MERCURY AIR GROUP INC
Form DEF 14A
March 19, 2004

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[X] Definitive Proxy Statement[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))[ ] Definitive Additional Materials[ ] Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

MERCURY 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):

[X] Fee not required.
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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(2) Form, Schedule or

Registration
Statement No.:

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(3) Filing Party:

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MERCURY AIR GROUP, INC.

5456 McConnell Avenue
Los Angeles, California 90066

March 19, 2004

To our Stockholders:

You are cordially invited to the 2003 Annual Meeting of Stockholders for Mercury Air Group, Inc.

Date:	April 12, 2004
Time:	8:00 a.m., Pacific Standard Time
Place:	Embassy Suites Hotel located at 1440 East Imperial Highway, El Segundo, CA 90245

At the Annual Meeting, you will have the opportunity to vote to:

- approve the sale of that portion of our business which consists of aviation fuel sales, commercial aircraft refueling operations, aircraft hangar services, secured aircraft parking, and aircraft maintenance at certain of our fixed base operations for commercial, private, general aviation and United States government aircraft, excluding the Long Beach FBO (collectively, the FBO Business) to Allied Capital Corporation pursuant to the Stock Purchase Agreement dated October 28, 2003, as amended on December 10, 2003, January 14, 2004 and February 13, 2004 among Mercury Air Group, Inc., Mercury Air Centers, Inc. and Allied Capital Corporation (the Proposed Transaction);

- elect seven directors;

- ratify the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 30, 2004; and

- transact such other business as may properly come before the meeting or any adjournment thereof.

In addition to the formal items of business, Mercury Air Group, Inc. (sometimes referred to as Mercury Air Group , Mercury , we , us , our the Corporation) will review the major developments of fiscal 2003 and answer questions that you may have about the Corporation and its activities.

The Proxy Statement is a critical element of Mercury Air Group s corporate governance process. Its purpose is to answer your questions and give you important information regarding our Board of Directors and senior management. It includes discussions of proposals that require your vote and it contains information describing Mercury Air Group s corporate governance practices.

Over the past year, Mercury Air Group s Board of Directors and management team have enhanced the Corporation s corporate governance practices. In many cases we simply formalized our current procedures in order to comply with stricter regulations. In other cases, we introduced changes that strengthen our Board of Directors. We will implement further changes as new rules are adopted and as we think appropriate. We hope you will take some time to review our corporate governance practices, as well as our existing Audit Committee charter which is attached as Exhibit A.

This letter is your notice of the Annual Meeting and is being sent to stockholders of record as of the close of business on February 23, 2004, who are the only holders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE, EVEN IF YOU PLAN TO ATTEND THE MEETING. VOTING IN ADVANCE BY MAIL WILL NOT STOP YOU FROM VOTING IN PERSON AT THE MEETING, BUT IT WILL HELP TO ASSURE A QUORUM AND AVOID ADDED COSTS. IF YOU DO ATTEND THE MEETING, YOU MAY PERSONALLY VOTE, WHICH WILL REVOKE YOUR SIGNED PROXY. YOU MAY ALSO REVOKE YOUR PROXY AT ANY TIME BEFORE THE MEETING BY FOLLOWING THE INSTRUCTIONS IN THE PROXY STATEMENT.

For admission to the Annual Meeting, each stockholder must present an admission ticket and will be asked to present valid picture identification, such as driver s license or passport, and proof of ownership of the Corporation s Common Stock and/or Preferred Stock as of the record date, such as the enclosed proxy card or a brokerage statement reflecting stock ownership as of the record date.

We look forward to seeing you at the meeting.

Sincerely,

Wayne J. Lovett

Secretary

PROXY STATEMENT FOR THE

MERCURY AIR GROUP, INC.
2003 ANNUAL MEETING OF STOCKHOLDERS

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SUMMARY OF PROPOSED SALE TERMS

The following summary highlights the material terms of the proposed sale of the stock of Mercury Air Centers, Inc., a California corporation (Air Centers), to Allied Capital Corporation, a Maryland corporation (Allied Capital). This summary does not contain all of the information that may be important for you to consider in evaluating the proposed sale. We have included cross references to direct you to more complete information that appears elsewhere in this proxy statement. You should read this entire proxy statement, the Stock Purchase Agreement and the other documents attached to this proxy statement in their entirety to fully understand the stock sale and its consequences to you before voting. A copy of the Stock Purchase Agreement (SPA) among us, Air Centers and Allied Capital dated October 28, 2003, as amended December 10, 2003, January 14, 2004 and February 13, 2004, governing the stock sale is attached to this proxy statement as Exhibit B-1, Exhibit B-2, Exhibit B-3 and Exhibit B-4 (Exhibit B-4 hereinafter referred to as the February Amendment). For the purposes of this proxy statement, unless otherwise noted, references to Air Centers shall also be deemed to include references to all subsidiaries thereof, while references to Mercury, we , us , our , or the Corporation shall be deemed to refer only to Mercury Air Group, Inc. and not any of its subsidiaries.

Mercury provides a broad range of services to the aviation industry through four principal operating units: Air Centers, Mercury Air Cargo, Inc., a California corporation (Air Cargo), MercFuel, Inc., a Delaware corporation (MercFuel) and Maytag Aircraft Corporation (Maytag), a Colorado corporation. The Air Centers operations consist of aviation fuel sales, commercial aircraft refueling operations (into-plane), aircraft ground support services, aircraft hangar services, secured aircraft parking (aircraft tie-down services) and aircraft maintenance at certain Air Centers locations, known as fixed base operations (FBO s) for commercial, private, general aviation and United States Government aircraft (collectively the FBO Business). Air Cargo s operations consist of cargo handling, the sale of cargo capacity on other airlines (Cargo Space Logistics), and general cargo sales agent services. MercFuel s operations consist of the sale and delivery of fuel, primarily aviation fuel, to domestic and international commercial airlines, corporate aviation and air freight airlines. Maytag s operations consist of the following government contract services solely for agencies of the United States Government: aircraft refueling and fuel storage operations, base operations support (BOS) services, air termination and ground handling services and weather observation and forecasting services. In fiscal 2003, annual revenue from our FBO Business was $96,249 thousand, or 21.6% of our total revenues, and gross margin contributed by our FBO Business was $12,854, or 49.5% of our total gross margin. As a result of the sale of our FBO Business we will continue to own Air Cargo, MercFuel and Maytag. In fiscal 2003, these businesses generated revenues of $337,248 thousand and gross margin of $13,109 thousand out of total revenues of $429,015 thousand and total gross margins of $25,963 thousand. As of December 31, 2003, the assets of our FBO Business, $59,864 thousand, represented approximately 43.7% of our $137,016 thousand of total assets.

Stock Transferred and Liabilities Assumed

We are selling all of the stock of Air Centers, and consequently all of our FBO Business, to Allied Capital. The capital stock of Mercury Air Center Long Beach, Inc. will be assigned to us prior to Closing, and consequently the Long Beach FBO and will not be included in the sale. See the SPA Section 1.1 Sale of Shares on page 1 and Exhibit A thereof List of FBO sites leased by the Company and its Subsidiaries, the February Amendment as well as The Stock Purchase Agreement General on page 26 hereof.

The Purchase Price

If the proposed sale to Allied Capital (the Proposed Transaction) is consummated, Allied Capital will pay us $70,000,000 in cash, plus reimbursement of certain post July 1, 2003 construction obligation payments of the FBO s located at Los Angeles International Airport and Charleston International Airport, plus or minus a working capital adjustment (the Purchase Price). As of December 31, 2003, the construction obligation payments were $3,800,000. Approximately $38,400,000 of the Purchase Price will be paid directly to our creditors (including approximately $24,000,000 to Allied Capital) (collectively, the Funded Debt) and an

additional $16,000,000 of the Purchase Price will be used to collateralize outstanding letters of credit. In addition, Allied Capital will also assume an estimated $13.3 million of contractual capital expenditure obligations of the FBO s located at Los Angeles International Airport and Charleston International Airport. The working capital adjustment provides for a reduction on a dollar-for-dollar basis if Air Center s closing working capital (as defined in the Stock Purchase Agreement) is below $3,585,575, and is subject to increase on a dollar-for-dollar basis if Air Center s closing working capital exceeds $3,585,575. As of December 31, 2003, the working capital of Air Centers was $4,711,000. We are also required to reimburse Allied Capital after Closing if we do not make certain required compliance improvements and leasehold repairs (Required Cap-Ex), amounting to approximately $275,000. Allied Capital will deposit $8,270,000 of the Purchase Price into an escrow account for which we will be entitled to receive annual disbursements of $1,654,000 on each of the first five anniversaries of the Closing Date as long as Air Centers continues to provide FBO services at the Atlanta FBO location (Hartsfield-Jackson International Airport) and has not received a notice of termination regarding that location. The Stock Purchase Agreement also provides a mechanism for disbursement to us and to Allied Capital in the event a Qualifying Lease (as defined) is entered into for the Atlanta FBO location prior to disbursement of all the funds from escrow. See the SPA Section 1.2 Payment of Purchase Price on page 2, Section 1.5 Post Closing Adjustment to Purchase Price on page 4 and Escrowed Funds Section 1.3 on page 2 as well as Stock Purchase Agreement General on page 26 and Atlanta FBO Escrow on page 34 hereof. Mercury Air Centers has not received any notice of termination regarding the Atlanta FBO, and is currently operating the Atlanta FBO facility on a month to month lease. Hartsfield Jackson International Airport has put the FBO operation out for bid. Air Centers timely submitted a proposal on January 21, 2004. At this time there is no indication as to how long it will take to award the facility and if an award is made when it will become effective. As the incumbent operator, Air Centers believes that it is a reasonable assumption that it will be the successful bidder. If Air Centers is not the successful bidder, however, than it will receive a notice of termination.

Conditions to the Proposed Transaction

Allied Capital has the right to terminate the sale if certain conditions are not satisfied, including the following:

No legal or similar proceeding against Mercury or Air Centers shall be pending or threatened, and no event or circumstance shall have occurred, either of which would have a Material Adverse Effect (as defined in Section 2.1 of the Stock Purchase Agreement), and Air Centers shall not have suffered any material loss or damages to any of its properties or assets whether or not covered by insurance, which change, loss or damage materially effects or impairs the ability of Air Centers to conduct its business as it is currently conducted. Air Centers shall not have been adversely affected in any material way by any act of God, fire, flood or other nature disaster, shortage of power, labor disturbance, sabotage, war, terrorism or insurrection.

None of Air Center s existing FBO contracts have been terminated or threatened to have been terminated, except with respect to each FBO location contract consisting of less than 10% in the aggregate of revenue at such FBO locations.

Air Center s customers and suppliers set forth below shall not have terminated or threatened to terminate their contracts with Air Centers.

Customers

Addison Ameristar Jet Charter, Inc.

Bakersfield DESC BFL

Burbank Avjet Corporation

Fresno Airborne Express

Fresno Allegiant Air

Ontario Threshold Technologies

Reno DESC RNO

Santa Barbara Fidelity Title

Tulsa DESC TUL Into Truck

Tulsa DESC TUL Into Plane

Suppliers

Chevron Texaco

None of the customers listed accounted for over 10% of Air Center s revenues for the twelve month period ended June 30, 2003 or for the six month period ended December 31, 2003.

Receipt of certain specified consents, as set forth in Schedule 6.3(v) to the February Amendment.

Other conditions to closing have been satisfied. Among these are: (i) that Allied Capital has completed its due diligence investigation, the results of which were satisfactory to Allied Capital, (ii) all requirements under the Hart-Scott-Rodino Act (the HSR Act) have been fulfilled, due to the receipt on December 22, 2003 by Mercury and Allied Capital of notice of early termination of the waiting period from the FTC Pre-Merger Office; and (iii) Mercury received a fully-executed 30 year lease from the airport authority of the Los Angeles International Airport. See SPA Section 6.3, Obligations of the Acquiror to Effect the Closing , February Amendment, Sections 1 and 2 , as well as The Stock Purchase Agreement Conditions to Closing on page 27 hereof.

