked the other way when their bills came due, allowing GLA to fly with "borrowed" planes belonging to Raytheon.

One thing I've always given Great Lakes is that they have shown the most creativity in financial matters known to man. Their ability to stay afloat rivals anything I've ever seen or even read about. Magical.

The founder of this tiny airline even convinced an ex-wife to grant him voting rights on her shares. Are you kidding me?

When the guy pulled out of Spencer, Iowa to move the "maintenance" to Cheyenne, I spoke with someone at the Chamber of Commerce in Spencer. He disagreed with me that Great Lakes was planning to move all of its operations to Cheyenne, still believing on that end that administrative offices, etc. would remain in Iowa with only maintenance operations going to Cheyenne. I asked him if he wanted me to fax him a

copy of a news article (before the days of the Cheyenne Herald) wherein the founder was quoted as promising everything - lock, stock and barrel - would come to Cheyenne. The city of Spencer had spent a lot of money to provide facilities to Great Lakes. Eventually, what Spencer had left to claim was a microwave and small refrigerator in an abandoned office there.

Even though the airline was insolvent from the beginning, the State, County and City on this end couldn't give it enough money. Whatever the founder asked for, government officials in Wyoming scrambled over each other to provide. Billy Sol Estes had a more "legitimate" operation to offer. Still, money and facilities were provided as though Cheyenne (and Wyoming) was gaining the most profitable, well-run business in the airline industry. A glamour industry?

The vetting was so poor that officials were later shocked to learn that Great Lakes would actually perform their maintenance functions in the middle of the night. Outdoors! No one had considered that maintenance is best done when planes are not in the air and that planes, to ever produce a profit for the company, had to be in the air during the day.

Keeping with the Three Little Piggies model, first straw was used in an attempt to "dull" the noise from full revving aircraft engines at 2:00 am. Obviously, that didn't work so a new "hush house" was built so the maintenance functions could be performed during the night with less noise intrusions to neighbors. More recently, the Herald has been told that the founder has claimed the hush house for storage of his private aircraft and noisy maintenance functions are again being performed outside. Who is monitoring this behavior? No one. Like Raytheon, local officials have a choice - require compliance with "the deal" or ignore the

violations. And, just like Raytheon, local officials have chosen the latter, fearful that to demand compliance might lead this inferior airline to vacate Cheyenne, embarrassing them even further.

Aviation International News wrote in February 2003: "**Great Lakes Aviation appears to have escaped a brush with certain bankruptcy thanks to a recently signed agreement with Raytheon Aircraft that gives the Wichita-based manufacturer a 36-percent stake in the long-floundering airline.**"

What Raytheon did was convert debt to shares of stock. Many, many shares of stock. The value of that stock has gone nowhere in the past many years so Raytheon didn't want to sell the stock - and probably couldn't sell the stock as there is no market for it. Then or now.

Finally, Raytheon is trying to get some money from their patience. Great Lakes is offering a few million shares of stock for sale - with all proceeds going to Raytheon. Not to mention another huge debt (not stock, but more debt) that is due to Raytheon any day now.

The worst thing that could happen for Great Lakes Airlines, and to local government, is for Raytheon to be owed no, or little, money by these scoundrels. Because, for years Raytheon has practiced the lending policy of "putting good money after bad." In other words, if they didn't prop up the business owing them tens of millions of dollars, that business would go under and the enabler (Raytheon) would not only NOT get their money back but would be stuck with a bunch of old aircraft no one else in this country wants or needs.

And, if they are being carried on the books for artificially high values, no one else would be willing to pay a

fraction of the book value for them.

An unholy marriage of a large public entity with resources and a small public entity with no resources has persevered. It looks like divorce papers have been filed.

Who in their right mind would buy stock of Great Lakes Airlines? Daily, the trading is miniscule. In the month of August, 40,900 shares were traded at a range in price from 50¢ a share to 85¢ a share. In June, the price per share was as low as 32¢. Today, September 28, 2011, the price is 70¢ a share.

The Great Lakes Airlines SEC 10-K 2010 annual report showed: 39 of the 56 communities served by GLA receive corporate welfare in the form of Essential Air Service subsidies; GLA received \$60.4 million in EAS payments in 2010 (48% of its total revenue); GLA has been so unprofitable for so long that it had \$46.4 million in loss carryforwards against federal income tax as of 12/31/2010; \$32.7 million in debt was due to Raytheon on June 30, 2011; the average age of GLA aircraft is 16 years; Raytheon holds 5,371,980 shares of GLA stock as of 12/31/2010; and, there are 297 GLA shareholders.

Another interesting disclosure in the 2010 10-K for GLA:

"We lease approximately 94,000 square feet for maintenance, operations and administration in Cheyenne, Wyoming." And, "On September 1, 2008 we entered into a lease for an approximate 120,000 square foot hangar and aircraft maintenance facility in Farmington, NM."

Finally, the audit issued for GLA as of December 31, 2010 was what is called a "qualified" opinion, meaning results of the audit "raise substantial doubt as to the ability to continue operating as a going concern." Tick, tock, tick, tock.

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