Date of Closing

The closing of the Proposed Transaction (the Closing) is schedule to occur on or before May 14, 2004, and in any event within five business days after all of the conditions to the obligations of the parties to consummate the transactions contemplated by the Stock Purchase Agreement, including approval of Mercury s stockholders (Stockholder Approval), have been satisfied or waived (the Closing Date). The transaction is expected to close on or before April 14, 2004. See the SPA Article 1.4 Closing on page 3, the February Amendment, Second Paragraph, as well as The Stock Purchase Agreement Closing on page 27 hereof.

Representations and Warranties

The Stock Purchase Agreement contains customary representations, warranties and covenants. All representations and warranties will survive the Closing and will expire eighteen months after the Closing, with some customary exceptions. See the SPA Article II Representations and Warranties beginning on page 5 as well as The Stock Purchase Agreement Representations and Warranties page 28 hereof.

Indemnification

We have agreed to indemnify Allied Capital for any losses and claims against it arising from our breach of any covenants or any representations or warranties in the Stock Purchase Agreement and other matters. Our indemnity obligations are capped at 25% of the purchase price under the Stock Purchase Agreement, which is estimated at 25% of $71,550,000 or $17,887,500. Our payment obligations for breach of any representations or warranties only commence after Allied Capital has absorbed the first $2,000,000 of claims otherwise eligible for indemnification. Allied Capital has agreed to similar indemnification obligations in favor of us. See the February Amendment .

Environmental Matters

We granted Allied Capital 62 days to conduct an environmental due diligence investigation of Air Centers. Following Allied Capital s environment due diligence investigation and negotiations conducted in

connection therewith, the parties agreed that the Final Environmental Budget is $0, and that no adjustment to the Purchase Price is due Allied Capital arising out of known environmental matters. The parties agreed, however, that if within 18 months after the Closing, Allied Capital or Air Centers receive any written notice from any governmental authority or any rule, interpretation or other mandate is published by any governmental authority requiring secondary containment pursuant to environmental law for extended or overnight fuel truck parking at any FBO comprising the FBO Business on the Closing Date, excluding the Long Beach FBO (Required Secondary Containment), then Mercury will be required to indemnify Allied Capital and its affiliates (including, without limitation, Air Centers after the Closing) from and against any liability obligation, loss or expense arising out of such Required Secondary Containment, including reimbursement of any fines, penalties or other losses relating to noncompliance with such Required Secondary Containment.

Termination Fees

We must pay a termination fee to Allied Capital if it terminates the Stock Purchase Agreement under specified circumstances as follows:

A $3.5 million fee if the termination is because we fail to recommend the Proposed Transaction to our stockholders.

A $3.5 million fee if Allied Capital elected to extend the Closing Date because all material consents have not been obtained and the termination is because we fail to obtain the approval by our Stockholders of the proposed transaction.

A $3.5 million fee if the termination is because our Board decides to accept a different, superior offer as defined in, and subject to, the provisions of the Stock Purchase Agreement.

See the SPA Article X Termination and Section 10.2 Consequences of Termination on pages 47 and 48 as well as The Stock Purchase Agreement Termination and Liquidated Damages on pages 36 and 37 hereof.

Post-Closing Agreements

We have agreed that we will not, for a period of five years following the Closing Date, engage in the FBO Business or in any business or activity that competes with Air Centers in North America, Europe or the Caribbean. We have also agreed that for two years following the closing, we will not solicit former Air Centers employees for employment. We have entered into, and deposited into escrow, a license agreement and a transition services agreement with Allied Capital subject to completion of an exhibit to the transition service agreement in a form acceptable to Allied Capital. See the SPA Section 5.6 Noncompetition and Nonsolicitation on page 30, Section 6.3(r) Tradename Agreement on page 38, and Section 6.3(t) Transition Services Agreement on page 38 as well as The Stock Purchase Agreement Agreement Not to Compete on page 32, License Agreement and Transition Services Agreement on page 37 hereof.

We have also entered into, and deposited into escrow, an LAX Fuel Farm Sublease. The LAX Fuel Farm Sublease provides for a five year term whereby Mercury will sublease space to Air Centers currently used by Air Centers for the operation of its LAX Fuel Farm for fuel quality control and for office space. The agreement currently provides that the sublease shall continue through December 31, 2004, and any extension thereto provided that Air Centers consents to the extension. The Sublease may be reduced at the option of Air Centers upon thirty (30) days notice for office space. It may also be terminated if Air Centers is required by Los Angeles World Airports to open a new fuel farm at its new Imperial Highway facility. Air Centers has agreed that it will be responsible for closing the fuel farm at the termination of the Prime Lease. Air Centers is paying rent in the amount of $15,832.55 per month. See LAX Fuel Farm Sublease on page 37 hereof.

We have entered into negotiations for an agreement between MercFuel and Air Centers whereby MercFuel and Air Centers will maintain a mutually beneficial strategy to afford each other preferential pricing, terms and routing of general and corporate aircraft; however, no assurance can be given that the parties will ultimately conclude such an agreement.

Regulatory Approvals and Third Party Consents

The closing of the Proposed Transaction is subject to, among other things, (i) all requirements under the HSR Act having been fulfilled, and (ii) all scheduled third party consents having been received. On December 22, 2003, Mercury and Allied Capital received notice of early termination of the waiting period from the FTC PreMerger Office with respect to the HSR Act notification.

Absence of Dissenters Rights of Appraisal

Under the applicable provisions of DGCL, Mercury s stockholders will have no rights in connection with the Proposed Transaction to seek appraisal for the fair value of the shares of Common Stock.

Accounting Treatment of Proposed Transaction

Under accounting principles generally accepted in the United States of America, upon consummation of the Proposed Transaction, we will remove the net assets sold from our balance sheet and record the gain on the sale, net of transaction costs, severance and other related costs, including applicable state and federal income taxes, in our statement of operations.

Certain Federal Income Tax Consequences of the Proposed Transaction

The Proposed Transaction should have no direct income tax consequences to Mercury s stockholders. The Proposed Transaction will be reported by Mercury as a sale of assets in its 2003 federal income tax return which includes the twelve-month period ending June 30, 2004.

MERCURY WILL NOT SEEK AN OPINION OF COUNSEL WITH RESPECT TO THE ANTICIPATED TAX CONSEQUENCES. THE FOREGOING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS INCLUDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE LEGAL ADVICE TO ANY STOCKHOLDER. MERCURY RECOMMENDS THAT EACH STOCKHOLDER CONSULT HIS OR HER OWN TAX ADVISER REGARDING THE TAX CONSEQUENCES OF THE PROPOSED TRANSACTION.

Opinions of Our Financial Advisor

On October 24, 2003, Imperial Capital, LLC (Imperial), our financial advisor, delivered its opinion to us that, as of that date, and based on and subject to the matters described in its written opinion, the consideration we expect to receive from the sale is fair from a financial point of view to Mercury. See Opinion of Imperial Capital, LLC on page 12 hereof.

The written opinion of Imperial dated October 24, 2003, is attached to this proxy statement as Exhibit C. The Imperial opinion is directed to our Board of Directors and does not constitute a recommendation to any stockholder as to any matter relating to the transactions described in this proxy statement.

QUESTIONS AND ANSWERS ABOUT THE MEETING

AND THE PROPOSED TRANSACTION

Why was I sent this proxy statement?

You have been sent this Proxy Statement and the enclosed proxy card because Mercury Air Group s Board of Directors is soliciting your proxy to vote at the 2003 Annual Meeting of Stockholders. This Proxy Statement summarizes the information that you will need in order to vote at the Annual Meeting.

Must I attend the annual meeting?

You need not attend the Annual Meeting in order to vote your shares. You may instead simply complete, sign and return the enclosed proxy card to register your vote.

Who is entitled to vote?

This Proxy Statement and the enclosed proxy card will be sent by March 22, 2004 to all stockholders who owned Mercury Air Group Common and/or Preferred Stock at the close of business on February 23, 2004, who are the only stockholders entitled to vote at the Annual Meeting. As of the record date, there were 2,971,135 shares of Mercury Air Group Common Stock (Common Stock), and 462,627 shares of Mercury Air Group Series A 8% Cumulative Convertible Preferred Stock (Preferred Stock) issued and outstanding.

How many shares am I entitled to vote?

Each share of Mercury Air Group Common Stock and each share of Mercury Air Group Preferred Stock entitles you to one vote on each proposal at the Annual Meeting. The enclosed proxy card indicates the number of shares of Mercury Air Group Common Stock and/or Preferred Stock that you own. You may vote all your Common Stock and Preferred Stock that you own as of the close of business on February 23, 2004. Theses shares include: (1) shares held directly in your name as the stockholder of record; and (2) shares held for you as the beneficial owner through a stockbroker, bank, or other nominee.

If your shares are registered directly in your name with the Corporation s transfer agent, American Stock Transfer & Trust Company, you are considered the stockholder of record for those shares, and the Corporation is sending these proxy materials directly to you. As a stockholder of record, you may grant your voting proxy directly to the Corporation to vote your shares or vote your shares in person at the meeting. The Corporation has enclosed a proxy card for your use in voting by proxy.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and your broker or nominee is considered to be the stockholder of record. If you are a beneficial owner, you may direct your broker to vote, and are also invited to attend the meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares. Your broker or nominee has provided a voting instruction card for you to use in directing the broker or nominee on how to vote your shares.

What am I being asked to vote upon?

Each stockholder is being asked to vote in favor of a transaction in which we will sell, through a sale of our stock of Air Centers, substantially all of the assets of our FBO Business, to Allied Capital for $70,000,000 in cash, of which approximately $34,000,000 will be paid directly to our creditors (including approximately $24,000,000 to Allied Capital) and of which an additional $16,000,000 will be used to collateralize outstanding letters of credit. Allied Capital will also assume approximately $15.55 million of contractual capital expenditure obligations of the FBO s located at Los Angeles International Airport and Charleston International Airport. The purchase price is subject to increase based on the amount of construction obligation payments we expended after June 30, 2003 at the same airports, and is subject to adjustment based on our closing working capital. In addition, Allied Capital will deposit $8,270,000 of the $70,000,000 purchase price in an escrow account for which we will be entitled to receive disbursements based on the continued operation of the Atlanta FBO.

As of December 31, 2003, the assets of Air Centers constituted approximately 43.7% of Mercury s total assets, consequently this sale may constitute a sale of substantially all our assets for purposes of Delaware law, which governs our corporate matters. Accordingly, the sale is being submitted to stockholders for approval pursuant to Section 271 of the Delaware General Corporation Law. See Mercury s Form 10-Q for the fiscal quarter ended December 31, 2003 (note 7) attached hereto as Exhibit H .

Each stockholder is also being asked to vote on seven nominees for director, and for ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 30, 2004.

Why has the Board decided to sell the FBO Business to Allied Capital?

Our Board of Directors unanimously decided that it is in the best interests of Mercury to sell the FBO Business to Allied Capital for the financial reasons and other reasons set forth in Reasons for the Proposed Transaction on page 25 hereof. Under the terms of a promissory note with one of our creditors (the Whitney Note), we would have had to have made a substantial prepayment, and issue additional stock for nominal consideration if we did not prepay the Whitney Note by December 31, 2003. We entered into the Stock Purchase Agreement with Allied Capital on October 28, 2003 as part of the transaction whereby Allied Capital purchased the Whitney Note and waived these provisions. We also entered into the Stock Purchase Agreement with Allied Capital because of the consideration being all cash, the financial stability of Allied Capital, the lack of a financing condition, the Imperial Capital opinion, the support of the Proposed Transaction by our largest stockholder, CFK Partners (see How many votes are required to approve the proposal?), and the fact that in the opinion of the Board of Directors, the Allied Capital offer was the best offer received and outstanding. Finally the Board of Directors has determined that divesting the Corporation of the capital intensive Air Centers makes sound strategic sense at this point in time See Proposal One: The Proposed Sale of the FBO Business Reasons for the Proposed Transaction on page 25 hereof.

What will the stockholders receive if the sale of the FBO Business is approved and closes?

There will be no distributions made to the stockholders as a result of the sale of the FBO Business. Rather, we will use the proceeds from the sale primarily to pay off our creditors, to collateralize outstanding letters of credit, and for working capital. See Proposal One: The Proposed Sale of the FBO Business Use of Proceeds on page 24 hereof.

What was the process by which Mercury chose to sell the FBO Business to Allied Capital?

After deciding that our only alternatives to raise cash were through the sale of either corporate assets or equity or debt securities, our Board of Directors directed us to pursue either a sale of our FBO Business or a sale-leaseback of certain of our FBO s. In a process spanning 10 months, during which we exchanged information with approximately 33 different potential buyers for all or part of the FBOs and after additional negotiations, concluded that a transaction with Allied Capital represented the best value for selling the FBO Business. See Opinion of Imperial Capital on page 12 hereof.

What will be the management structure of Mercury after the sale?

We expect that most of our current management, including Joseph A. Czyzyk, our President and Chief Executive Officer, Robert M. Schlax, our Chief Financial Officer and Vice President of Finance, William L. Silva, our Executive Vice President and President of Maytag Aircraft Corporation, and Wayne J. Lovett, our Executive Vice President, Secretary and General Counsel will remain with us after the sale. John L. Enticknap, Executive Vice President and Chief Operating Officer of Air Centers, and the current employees of Air Centers will remain with Air Centers and no longer be employed by us. We expect that immediately after the closing, we will have approximately 1,046 employees.

What are the risks of the proposed sale?

If the stockholders approve the sale of the FBO Business and the sale is consummated, we will be selling our most profitable business and we will become less diversified. We will be dependent on our less profitable air cargo, fueling, and government services business units for our success. See Risk Factors Because Our Revenues and Gross Margins Depend Heavily on the FBO Business, the Loss of this Unit will Have a Negative Impact on Our Gross Margin and Operating Results on page 43 hereof.

What will occur if the sale transaction is not approved?

If the sale transaction is not approved we will not consummate the sale. Because our credit facilities may then be in default, we would need to pay-off or replace our credit facilities, either by selling one or more FBO s or other assets or divisions of our Company, or by entering into a new credit agreement with other lenders. If

we are unable to do so, the lenders may exercise their rights to force liquidation of assets or take other remedies to pay off amounts outstanding. See Risk Factors If the Proposed Transaction is Not Approved or if the Proposed Transaction Closes After April 14, 2004, we will be in Default of Our Senior Credit Facility and the Lenders May Require Us to Force a Liquidation of our Assets on page 42 hereof. In addition, we will be required to pay Allied Capital a break-up fee of $3.5 million if we fail to obtain stockholder approval. See Risk Factors If the Proposed Transaction is Not Approved We Will Also Have to Pay a Break-up Fee to Allied Capital on page 43 hereof.

What are the federal tax consequences of the asset sale to Allied Capital?

The sale of the FBO Business should have no direct income tax consequences to our stockholders. The Proposed Transaction will be reported by Mercury as a sale of assets in its 2003 federal income tax return which includes the twelve-month period ending June 30, 2004.

Am I entitled to appraisal or dissenter s rights?

No. Stockholders are not entitled to any dissenter s or appraisal rights with respect to the sale of the FBO Business under Delaware law or our Certificate of Incorporation.

How do I vote?

You may vote by proxy or in person at the meeting. To vote by proxy, please complete, sign, date and return your proxy card in the postage-prepaid envelope that we have provided.

How do proxies work?

Giving your proxy means that you authorize us to vote your shares at the annual meeting in the manner you direct. If you sign, date and return the enclosed proxy card but do not specify how to vote, we will vote your shares FOR the sale of our FBO Business to Allied Capital, FOR election of the seven nominees named in the proxy statement, and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 30, 2004. We do not know of any other matters that will be brought before the annual meeting. If, however, other matters are properly brought before the annual meeting, we will vote your proxy on those matters as determined by the person identified on the proxy card as your proxy. If for any unforseen reason any of the nominees is not available as a candidate for director, the persons named as proxy representatives will vote your proxy for such other candidate or candidates as may be nominated by the Board of Directors.

How do I revoke my proxy?

You may change your voting instructions at any time prior to the vote at the Annual Meeting. For shares you hold as the stockholder of record, you may change your vote by either: (i) granting a new proxy bearing a later date (which automatically revokes the earlier proxy): (ii) notifying the Corporation s Secretary in writing that you want to revoke your earlier proxy: or (iii) attending the Annual Meeting, giving notice of your proxy revocation in open meeting and voting in person. Please note that mere attendance at the meeting will not cause your previously granted proxy to be revoked; at the Annual Meeting you must specifically request to revoke your previous proxy. For shares held beneficially by you in street name, you may change your vote by submitting new voting instructions to your broker or nominee.

May I vote in person?

Shares held directly in your name as the stockholder of record may be voted in person at the Annual Meeting. Shares you own beneficially in street name, cannot be voted at the Annual Meeting unless you obtain a proxy from the stockholder of record authorizing you to vote these shares at the Annual Meeting. If you choose to attend the meeting and vote in person, please bring the enclosed proxy card and proof of identification.

What do I need to know about admission to the annual meeting?

Our Annual Meeting will be held on April 12, 2004 at 8:00 a.m. at the Embassy Suites located at 1440 East Imperial Highway, El Segundo, CA 90245. The doors to the meeting room will open at 7:15 a.m for admission purposes.

An admission ticket (or other proof of ownership of Mercury Air Group stock as of February 23, 2004), as well as some form of photo identification, must be presented in order to be admitted to the Annual Meeting. An admission ticket has been mailed to you with the rest of the proxy material for the meeting. Please fill out the appropriate section of the admissions ticket, detach and mail the postcard back to the Corporation prior to the meeting. The remaining section of the admission card will serve as your admissions ticket for the meeting. **Only stockholders who own Mercury Air Group, Inc. Common Stock or Preferred Stock as of the close of business on February 23, 2004 will be entitled to attend the meeting.**

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

What happens if I choose not to submit a proxy or to vote?

If you do not submit a proxy and do not vote at the Annual Meeting, it will have the same effect as a vote against approval of the sale of the FBO Business and will have no effect on the other proposals.

What is a quorum ?

A majority of the shares of Common Stock and Preferred Stock, counted together as a single class, issued, outstanding and entitled to vote at the Annual Meeting, present in person or represented by proxy, shall constitute a quorum at the Annual Meeting. As of the Record Date, there were 2,971,135 shares of Common Stock and 462,627 shares of Preferred Stock issued and outstanding and entitled to vote. Each share of issued and outstanding Common Stock and each share of issued and outstanding Preferred Stock entitles the holder thereof to one vote on each proposal at the Annual Meeting. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of elections appointed for the Annual Meeting and will determine whether or not a quorum is present. Where, as to any matter submitted to the stockholders for a vote, proxies are marked as abstentions (or stockholders appear in person but abstain from voting), such abstentions will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter and has not received instructions from the beneficial owner, which is known as a broker non-vote, those shares will not be considered as present and entitled to vote with respect to that matter; however, such shares will be considered present for purposes of a quorum.

How many votes are required to approve the proposals?

Each share of Common and Preferred Stock will entitle the holder to cast one vote. As the affirmative vote of a majority of the shares of Common Stock and Preferred Stock entitled to vote and voting together as a single class will be necessary for the approval of the Proposed Transaction, abstentions and broker nonvotes will have the same effect as votes against the Proposed Transaction.

Regarding the election for directors, the seven nominees for director receiving the greatest number of votes cast in person or by proxy will be elected. If you are present and do not vote, or if you send in your proxy marked withheld, your vote will have no impact on the election of those directors as to whom you have withheld votes. There are no cumulative voting rights for either the shares of Common Stock or the shares of Preferred Stock. The approval of each other proposal, including the ratification of PricewaterhouseCoopers LLP requires the holders of a majority of the votes cast at the Annual Meeting and entitled to vote.

Directors Joseph A. Czyzyk, Frederick H. Kopko, Jr. and Philip J. Fagan, Jr., M.D. as partners of CFK Partners, which is the beneficial owner of 24.5 %of the Corporation s issued and outstanding common and preferred stock have agreed to vote for the Proposed Transaction, and have indicated that they intend to vote

for the seven director nominees named herein, and for the ratification of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 30, 2004. Such directors, along with other Mercury directors and officers holding collectively 37.4% of the Corporation s common and preferred stock have entered into voting undertakings with Allied Capital as of the date of the Stock Purchase Agreement. Until the earlier of the closing of the Proposed Transaction or termination of the Stock Purchase Agreement, such stockholders have agreed to approve the Stock Purchase Agreement and The Proposed Transaction, and vote against (i) any Acquisition Proposal other than the Stock Purchase Agreement, (ii) approval or adoption of resolutions or actions which could reasonably be expected to result in any of the conditions of Mercury s obligations under the Stock Purchase Agreement not being satisfied.

Who pays for this proxy solicitation?

Mercury Air Group, Inc. is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communications by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We have also hired Morrow & Co. to assist us in the distribution of proxy materials and the solicitation of votes. We will pay Morrow & Co. a fee of $10,000 plus expenses for these services. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

Where can I find more information about Mercury and this proposal?

You can get more information about us by inspecting our annual, quarterly and other reports which we file with the U.S. Securities and Exchange Commission, by copying them at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549 or by calling the SEC at 1-800-SEC-0330 (the SEC). You can obtain these reports from the SEC website at www.sec.gov through the EDGAR system or by contacting us directly at the address and telephone number below.

If you have other questions about the proposal or the annual meeting you can contact us at the following address:

Wayne J. Lovett

Mercury Air Group, Inc.
5456 McConnell Avenue
Los Angeles, California 90066
(310) 827-2737

To obtain a copy of the proxy material, admission ticket and/or if you need help in voting your shares please feel free to contact **Morrow & Co., Inc.** toll free at 1-800-654-2468 or (212) 754-8000.

The information contained or incorporated in this proxy statement constitutes the information we believe you should rely on in deciding how to vote on the proposal. We have not authorized anyone to provide you with information that is different from what is contained or incorporated in this proxy statement. This proxy statement is dated March 19, 2004. You should not assume that the information contained in this proxy statement is accurate as of any date other than this date. See Financial and Other Information Included Herein on page 69 hereof.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Philosophy

Corporate governance encompasses the internal policies and practices by which Mercury Air Group is operated and controlled on behalf of its stockholders. A good system of corporate governance helps Mercury Air Group maintain the confidence of investors and allows us to raise capital efficiently.

We have made various changes to our corporate governance practices in response to the Sarbanes-Oxley Act of 2002 and the proposed changes to corporate governance rules of the American Stock Exchange (Amex) and we expect to make more in the coming year. In some instances, we already had procedures in place that complied with the new stricter requirements. In other cases, changes have been necessary. Many of the changes required by the Sarbanes-Oxley Act are being phased in over time in compliance with the law, and the proposed Amex rules are not yet effective. As a result, our response to these changes will be an on-going process, which will include bringing the board and committees into full compliance with the new independence requirements.

Mercury Air Group s business affairs are conducted under the direction of the board in accordance with the Delaware General Corporation Law as implemented by our certificate of incorporation and bylaws. The role of the Board of Directors is to effectively govern the affairs of the Corporation for the benefit of our stockholders and, to the extent appropriate under Delaware law, other constituencies, which include our employees, customers and the communities in which we do business. The board strives to ensure the success and continuity of our business through the selection of a qualified management team. It is also responsible for ensuring that Mercury Air Group s activities are conducted in a responsible and ethical manner.

We are in the process of adopting our Corporate Governance Policy. The following principles, among others, govern our corporate governance practices:

Our President and Chief Executive Officer, Joseph A. Czyzyk, is the only director who is currently an employee of the Corporation. However, our non-executive Chairman, Philip J. Fagan Jr., M.D. is also compensated for his time, efforts and contributions in assisting the Corporation with strategic alternatives;

Directors have access to members of the Corporation s management team so that they can stay abreast of Corporation affairs;

The board s Audit Committee is composed entirely of independent directors as defined by the Amex s new independence standards;

If all nominees are elected, the majority of our board will be made up of independent directors as defined by Amex s new independence standards;

We have adopted an ethics policy to which all employees, including our senior officers, will be expected to adhere;

Mercury Air Group uses accounting principles generally accepted in the United States, or GAAP, for reporting our quarterly and annual results;

In 2002, our Chief Executive Officer and Chief Financial Officer began certifying all quarterly and annual reports filed with the Securities and Exchange Commission (SEC);

We are seeking and will appoint an independent financial expert to add to our Audit Committee. See Information Regarding Nominees on page 48 hereof;

Annual and quarterly reports are accessible though a hyperlink on our website; and

Mercury Air Group documents and regularly evaluates its established financial internal controls.

PROPOSAL ONE: THE PROPOSED SALE OF THE FBO BUSINESS

At the Annual Meeting, Mercury s stockholders will consider and vote upon a proposal to approve the Stock Purchase Agreement as amended by Letter Agreement dated December 10, 2003, January 14, 2004 and February 13, 2004 (copies of which are attached to this Proxy Statement as Exhibits B-1, B-2, B-3 and B-4 and are incorporated herein by reference) between Mercury and Allied Capital for the sale of all the outstanding stock of Air Centers, as contemplated by the Stock Purchase Agreement, for $70 million in cash, subject to certain adjustments and escrows plus the assumption of certain contractual capital expenditure

obligations. Because the Proposed Transaction may constitute a sale of substantially all of the assets of Mercury pursuant to DGCL, stockholder approval of the Proposed Transaction is being sought.

Board of Directors Recommendation

AFTER CAREFUL CONSIDERATION, MERCURY S BOARD HAS DETERMINED THAT THE STOCK PURCHASE AGREEMENT IS ADVISABLE, FAIR TO, AND IN THE BEST INTERESTS OF MERCURY AND ITS STOCKHOLDERS. ACCORDINGLY, MERCURY S BOARD HAS UNANIMOUSLY APPROVED THE STOCK PURCHASE AGREEMENT AND THE PROPOSED TRANSACTION, AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE STOCK PURCHASE AGREEMENT AND THE PROPOSED TRANSACTION.

Opinion of Imperial Capital, LLC

Mercury retained Imperial Capital to render an opinion to its Board that, based on and subject to the matters set forth in its opinion, the Consideration (as defined below) to be received by Mercury from Allied Capital in connection with the Proposed Transaction is fair, from a financial point of view, to Mercury. The Consideration was determined through extensive negotiations between Mercury and Allied Capital.

In rendering its opinion, Imperial Capital relied on information provided by Mercury (See Due Diligence Financial Projections (unaudited) for Air Centers and Mercury Air Group Going Forward on page 46.) regarding, among other things, oral and written proposals from, and negotiations with many significant investors in the FBO business since 1998. Imperial Capital relied on representations by Mercury management that none of these discussions generated proposals (written or otherwise) on terms more beneficial to Mercury than the Proposed Transaction described herein.

Imperial Capital advised Mercury in the refinancing of its senior and subordinated debt in December 2002. Thereafter, Imperial Capital was engaged by Mercury on February 28, 2003 to, among other things, assist management in evaluating interests from a select list of financial and strategic buyers for certain of Mercury s assets, including Air Centers, and advising management in the potential sale of such assets. The engagement was subsequently amended on October 24, 2003 to engage Imperial Capital to assist Mercury in the sale of a certain promissory note between the Company and J.H. Whitney Mezzanine Fund, L.P. (the Whitney Note).

The Board retained Imperial Capital based upon its pre-existing relationship with Mercury and its experience in the valuation of businesses and their securities in connection with mergers, acquisitions, sales of companies, sales of corporate divisions and similar transactions. No limitations were imposed by the Board on Imperial Capital with respect to the investigations made or procedures followed by Imperial Capital in rendering its opinion.

As part of its engagement, Imperial Capital was requested to consider whether the aggregate consideration of $70 million, of which $8.27 million will be held in escrow, plus the assumption by Allied Capital of certain contractual capital expenditure obligations, to be received by Mercury in the Proposed Transaction was fair, from a financial point of view. With Mercury s consent, Imperial Capital assumed that Mercury will receive the entire escrow amount as part of the Consideration. At a meeting of the Board held on October 23, 2003, Imperial Capital delivered its written opinion to the Board that, as of such date and based upon and subject to certain matters stated therein, the Consideration to be received by Mercury in the Proposed Transaction was fair, from a financial point of view. Imperial Capital subsequently confirmed its opinion in writing.

Imperial Capital s opinion was prepared at the request and for the information and use of the Board of Directors of Mercury (the Board) in connection with its consideration of the Proposed Transaction. Imperial Capital s opinion does not address the business decision by Mercury to engage in the Proposed Transaction or address the relative merits of any alternatives discussed by the Board. Imperial Capital s opinion does not constitute a recommendation as to how any stockholder should vote with respect to the Proposed Transaction. Imperial Capital did not make, and was not requested by Mercury or any other person to make, any recommendations as to the relative merits of any alternative discussed by the Board. Imperial

Capital made one presentation to the Board. Such presentation occurred on October 23, 2003, at which time Imperial Capital distributed and discussed its written opinion.

THE FULL TEXT OF IMPERIAL CAPITAL S WRITTEN OPINION IS ATTACHED AS EXHIBIT C TO THIS PROXY STATEMENT, AND DESCRIBES THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITS ON THE REVIEW UNDERTAKEN. THE DESCRIPTION OF IMPERIAL CAPITAL S OPINION CONTAINED IN THIS PROXY STATEMENT SHOULD BE REVIEWED TOGETHER WITH THE FULL TEXT OF THE WRITTEN OPINION, WHICH YOU ARE URGED TO READ CAREFULLY IN ITS ENTIRETY. THE SUMMARY OF THE OPINION OF IMPERIAL CAPITAL SET FORTH IN THIS PROXY STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF IMPERIAL CAPITAL S WRITTEN OPINION, WHICH IS ATTACHED AS EXHIBIT C HERETO.

The three different valuation methodologies applied by Imperial Capital resulted in the following range of implied equity values for the Company:

Summary Implied Equity Values

	Low	Mean	High
Market Approach Multiple Analysis	$40.8 million	$84.9 million	$ 132.2 million
Market Approach Precedent Transaction	$83.8 million	$84.7 million	$ 85.6 million
Discounted Cash Flow Analysis	$55.5 million	$71.3 million	$ 82.2 million
Allied Capital Transaction			
Cash (of which approximately $8.27 million will be held in escrow)	$70,000,000		
Contractual capital expenditure obligations (of which approximately $3,800,000 has already been incurred to date)	$17,100,000		
Total (subject to working capital and other adjustments)	$87,100,000		

In connection with the rendering of its opinion, Imperial Capital has:

1. Reviewed the SPA;

2. Analyzed certain historical business and financial information relating to Air Centers, including Air Centers non audited financial statements for the fiscal year ended (FYE) June 30, 2003;

3. Reviewed Mercury s projections for fiscal years ended June 30, 2004 through 2008 furnished to Imperial Capital by management of Mercury;

4. Discussed and reviewed with management of Mercury the outcome of the marketing process of Air Centers with respect to a potential transaction with several potential buyers;

5. Reviewed the letters of intent from several strategic and financial buyers;

6. Reviewed certain publicly available business and financial information relating to Mercury that Imperial Capital deemed to be relevant;

7. Conducted discussions with members of senior management of Mercury concerning the matters described in clauses (1) through (7) above, as well as the prospects and strategic objectives of Mercury;

8. Reviewed public information with respect to certain other companies with financial profiles which Imperial Capital deemed to be relevant; and

9. Conducted such other financial studies, analyses and investigation and took into account such other matters as Imperial Capital deemed necessary, including Imperial Capital s assessment of general economic, market and monetary conditions.

In connection with this review, with Mercury s consent, Imperial Capital relied upon the accuracy and completeness of the foregoing financial and other information and Imperial Capital did not assume responsibility for independent verification of such information or conduct any independent valuation or appraisal of any assets of Air Centers or any appraisal or estimate of liabilities of Air Centers. With respect to the financial forecasts, Imperial Capital assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Mercury as to the future financial performance of Air Centers. Imperial Capital also relied upon the assurances of senior management of Mercury that they were unaware of any facts that would make the information or financial forecasts provided to Imperial Capital incomplete or misleading. Imperial Capital assumed no responsibility for, and expresses no view, as to such financial forecasts or the assumptions on which they are based. Imperial Capital has assumed that the Stock Purchase Agreement will be signed substantially in the form reviewed and the parties will comply with the material terms thereof in effecting the Proposed Transaction.

Imperial Capital s opinion was based upon economic, monetary and market conditions existing on the date of the opinion. Imperial Capital expressed no opinion, nor should one be implied, as to the current fair market value of Mercury s common stock or the prices at which Mercury s common stock will trade at any time.

In preparing its opinion, Imperial Capital performed certain financial and comparative analyses summarized in the following paragraphs. Imperial Capital believes that its analyses must be considered as a whole and that selecting portions of such analyses and the factors it considered, without considering all such analyses and factors, could create an incomplete view of the analyses and the process underlying the opinion. While the conclusions reached in connection with each analysis were considered carefully by Imperial Capital in arriving at its opinion, Imperial Capital made various subjective judgments in arriving at its opinion and did not consider it practicable to, nor did it attempt to, assign relative weights to the individual analyses and specific factors considered in reaching its opinion.

Review of Auction Process. Imperial Capital conducted an auction process, which Imperial Capital believes helps to establish the relative market for a business. Imperial Capital believes that a company is best able to determine the fair value of its operations by soliciting bids from a number of the most logical buyers of such operations. As more fully described in the Background to the Transaction, beginning after its engagement, information was distributed by Mercury and Imperial Capital to fourteen (14) potential financial and strategic buyers (10 financial and 4 strategic), each of which had expressed interest in receiving further information and signed confidentiality agreements in order to receive such information for the purchase of all the FBOs. Between February 2003 and October 2003, Imperial Capital received six (6) offers for the stock and/or substantially all of the assets of Air Centers or certain assets of Air Centers. Three (3) of the bidders sought to purchase certain FBO assets of Air Centers. Three (3) of the offers were subject to the bidders obtaining necessary financing. A summary of the expressions of interest and the resulting negotiations is included in the Background to the Transaction on page 17 hereof, and are summarized below:

Update for Mercury Bids Received

Bidder	Date Rec d	Cash	Assumed Construction Obligations	Total Bid	Financing Contingency	# FBOs	Total FBO EBITDA	Implied EBITDA Multiple
Allied Capital Corporation	9/29/03	$ 70.0 million	$ 18.6 million	$ 88.6 million	NO	19 FBOs	$ 12.4 million	7.1x(A)
Party A	[various	$ 20.0 million	$ 3.6 million	$ 23.6 million	NO	4 FBOs	$ 3.3 million	7.2x(B)
Party B	5/28/03	$ 21.5 million	$ 3.6 million	$ 25.1 million	YES	6 FBOs	$ 4.5 million	5.6x(C)
Party C	8/1/03	$ 77.8 million	$ 3.6 million	$ 81.4 million	YES	19 FBOs	$ 12.4 million	6.6x(D)
Party D	8/2003	$ 65.0 million	$ 0.0 million	$ 65.0 million	YES	19 FBOs	$ 12.4 million	5.2 - 5.6x(E)
Average								6.2x

Footnotes:

(A) Allied submitted two indications of interest. The one summarized above is the last received by the Company. The prior offer entailed the purchase of the Company for $79.0 million.

(B) According to Mercury s management, a sale of the 4 FBOs to Party A would have resulted in a significant tax expense of approximately $4.0 million, resulting from the low tax basis of these FBOs.

(C) Party B submitted three indications of interest. The one summarized above is the last received by the Company. The prior two offers entailed the purchase of (i) 7 FBOs for $25.8 million; and (ii) 8 FBOS for $37.5 million.

(D) Party C submitted five indications of interest. The one summarized above is the last one received by the Company. The prior four offers entailed the purchase of: (i) 10 FBOs for $31.0 million; (ii) 9 FBOs for $29.1 million; (iii) 9 FBOs for $36.6 million; and (iv) 14 FBOs for $58.8 million.

(E) Party D s offer was verbal, and indicated a range of $65-70 million, and was subject to financing.

Note: The Party A and Party B offers, neither of which entailed the purchase of all of Air Centers FBO s, were included in the average EBITDA multiple figure.

Comparable Company Analysis. Imperial Capital s comparable company analysis was based on a comparison of Air Center s valuation multiples with those of a selected group of comparable public companies (the Company Comparables).

In selecting the Company Comparables, Imperial Capital searched comprehensive lists and directories of public companies. When selecting the Company Comparables, certain determinant factors included: (i) the company had to provide products or services for the aviation industry; (ii) the company had to make its financial information public; and (iii) the company was required to have an active trading market to measure public perception. The Company Comparables selected were:

Air T, Inc. (NasdaqSC: AIRT)

AirNet Systems, Inc. (NYSE: ANS)

BBA Group plc (LSE: BBAA)

First Aviation Services Inc. (NasdaqSC: FAVS)

Navtech, Inc. (OTCBB: NAVH)

Pemco Aviation Group, Inc. (Nasdaq: PAGI)

TBI PLC (LSE: TBI.L)

Timco Aviation Services (OTCBB: TMAS)

World Fuel Services Corp. (NYSE: INT)

Due to the lack of pure-play FBO Company Comparables, Imperial Capital chose to select Company Comparables with businesses focused on general airport and airline services. Imperial Capital s decision to select such companies was due in part to their exposure to similar macroeconomic and industry-specific risks as those faced by Air Center including, but not limited to, exposure to commercial and general aviation industry trends; geo-political risks (e.g., post-September 11 downturn in commercial aviation, oil prices, etc.); and similar customer bases.

No company included in the selected Company Comparables is identical to Air Centers. In selecting and evaluating the Company Comparables, Imperial Capital made subjective judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions, and other matters. Because of the inherent differences between the business, operations, financial condition and prospects of Air Centers and those of the selected Company Comparables, Imperial Capital believed it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Company Comparables analysis.

Imperial Capital then compared market values of, among other things, current enterprise value (equity value, plus total debt, minority interest, preferred stock and convertible instruments, less instruments in unconsolidated affiliates, cash and cash equivalents) (EV) as multiples of the latest twelve months revenues

and earnings before interest, taxes, depreciation and amortization (EBITDA). Based on a comparison of Air Centers with the Company Comparables, Imperial Capital arrived at an aggregate range of values between $40.8 million and $132.2 million, with a mean value of $84.9 million. Imperial Capital noted that the Consideration was in the range of these values and was slightly higher than the mean value.

Comparable Transaction Analysis. Imperial Capital s comparable transaction analysis was based on a comparison of Air Center s valuation multiples with those implied by certain announced control transactions deemed relevant based on similarity of business operations (the Transaction Comparables).

In selecting the Transaction Comparables, Imperial Capital searched comprehensive lists and directories of public companies. When selecting the Transaction Comparables, certain determinant factors included: (i) the transaction had to involve controlling interests in companies in a similar industry or with operations similar to the principal business operations of Air Centers; (ii) the purchase price and the operating results of the acquired company had to be public. The Transaction Comparables selected were:

Mercury Air Centers, Inc.

Precedent Transaction Comps

		Transaction	Details	Transaction	Multiples
Acquiror	**Seller**	**Date Announced**	**Enterprise Value**	**EV/ Revenues**	**EV/ EBITDA**
BBA Group/Signature	Sabreliner Corp./Midcoast Aviation, Inc.	05/15/03	9.5	NA	NA
Trajen, Inc.	Sterling FBO Holdings, Inc.	02/27/03	26.7	NA	NA
Trajen, Inc.	Austin Aero FBO Ltd.	01/06/03	11.5	NA	NA
BBA Group/Signature	AirKaman (Jacksonville FBO)	07/15/02	NA	NA	NA
BBA Group/Signature	Mercury Air Group/Bedford FBO	06/04/02	15.5	2.1x	8.6x(a)
BBA Group/Signature	Priester Aviation Services	09/11/01	16.0	NA	NA
Vinci SA	Worldwide Flight Services, Inc.	09/10/01	285.0	0.8x	NA
BBA Group/Signature	Aircraft Services International	07/11/01	137.9	0.9x	NA
Latsis Group	Ogden Aviation	01/03/01	27.5	NA	NA
Mercury Air Group	Raytheon Aircraft Services, Inc. FBO	09/01/00	6.6	NA	NA
BBA Group/Signature	Lynton Group, Inc.	07/04/01	55.0	1.0x	NA
BBA Group/Signature	Oxford Aviation	07/04/01	3.8	NA	NA
Piedmont Hawthorne Aviation	Associated Air Center	06/29/00	NA	NA	NA
Worldwide Flight Services, Inc.	Oxford Airport Technical Services, Inc.	04/19/00	9.6	1.0x	6.8x
Worldwide Flight Services, Inc.	Miami Aircraft Support	2000	66.4	NA	NA
Executive Air Support	Atlantic Aviation	2000	NA	NA	NA
Piedmont Hawthorne Aviation	Sair Aviation	11/99	NA	NA	NA
Aircraft Services International	Elsinore Airport Services, Inc.	05/24/99	7.7	0.6x	NA
Ranger Aerospace	Elsinore Aviation LP	5/99	NA	NA	NA
BBA Group/Signature	AMR Combs	1999	170.0	1.5x	NA
Tac Air	Hartford	1999	NA	NA	NA
Million Air	Palm Springs	1999	NA	NA	NA
BBA Group/Signature	Airways	1999	NA	NA	NA

No acquired company involved in the selected Transaction Comparables is identical to Air Centers. In selecting and evaluating the Transaction Comparables, Imperial Capital made subjective judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions, and other matters. Because of the inherent differences between the business, operations, financial condition and prospects of Air Centers and those of the acquired companies included in the selected Transaction Comparables, Imperial Capital believed it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Transaction Comparables analysis.

Imperial Capital then compared market values of, among other things, current EV as multiples of the latest twelve months revenues and EBITDA. Based on a comparison of Air Centers with the Transaction Comparables, Imperial Capital arrived at an aggregate range of values between $83.8 million and $85.6 million, with a mean value of $84.7 million. Imperial Capital noted that the Consideration is above the range of these values.

Discounted Cash Flow Analysis. Imperial Capital performed a discounted cash flow analysis (DCF) on Air Centers. The fundamental premise of the DCF approach is to estimate the available cash flows a prudent investor would expect a company to generate over its remaining life. To determine this amount, Imperial Capital relied on cash flow projections for FYE June 30, 2004 through 2008, as provided by Mercury s management. Imperial Capital estimated Mercury s weighted average cost of capital by performing analyses consistent with the Capital Asset Pricing Model. In its analyses Imperial Capital applied the average un-levered beta of 0.69 for the comparable group (this group consists of those companies specified in the Company Comparables analysis). Imperial Capital then applied a 0.0% to 5.0% company specific risk premium which reflects risks which affect the valuation of Air Centers. Using a range of 11% to 14% (rounded) as the estimate of cost of capital, Imperial Capital calculated the present value of free cash flows for the 2004 through 2008 years and the present value of the terminal value of Air Centers (the calculated value of Air Centers at the end of the projection period). Imperial Capital calculated a terminal value at the end of 2008 that incorporated a perpetual growth rate of 3.1%. Imperial Capital arrived at an aggregate range of values between $55.5 million and $82.2 million, with a mean value of $71.3 million. Imperial Capital noted that the Consideration is slightly below the mean range of these values.

In the ordinary course of its business and in accordance with applicable state and federal securities laws, Imperial Capital may trade Mercury and Allied Capital securities for its own account and for the accounts of customers and, accordingly, may at any time hold long or short positions in such securities.

Imperial Capital has acted as financial advisor to Mercury in connection with the sale of the FBO Business and will receive a fee for its services, a substantial portion of which is contingent upon the consummation of the Proposed Transaction. Imperial Capital will also receive a fee for rendering the fairness opinion attached as Exhibit C, which fee was due and payable at the time such opinion was delivered to the Board. Imperial Capital will receive a separate fee in connection with the sale of the Whitney Note. Mercury also agreed, under a separate agreement, to indemnify Imperial Capital, its affiliates and each of its directors, officers, agents and employees and each person, if any, controlling Imperial Capital or any of its affiliates against certain liabilities, including liabilities under federal securities laws. In addition, Imperial Capital has within the past 24 months been engaged by Mercury to advise Mercury in connection with the refinancing of its senior and subordinated indebtedness.

Background to the Transaction

The terms of the Proposed Transaction were the result of arm s-length negotiations between Mercury and Allied Capital and their respective representatives. The following is a brief description of the background of the Proposed Transaction and the negotiations leading to the execution of the Stock Purchase Agreement, including brief descriptions of other actions undertaken by Mercury in connection with other proposed dispositions of one or more of its FBO s.

The Whitney Note was originally issued on September 10, 1999. The Company utilized most of the $24,000,000 face amount of the Whitney Note in connection with the redemption of certain outstanding

debentures ($20.4 million) and for expenses in connection with the transaction ($1.8 million), leaving the remainder ($1.8 million) for working capital.

For the period ended June 30, 2002, the Company was in violation of certain financial covenants of its then existing senior secured credit facility held by Fleet National Bank and the Whitney Note. These violations were as follows:

For the period ended June 20, 2002, the Company was in violation of the following financial covenants associated with the Senior Secured Credit Facility:

a. The Company s capital expenditures for the twelve month period ended June 30, 2002 were $4,500,000 exceeding the maximum allowable capital expenditures of $4,000,000 by $500,000;

b. After the restatement of the Company s quarterly financial results for the second and third quarters of fiscal 2002 to: 1) correct its accounting to properly record leasehold amortization expenses for its cargo operations; 2) to write off costs associated with unsuccessful financing transactions; 3) to correct its accounting for certain FBO operating expenses; and 4) to recognize additional compensation expenses resulting from changes in stock option terms, the Company reported quarterly net losses of $31,000 and $380,000 for the second and third quarters of fiscal 2002, respectively, in violation of the quarterly minimum net earnings covenant of $1 for those quarters.

During discussions with the senior secured lender, it advised the Company that it was its preference not to amend the loan agreement or waive the default conditions, but rather have the Company enter into a new credit facility with another senior lender that would allow the Company to repay in full the outstanding obligations on the senior secured credit facility. During the third and fourth quarters of fiscal 2002 and the first and second quarters of fiscal 2003 the Company held discussions with several financial institutions with the intent to prepay both the senior secured credit facility and the Whitney Note. As a result of those discussions, the Company was able to secure a new senior secured lender. Foothill Capital Corporation (Foothill), now known as Wells Fargo Foothill, to provide a senior credit facility that would provide up to $42.5 million in financing with $12.5 million being in the form of a term loan with up to $30 million in the form of a revolving credit line based on eligible customer accounts receivable. The Company, however, was not able to secure an acceptable subordinated loan facility to replace the Whitney Note. The Company then initiated talks with Whitney regarding amending the terms of the existing note.

These discussions culminated on December 30, 2002, when Mercury entered into new senior credit facility (the Facility) with Foothill as agent for the lenders (the Lenders) parties thereto, for the purpose of refinancing the existing senior credit facility as well as for general working capital, and amended the existing Whitney Note. At closing, the Company received $16,923 thousand from the Facility and disbursed the funds as follows:

1.	Repayment of existing Senior Debt, including accrued interest:	$13,533,000
2.	Agent fee to the Company s Financial Advisor:	1,000,000
3.	Closing fee to Lender:	870,000
4.	Accrued interest to JH Whitney on Senior Subordinated Note:	840,000
5.	Note amendment fee to JH Whitney:	270,000
6.	Closing fees:	410,000
	Total disbursement at closing	$16,923,000

In addition, the Lenders issued letters of credit in the amount of $16,364,000 at closing that were secured by the Facility.

The Whitney Note was secured by our assets, subordinated to a senior creditor position held by Foothill. Warrants to purchase an additional 5% of our Common Stock, exercisable for nominal consideration, would have been issued if the principal amount of the Note was not prepaid by December 31, 2003. Warrants to

purchase a second 5% of our Common Stock, exercisable for nominal consideration, along with an additional note in the original principal amount of $5 million would also have been issued if the outstanding principal amount of the Whitney Note was greater than $12 million after December 31, 2003 (collectively, the Whitney Note Penalty Provisions). In addition, beginning in January 2004 and continuing through June 2004, the interest rate on the Whitney Note would have increased by 1% per annum each month up to a maximum rate of 18%. We were also required to prepay all outstanding principal on the Whitney Note and any additional note on December 31, 2004 but our failure to make such prepayment would not have entitled the holder to accelerate the balance on the outstanding Whitney Note or outstanding additional note. The Whitney Note included covenants that, among other matters, limited senior indebtedness, the payment of dividends, the disposition of assets, minimum EBITDA requirements and capital expenditure limitations.

As previously required by the Whitney Note, Mercury formed committees consisting of independent directors to seek opportunities for asset and other financing transactions, with a view to reducing Mercury s total debt.

Beginning in December 2002, Mercury was engaged in discussions with financial institutions proposing to purchase and lease back to Mercury certain FBO assets (sale-leaseback). Mercury engaged DAMG Worldwide, L.L.C. (DAMG) on a non-exclusive basis, to manage and participate in a public finance vehicle for the sale-leaseback of ten FBOs. Other participants included Bear Stearns, and Ambac Insurance with Standard and Poors (S&P) providing a bond rating. DAMG investigated the establishment of a special purpose entity which was to receive a bond rating in order to raise funds and effect the sale-leaseback transaction. Mercury abandoned the sale-leaseback process in September 2003 after S&P failed to deliver a timely and satisfactory bond rating of the special purpose entity, Ambac Insurance indicated that they would no longer participate and the engagement with DAMG expired.

Beginning in January 2003, Mercury was responding to numerous solicited and unsolicited verbal purchase offers on the sale of certain FBOs. These responses resulted in three written proposals for the acquisition of selected FBOs. Two offers were contingent on airport lease extensions, which were not obtainable on a timely basis for those specific FBOs and the third offer was subject to financing through a leveraged buyout over a two year period.

During the same time period, Mercury also responded to indications of interest regarding MercFuel and Cargo. With regard to MercFuel, a non-binding indication of interest had been received at a price of $15 million, which at less than three times cash flow from operations was deemed by management to be unacceptable. With regard to Cargo, discussions with an interested party failed to result in a formal offer as a result of an indication of a purchase price of less than two times cash flow from operations. Beginning in August 2001, we retained Bank America Securities, LLC to market our Maytag business and were unable to obtain any acceptable offers that adequately reflected the value of Maytag.

In February 2003, Mercury engaged, on a non-exclusive basis, the investment banking firm of ARGI to market some of its individual FBOs, and on February 28, 2003, Mercury engaged Imperial Capital, LLC (Imperial Capital), the investment banking firm utilized by Mercury in connection with its December 2002 refinancing, to, among other things, assist management in evaluating interest from a list of buyers for certain of Mercury s assets, including Air Centers, and advising management in the potential sale of such assets. These buyers consisted of both buyers who were interested in purchasing Mercury s assets in order to make a short-term profit (Financial Buyers) and buyers who were interested in purchasing Mercury s assets in order to expand or complement their existing businesses (Strategic Buyers). The efforts of the two investment banking firms preceded separately in that ARGI was to arrange for a sale of individual FBO s while Imperial Capital was to arrange for the sale of one or more divisions of the Company. The efforts of the two investment banking firms were coordinated by Joseph Czyzyk, Chief Executive Officer. Following its engagement, ARGI held discussions with more than 20 qualified domestic and international acquirers about the purchase of one or more Mercury FBOs. Their efforts resulted in eight separate purchase offers, four of which were for one particular location and four of which were for multiple locations. Five of the eight offers allowed the potential purchasers unlimited time to perform due diligence, which was unacceptable to Mercury due to the timely requirements of the principal reduction conditions associated with the Whitney Note. Of the offers originated

by ARGI, seven of the offers were determined to be unacceptable because the amounts offered were from 15% to 30% lower than the amounts that Mercury had advised ARGI to sell the FBO s for, and if accepted, would have provided insufficient proceeds for Mercury to retire the required amount of principal in the Whitney Note. The one financially adequate offer was not consummated or pursued by the potential buyer for reasons that the potential buyer elected not to disclose to Mercury.

Imperial Capital was engaged specifically to identify, solicit and negotiate with interested and qualified parties for the purpose of selling significant assets or entire businesses belonging to the Company adequate to yield sufficient proceeds so that the Company would be able to repay the necessary amount of debt it was obligated to pay pursuant to the Facility and the Whitney Note so that the Whitney Note Penalty Provisions would not apply. Pursuant to these documents, the minimum required amount to be repaid was $24,250,000 ($12,500,000 to Foothill and $12,000,000 to Whitney) by December 31, 2003. In order to yield that amount on an after-tax and expenses basis, the Company instructed Imperial Capital to seek to sell significant assets or businesses belonging to the Company for at least $30,000,000. Imperial Capital obtained necessary historical financial and operational history of the different businesses the Company was engaged in and contacted fourteen (14) potential purchasers (including Allied Capital) to solicit their interest, first by qualifying their financial capabilities and their historical acquisition experience, and second by engaging them in confidentiality agreements followed by provision of selected financial and operational information, resulting in offer to acquire letters. With the assistance of management, Imperial Capital prepared information and financial analyses describing the operations of each of Mercury s business divisions, including Air Centers. Information was distributed by Imperial Capital to the fourteen (14) potential financial and strategic buyers, ten (10) of which were financial and four (4) of which were strategic, each of which had expressed interest in receiving further information and signed confidentiality agreements to receive such information. Following its engagement, Imperial Capital received six (6) offers for the stock and/or substantially all of the assets of Air Centers or certain assets of Air Centers. Four (4) of these bidders, who had held meetings with Mercury s management and conducted due diligence, sought to purchase certain assets of Air Centers. Three (3) of the offers were subject to the bidders obtaining necessary financing. In addition, several other parties were contacted, executed a confidentiality agreement, and received information, but chose not to issue a proposal. Below is a summary, in chronological order, of the definitive bids received:

In June, 2003 Mercury s senior management began to deal directly with representatives from Party A. On July 30, 2003, Party A mailed a Letter of Intent to the Company to purchase Mercury s Charleston, SC FBO and Mercury s Johns Island, SC FBO. On July 30, 2003, Party A mailed a Letter of Intent to the Company for the purchase of Mercury s FBOs in Reno, NV; Jackson, MS; and Nashville, TN. On August 18, 2003, Party A mailed a revised Letter of Intent for the purchase of the Mercury FBO in Nashville, TN because they had determined that their ability to conclude the sale of that FBO could be hampered by a Hart Scott Rodino (HSR) violation as Party A owned and operated the only other FBO competing with Mercury s FBO at Nashville, TN Airport.

During August and September, 2003 Party A proposed purchasing a total of four (4) of Air Center s FBOs. Party A submitted an offer to acquire these four FBOs, which collectively generated EBITDA (a financial measure of cash flow representing earnings before interest, taxes, depreciation and amortization) of approximately $3.3 million, for total consideration of $20.0 million, representing an EBITDA multiple of 6.1x.

On March 28, 2003, Party B submitted an initial proposal to purchase seven (7) of Air Centers FBOs, with total EBITDA of approximately $6.6 million, and other Air Centers assets for total consideration of $25.8 million. On April 24, 2003, Party B submitted a revised proposal for eight (8) of Air Centers FBOs, with total LTM EBITDA (latest twelve months EBITDA) of approximately $7.9 million as of February 2003, for total consideration of $37.9 million, representing an EBITDA multiple of approximately 4.7x. On May 5, 2003, Mercury made a counter proposal to Party B which entailed the sale of six (6) of Air Centers FBOs, with total EBITDA multiple of approximately $4.4 million, for total consideration of $30.9 million, representing an EBITDA multiple of approximately 7x.

On May 7, 2003, Party C submitted an initial proposal, which entailed the purchase of ten (10) FBOs, with total EBITDA of approximately $7.0 million, for total consideration of $31.0 million, representing an

EBITDA multiple of 4.4x. In June, 2003, Party C submitted a subsequent offer for nine (9) FBOs, with total EBITDA of $5.5 million, for total consideration of $29.1 million, representing an EBITDA multiple of 5.3x.

On May 28, 2003, Party B made a counterproposal which entailed the purchase of six (6) FBOs, with total LTM EBITDA of approximately $4.4 million as of March 2003, for total consideration of $21.5 million, representing an EBITDA multiple of approximately 4.9x.

On June 10, 2003, Party C submitted a revised offer for nine 9) of Air Centers FBOs, with total EBITDA of $5.6 million, for $36.6 million in cash, representing an EBITDA multiple of 7.6x.

In July 2003, Mercury engaged in discussions with a foreign investor who proposed to acquire all of Mercury s FBOs, proposing a step transaction including cash and notes. Mercury rejected the offer due to the investor s inability to verify and guarantee the availability of the funds.

In July 2003, Mercury began to engage in discussions with Allied Capital for the acquisition of Mercury s FBOs.

On July 31, 2003, Party C submitted a revised offer for fourteen (14) FBOs at a purchase price of $58.8 million, representing an EBITDA multiple of approximately 5.8x. On August 1, 2003, Party C issued a final proposal for substantially all of Air Centers FBOs for a total purchase price of $77.8 million, representing an EBITDA multiple of 6.3x. Each of Party C s offers was subject to Party C successfully obtaining adequate senior and subordinated debt financing. Further, Party C s never completed any due diligence.

In August 2003, Mercury s management determined not to pursue Party C s final proposal based on (i) the financing contingency, and concerns by Mercury s management of Party C s ability to obtain the necessary financing, given Party C s high degree of leverage; (ii) lack of certainty of closure on proposed terms; and (iii) Party C s concerns regarding the construction obligations relating to the Los Angeles FBO.

In August 2003, Party D submitted a verbal preliminary indication of interest for all Air Centers FBOs in the range of $65.0 to $70.0 million in cash, subject to financing.

On August 14, 2003, Allied Capital submitted an initial Letter of Intent (LOI) for the purchase of all of the capital stock of Air Centers (all of Mercury s FBOs) for a purchase price of $79.0 million in cash (subject to adjustment based on Air Centers net working capital as of the transaction closing date) and the assumption of Mercury s and Air Centers liabilities for construction or renovations at Air Centers FBOs under existing agreements. The LOI provided, among other things, for Allied Capital to perform due diligence and the parties to work toward the negotiation, preparation and execution of a definitive agreement subject to certain exceptions. Mercury and Air Centers agreed to work exclusively with Allied Capital for a 45 day No-Shop period.

On September 29, 2003, after performing additional due diligence (See Due Diligence Financial Projections (unaudited) for Air Centers and Mercury Air Group Going Forward on page 46.) and several weeks of negotiations, Mercury, Air Centers and Allied Capital entered into an LOI, which replaced the August 14, 2003 LOI. The new LOI provided for the purchase of all of the capital stock of Air Centers for a purchase price of $88.6 million in cash (subject to adjustment based on Air Centers net working capital as of the transaction closing date). Allied Capital agreed to assume all of Mercury s and Air Centers liabilities for construction or renovations at Air Centers FBOs under existing agreements, the amount of which would be deducted from the $88.6 million of cash proceeds on the transaction closing date (effectively a $70 million purchase price, representing an EBITDA multiple of 5.7x). The LOI also provided for Allied Capital to commence negotiations with J.H. Whitney Mezzanine Fund, L.P. regarding the execution and delivery of a binding agreement for the purchase by Allied Capital of the Whitney Note, and with Mercury regarding execution and delivery of a binding stock purchase agreement, both agreements to be executed simultaneously on or before October 8, 2003, with closing of the stock purchase to occur on or before December 31, 2003. Allied Capital agreed to remove the Whitney Note Penalty Provisions in the event it purchased the Whitney Note. The LOI provided, among other things, for Allied Capital to perform due diligence, and the parties to work together toward the negotiation, preparation and execution of a definitive agreement.

Mercury and Air Centers agreed to work exclusively with Allied Capital for a No-Shop period ending October 8, 2003.

Negotiations between Party A and Mercury were ongoing until Mercury s execution of the September 29, 2003 LOI with Allied Capital. Mercury s senior management determined that a transaction with Party A and Mercury for the four FBOs would have resulted in a significant tax expense to Mercury of approximately $4.0 million, resulting from the low tax base of these FBOs thereby not providing the Corporation with sufficient capital to avoid the Whitney Note Penalty Provisions without additional asset sales. In addition, management was concerned that Party A would not be in a position to purchase all of Air Centers FBOs due to potential regulatory issues under the HSR Act and certain issues which had not yet been resolved. Party A was given the opportunity to pursue discussions regarding the acquisition of all of the FBO locations but declined. Mercury s management determined to instead pursue the Allied Capital transaction, which provides significantly greater benefits and certainty of closing.

In October 2003 and November 2003, Mercury received two additional offers for one or more FBOs. Pursuant to the terms of the LOI and the SPA, respectively, Mercury notified Allied Capital of these offers.

On October 9, 2003, Mercury, Air Centers and Allied Capital extended the No-Shop period and the date for purchase of the Whitney Note and execution of a binding stock purchase agreement for the purchase of Air Centers to October 16, 2003.

On October 14, 2003, Mercury, Air Centers and Allied Capital extended the No-Shop period and the date for purchase of the Whitney Note and execution of a binding stock purchase agreement for the purchase of Air Centers to October 29, 2003.

On October 23, 2003, at a telephonic meeting, the Mercury Board reviewed Allied Capital s offer in detail. Prior to the Board meeting, the Secretary of the Corporation distributed a copy of the most recent draft of the Stock Purchase Agreement, and Imperial Capital distributed a draft fairness opinion to the members of the Board of Directors of Mercury. Two representatives of Imperial Capital attended the Board meeting, made a presentation to the Board with respect to the Proposed Transaction, issued its final opinion indicating that the Proposed Transaction is fair to Mercury s stockholders from a financial point of view, in substantially the form of the draft opinion that was previously distributed, and answered questions pertaining to its due diligence, methodology and the contents of the fairness opinion. The Board of Directors was also briefed on various aspects of Delaware law by special Delaware counsel, Morris Nichols, Arsht & Tunnel, as it applied to the Stock Purchase Agreement and stockholder approval. The Board also received and reviewed financial information regarding the transaction from its Chief Financial Officer, Robert Schlax, and information regarding the history of the transactions, the alternative transactions that the Corporation has attempted with other potential purchasers, and the proposed sale-leaseback transaction as well as the Corporation s prospects with and without the Proposed Transaction with Allied Capital going forward.

The Directors then considered the benefits of the Proposed Transaction. The Board agreed that the Proposed Transaction represented a relatively high valuation for the FBO Business including the capital expenditure requirements of LAX and Charleston, S.C., and did not have significant contingencies. The Board discussed the likelihood of Allied Capital terminating discussions if the Board delayed executing the proposed Stock Purchase Agreement. The Board assessed the financial value of the Proposed Transaction and considered the fact that Allied Capital was willing to purchase the Whitney Note and to waive the Whitney Note Penalty Provisions against the disadvantage of restricting Mercury s access to other potential purchasers. Given the purchase offers received to date, the Board determined that there was little likelihood of any other qualified purchaser submitting a higher offer. Accordingly, the Board determined that it was in Mercury s best interest to accept the offer from Allied Capital. The Board then unanimously voted to approve the Proposed Transaction and to recommend that the stockholders approved the Proposed Transaction at the Stockholders Meeting.

October 28, 2003 Allied Capital purchased the Whitney Note and simultaneously, Mercury, Air Centers and Allied Capital entered into the Stock Purchase Agreement.

On October 27, 2003, the day immediately preceding the public announcement of the Proposed Transaction, the closing price of Mercury Common Stock on the American Stock Exchange was $8.00.

On November 26, 2003 Signature Flight Support Corporation (Signature) filed a lawsuit against Mercury Air Centers and Allied Capital in the United States District Court-Central District of California alleging among other things that Air Centers breached the terms of its LOI with it and that Allied intentionally induced Air Centers to breach its alleged contractual obligations. Signature is seeking damages against Mercury as follows:

Count I (Breach of Contract) of its complaint for its out of pocket costs in an amount in excess of $1,000,000 as well as the difference between the price Signature would have paid for the FBOs and the total benefits Signature would have realized it had successfully acquired owned and operated them over time in an amount to be determined;

Count IV (Unfair Business Practices) for disgorgement of financial and other benefits belonging to Signature in an amount not yet plead; and

Generally for all reasonable costs disbursements and costs of suit (including attorney s fees), as allowed by Statute.

On February 23, 2004 the District Court denied Mercury s motion to dismiss based on failure to add a necessary party. Mercury thereafter filed an answer and intends to file a motion for judgment on the pleadings and to vigorously contest the litigation.

The Whitney Note

Under a Securities Purchase Agreement and related documents executed concurrently with the execution of the SPA, Allied Capital purchased from Whitney: (i) the Whitney Note, which immediately upon assignment, was amended, restated and consolidated in its entirety as the Second Amended and Restated Note, dated October 28, 2003 by and among the Company and Allied Capital (the Allied Capital Note); (ii) 226,407 of the Original Warrants (Whitney retained 25,156 of the Original Warrants); and (iii) all rights of Whitney under all other documents or instruments executed in connection with the Securities Purchase Agreement between Whitney and Mercury dated September 10, 1999, as amended (the Investment Documents). The Allied Capital Note differs from the Whitney Note in that the Allied Capital Note does not contain the Whitney Note Penalty Provisions contained in the Whitney Note. Also, beginning in January 2004 and continuing through June 2004, the interest rate on the Allied Capital Note will increase by 1% per annum each month up to a maximum rate of 18%, with such additional interest being added to the principal of the Allied Capital Note. The Allied Capital Note matures on December 31, 2005 and will be prepaid with a portion of the proceeds from the Proposed Transaction.

Upon the terms of the Securities Purchase Agreement, Allied Capital assumed and became responsible for the obligations and responsibilities of Whitney under the Investment Documents.

The Facility with Foothill

On December 5, 2003, the Company and the Lenders under the Facility, executed the Fifth Amendment to Loan and Security Agreement and Forebearance Agreement (the Forebearance Agreement). In accordance with the terms of the Forebearance Agreement, as amended on February 16, 2004, the Lenders agreed to forebear from exercising their rights and remedies under the Facility for the following events of default, as defined in the Loan and Security Agreement: (1) the Company s failure to deliver its annual audited financial statements for fiscal year 2003 within the prescribed time-frame allowed; (2) the formation of a subsidiary, Mercury Air Center Long Beach, without the prior consent of the Lenders; (3) the Company s failure to deliver supplemental schedules to J. H. Whitney as required under the terms of the $24 million Senior Secured 12% Note; and (4) the Company s failure to achieve the EBITDA financial covenant for the twelve month period ended December 31, 2003. The Forebearance Agreement, as amended, states that the Lenders agree, for a limited time but no later than April 14, 2004, to forebear from exercising their rights and remedies under the Senior Secured Credit Facility with respect to the events of default noted above. If the proposed transaction does not close by April 14, 2004, the Company and the Lenders will need to amend the FBO Sale closing date in the Forebearance Agreement or the Lenders would have the right to

exercise their rights and remedies under the Senior Secured Credit Facility with respect to the events of default noted above.

The Consideration

Upon completion of the Proposed Transaction, we will receive a total of $70 million cash for the stock of Air Centers, minus (i) approximately $38.4 million which will be paid directly to our creditors (including Allied Capital under the Allied Capital Note) for repayment of debt, and (ii) an escrow of $8,270,000 in connection with Air Centers Atlanta FBO, plus an additional payment by Allied Capital to reimburse Mercury for certain FBO-related construction obligation payments made by Mercury and its subsidiaries since July 1, 2003 in an amount of approximately $3.8 million. Additionally, approximately $16.0 million will be used as collateral for outstanding letters of credit. The Stock Purchase Agreement also provides for a post-closing adjustment for the difference between actual working capital at closing and the closing working capital target of $3,585,575. As of December 31, 2003, the working capital of Air Centers was $4,711,000. The Purchase Price is also subject to post-closing reimbursement to Allied Capital to the extent required compliance improvements and leasehold repairs (Required Cap-Ex) are not completed within nine months of Closing. In addition, Allied Capital will assume certain contractual capital expenditure obligations that Air Centers was contractually obligated to incur at Los Angeles International Airport and Charleston International Airport of approximately $15.55 million.

Use of Proceeds

Upon completion of the Proposed Transaction, we will receive, as set forth in the table below gross proceeds of approximately $70,000,000, along with approximately $3,800,000 for reimbursement of FBO-related construction payments. Of the approximately $73,800,000 we will receive, we will use approximately $38,425,000 to pay our creditors, $8,270,000 to establish an escrow account, and $16,000,000 as collateral for outstanding letters of credit. In addition, we will pay commissions and closing costs, and income taxes, of $2,300,000 and $1,500,000, respectively. This will leave us with net proceeds of approximately $7,305,000. $3,713,000 of the proceeds of which will be used to pay the principal amount due on certain promissory notes (the Hambro Notes) issued to J O Hambro Capital Management Limited, a corporation organized under the laws of England, (ii) American Opportunity Trust plc, an investment trust organized under the laws of England, and (iii) The Trident North Atlantic Fund, an exempted company organized under the laws of the Cayman Islands (collectively, the J O Hambro Parties). Accrued interest will also be paid on the Hambro Notes, at 12% per annum from December 31, 2003 through the date of closing.

The Hambro Notes were issued in accordance with the terms of a Settlement Agreement (the Hambro Settlement) dated December 12, 2003, between Mercury and the J O Hambro Parties. Mercury s business relationship with the J O Hambro Parties arose when certain J O Hambro parties and affiliates purchased stock of Mercury and filed a 13D evidencing an interest in pursuing a business strategy that was inconsistent with divestiture of the FBO Business. Mercury initiated litigation against J O Hambro and certain of its affiliates principally for undertaking due diligence for the purchase of the FBO Business and in connection therewith violating the terms of a confidentiality agreement. Mercury agreed to settle the litigation because we believed it was in the best interest of the shareholders and eliminated any right by J O Hambro and its affiliates to contest the sale of the FBO Business. The Hambro Settlement, which closed on December 12, 2003, provided for the issuance of the Hambro Notes in exchange for the following, among other things: (i) the release of certain claims by J O Hambro; (ii) our agreement to dismiss litigation against J O Hambro; (iii) our agreement not to institute certain litigation against J O Hambro and certain other parties; and (iv) reimbursement of certain costs associated with the pending litigation and the defense of and preparation for anticipated litigation between the parties; (v) the purchase of 343,600 shares of our common stock in exchange for the Notes.

After payment to creditors, establishment of escrow account, establishment of collateral for the outstanding letters of credit, payment of commissions, closing costs, income taxes and payment of the Hambro Notes, the remainder of the proceeds will be used for working capital.

The following sets forth the expected use of proceeds, in tabular form (all figures approximate and subject to change):

Gross Proceeds	$ 70,000,000(1)
Estimate of FBO-Related Construction Payments	3,800,000
Payment to Creditors	(38,425,000)
Escrow	(8,270,000)
Collateral for Outstanding LC	(16,000,000)
Commissions and Closing Costs	(2,300,000)
Income Taxes	(1,500,000)
Net Proceeds	$ 7,305,000
Principal Payment to J O Hambro Parties(2)	$ (3,713,000)
Working Capital	$ 3,592,000

(1) Does not take into account working capital adjustment, reimbursement or reimbursement by Mercury for Required Cap-Ex of approximately $275,000.

(2) Interest accrues at the rate of 12% per annum commencing December 31, 2003.

Interests of Management and the Board of Directors

Except in their capacity as stockholders of Mercury and except as set forth below, no director, executive officer or substantial shareholder (including CFK Partners) of Mercury or any of their affiliates has any interest, direct or indirect, in the Proposed Transaction, nor will any such person derive any extra or special benefit not shared on a pro rata basis by all other stockholders of Mercury.

Mercury has not committed to enter into any other employment or other agreement with any director or executive officer, except that it is a condition to closing that John Enticknap, Executive Vice President of Mercury and Chief Operating Officer of Air Centers, remain in the employ of Mercury through closing, and Mercury has agreed to pay any liability or obligation arising out of John Enticknap s termination of employment with Mercury, or out of any provision in Mr. Enticknap s employment contract regarding a change in control of Air Centers.

Reasons for the Proposed Transaction

Our Board approved the Proposed Transaction and the Stock Purchase Agreement based on a number of factors, including the following:

The Whitney Note Penalty Provisions which would have become effective if Mercury failed to sell assets of sufficient size to make substantial principal payments by December 31, 2003, and Allied Capital s agreement to purchase the Whitney Note and waive certain of the Whitney Note Penalty Provisions.

Our limited ability to sell our other businesses or assets at acceptable prices.

Our inability to raise the capital in existing financial market because if the low trading price, low trading volume and the illiquidity of our shares.

The Board has determined that it makes sense from a primarily financial perspective to divest the Corporation of Air Centers intensive capital expenditure requirements and to concentrate the Corporation s efforts in its remaining businesses.

The ability to operate our remaining businesses with a substantially reduced debt load.

If selected FBOs were sold, they would likely be the more profitable locations, thus leaving the Corporation with the relatively poorer performing locations without a substantial reduction in overhead.

The consideration is all cash, which provided certainty of value compared to a transaction involving receipt of stock or other non-cash consideration, especially in light of the volatility of the stock market.

The financial stability of Allied Capital and the fact that the Proposed Transaction is not subject to a financing condition.

The financial analysis and presentation by Imperial Capital and the opinion of Imperial Capital that, as of the date of the opinion, and based on procedures followed, assumptions made, the matters considered and the limitations on the review undertaken described in the opinion, the consideration payable in the transaction was fair from a financial point of view to Mercury.

The support for the Proposed Transaction by our largest stockholder, CFK Partners, who holds approximately 24.5% of our issued and outstanding common and preferred stock.

The fact that notwithstanding inquiries made by Mercury and its financial advisors with respect to potential acquisitions transactions for all or portions of the FBO Business, the offer by Allied Capital was the best offer received and outstanding.

TERMS OF THE STOCK PURCHASE AGREEMENT

The terms and conditions of the Stock Purchase Agreement and the Proposed Transaction were the result of arm s-length negotiations between representatives of Mercury and representatives of Allied Capital. The following is a summary of the terms of the Stock Purchase Agreement that we believe are material. However, the description does not contain all of the terms of the Stock Purchase Agreement and is qualified in its entirety by reference to the copy of the Stock Purchase Agreement and Letter Agreement dated December 10, 2003, January 14, 2004 and February 13, 2004 attached as Exhibits B-1, B-2, B-3 and B-4 to this Proxy Statement and incorporated herein by reference. Stockholders are urged to read the Stock Purchase Agreement in its entirety. Capitalized terms used but not defined herein shall have the respective meanings set forth in the Stock Purchase Agreement.

The Stock Purchase Agreement

General

Pursuant to the terms of the Stock Purchase Agreement, in consideration of the transfer to Allied Capital by Mercury of all of the issued and outstanding Common Stock of Air Centers, Allied Capital has agreed to pay to Mercury an aggregate purchase price of $70,000,000 in cash plus reimbursement of certain post July 1, 2003 construction obligation payments of the FBO s located at Los Angeles International Airport and Charleston International Airport plus or minus a working capital adjustment for the difference between actual working capital at closing and $3,585,575 (the Purchase Price). $37,200,000 of the Purchase Price will be paid directly to our creditors for the repayment of outstanding debt (including approximately $24 million to Allied Capital), and an additional $16.0 million will be used to collateralize outstanding letters of credit. As of December 31, 2003, construction obligation payments of the FBOs located at Los Angeles International Airport and Charleston International Airport were $1,550,000. The cash payment will be subject to an escrow of $8,270,000 in connection with Air Centers Atlanta FBO. Allied Capital will also assume approximately $15.55 million of contractual capital expenditure obligations of the FBO s located at Los Angeles International Airport and Charleston International Airport. In addition, Mercury is also required to use its best efforts to complete certain regulatory compliance improvements and leasehold repairs (the Required Cap-Ex) on or prior to the Closing. If Mercury is unable to complete the Required Cap-Ex on or prior to the Closing, Mercury is required to use its best efforts to cause the completion of the Required Cap-Ex, at Mercury s sole cost, within 9 months after the Closing (the Cap-Ex Due Date), subject to Allied Capital s approval, not to be unreasonably withheld. If all of the Required Cap-Ex is not completed by the Cap-Ex Due Date, then Allied Capital will have the right to complete or cause the completion of the Required Cap-Ex and Mercury shall be required to reimburse Allied Capital for the actual costs incurred by Allied Capital to complete the Required Cap-Ex. The estimated amount of the Required Cap-Ex is approximately $275,000.

Hart-Scott-Rodino

The parties filed the notification forms required under the HSR Act on December 10, 2003, and on December 22, 2003 received notification of early termination of the waiting period under the HSR Act.

Due Diligence

Pursuant to the February Amendment, Allied Capital notified Mercury and Air Centers that it has satisfactorily completed its due diligence investigation of the FBO Business and acknowledged the expiration of the due diligence period.

Closing

The closing of the Proposed Transaction is scheduled to occur on or before May 14, 2004, and in any event within five business days after all of the conditions to the obligations of the parties to consummate the transactions contemplated by the Stock Purchase Agreement have been satisfied or waived. The parties are anticipating that the Closing will occur on or before April 14, 2004.

Conditions to Closing

In addition to scheduled third party consents having been received, the obligations of the parties to consummate the Proposed Transaction are subject to customary conditions such as the accuracy of the representations and warranties in the Stock Purchase Agreement, the performance of the covenants set forth therein and the absence of certain legal actions or proceedings prohibiting consummation of the Proposed Transaction. Allied Capital s obligation to close is also subject to, but not limited to:

(i) No legal or similar proceeding against Mercury or Air Centers shall be pending or threatened, and no event or circumstance shall have occurred, either of which would have a Material Adverse Effect (as defined in Section 2.1 of the Stock Purchase Agreement), and Air Centers shall not have suffered any material loss or damages to any of its properties or assets whether or not covered by insurance, which change, loss or damage materially effects or impairs the ability of Air Centers to conduct its business as it is currently conducted. Air Centers shall not have been adversely affected in any material way by an act of God, fire, flood or other natural disaster, shortage of power, labor disturbance, sabotage, war, terrorism or insurrection;

(ii) none of Air Center s customers and suppliers set forth in Summary of Proposed Terms Conditions to the Proposed Transaction shall have terminated, or threatened to have terminated their contracts with Air Centers;

(iii) Mercury Air Center s customers and suppliers shall not have terminated or shall not have threatened to have terminated their contracts with Air Centers except with respect to each FBO location, the termination or anticipated termination of contractual relationships with such customers or suppliers which account for less than 10% in the aggregate of the revenue at such FBO location.

(iv) receipt of all licenses and permits including required to operate the FBO Business (excluding the Long Beach FBO), issued in the name of Air Centers;

(v) receipt of all applicable airport security badges, issued in the name of Air Centers, for all of the employees working at the LAX FBO to permit access to the LAX facility by such employees;

(vi) transfer by Air Centers of all of the capital stock of Mercury Air Center-Long Beach, Inc. to Mercury, assignment by Air Centers to Mercury of all rights and obligations related to the Long Beach FBO and release and termination of all guarantees or other obligations by Air Centers with respect to the Long Beach FBO, all in a form and manner satisfactory to Allied Capital;

(vii) release of Air Centers from obligations under a certain industrial revenue bond and a certain letter of credit described in the SPA;

(viii) completion of an exhibit to the transition services agreement in a form acceptable to Allied Capital;

(ix) execution of an agreement by Mercury, in a form satisfactory to Allied Capital, restricting Mercury and its affiliates from certain solicitation activities with respect to customers and suppliers of the FBO s operated by Air Centers;

(x) Mercury s Stockholders approval of the proposed transaction; and

(xi) resignations of certain officers and directors of Air Centers.

Escrow of Certain Agreements

Pursuant to the February Amendment, executed undated copies of certain closing documents have been delivered to attorneys for Allied Capital and are being held in escrow until the Closing, at which time the documents are to be released. If the Closing does not occur and the SPA is terminated in accordance with the terms and conditions thereof, the documents held in escrow will, at Mercury s election, either be destroyed or returned to Mercury marked void .

Among the documents held in escrow are the following:

a. Escrow Agreement relating to the Atlanta FBO location;

b. Transition Services Agreement subject to completion of an exhibit to the transition service agreement at Allied Capital s discretion, requiring Mercury to provide certain administrative services to Air Centers for a limited time period after the Closing Date subject to reimbursement by Allied Capital for the actual and direct costs thereof;

c. LAX Fuel Farm Sublease whereby Mercury will sublease space to Air Centers currently used by Air Centers for the operation of its LAX Fuel farm for fuel quality control and for office space; and

d. Resignations from Air Centers positions executed by Joseph A. Czyzyk, Philip J. Fagan, M.D., Eric Beelar, Ken Ricci, Dick Dodson, Bob Schlax and Wayne J. Lovett.

Representations and Warranties

The Stock Purchase Agreement contains various representations and warranties of Air Centers including, among others, representations and warranties related to:

corporate organization and similar corporate matters of Air Centers and its subsidiaries;

authorization and enforceability;

accuracy of financial statements provided to Allied Capital;

inventory;

personal property;

taxes and tax returns;

products and services;

intellectual property;

permits and compliance with laws;

real property and leases;

insurance;

contracts;

- non-contravention of the Proposed Transaction with Mercury Air Center s charter, bylaws, contracts and agreements, and governmental orders;
- absence of litigation;
- third parties and governmental consents;
- environmental matters;
- employees and consultants;
- absence of certain charges since June 30, 2003;
- transactions with affiliates;
- absence of brokers;
- accounts receivable;
- customers and suppliers;
- employee benefit plans;
- collective bargaining agreements and labor matters;
- capital expenditures;
- bank accounts and powers of attorney;
- absence of illegal payments;
- full disclosure of all matters required to be disclosed in this Proxy Statement; and
- full disclosure of all matters in the Stock Purchase Agreement.

The Stock Purchase Agreement also contains various representations and warranties of Mercury, including among others, representations and warranties related to:

- corporate organization and similar corporate matters;
- authorization and enforceability;
- non-contravention of the Proposed Transaction with Mercury s charter, bylaws, contracts and agreements and governmental orders;
- third party and governmental consents;
- absence of brokers;
- no defaults under material contracts;

fairness opinion;

board approval;

full disclosure of all matters required to be disclosed in this Proxy Statement; and

full disclosure of all matters in the Stock Purchase Agreement.

Mercury and Air Centers have made such representations and warranties as of the date of the Stock Purchase Agreement and as of the Closing Date, except for representations and warranties made as of a specific date.

The Stock Purchase Agreement contains various representations and warranties of Allied Capital including among others, representations and warranties related to:

- corporate organization and similar corporate matters;
- authorization and enforceability;
- non-contravention of the Proposed Transaction with Allied Capital s charter and bylaws;
- non-violation of laws;
- absence of litigation;
- consents and approvals;
- absence of brokers;
- investment intent; and
- full disclosure.

Allied Capital has also made the following representation and warranty:

- Allied Capital shall have provided a letter to the California Infrastructure and Economic Development Bank (CIEDB) stating the following: (i) Allied Capital intends to operate the Burbank facility as an airport terminal and service facility; (ii) Allied Capital agrees to notify CIEDB if it intends to change the use of the Burbank facility or to sell the Burbank facility to an unrelated third party; and (iii) upon three days prior written notice from either Mercury or CIEDB, CIEDB shall be permitted to inspect the Burbank facility in the presence of a representative of Allied Capital.

Allied Capital has made all of such representations and warranties as of the date of the Stock Purchase Agreement and the Closing Date, except for representations and warranties made as of a specific date.

The representations and warranties survive the closing until eighteen months after the Closing Date or, in respect of due authority, capitalization, tax matters, environmental, absence of brokers, employee benefit and title to stock, until after the expiration of the applicable statutes of limitations.

Other Transactions

Pursuant to the Stock Purchase Agreement, Mercury has agreed that until the Closing Date it will not, directly or indirectly (i) solicit, initiate, encourage, or take any action intended to encourage, enter into, conduct, engage in or continue any discussions, or enter into any agreements or understanding, with any third party regarding a proposal to acquire a direct or indirect interest in the stock or assets of Air Centers; or (ii) disclose any non-public information relating to Air Centers or any assets comprising the FBO Business or afford access to the properties, books or records of Air Centers to any third party who may be considering acquiring an interest in Air Centers. Notwithstanding the above Mercury may take certain actions (i) in connection with a possible bond financing of certain construction obligations (Bond Financing); or (ii) in response to a receipt of a Superior Proposal.

For purposes of the Stock Purchase Agreement, the following terms have the meaning set forth below:

- Superior Proposal means any bona fide, unsolicited written Acquisition Proposal received or made in compliance with certain provisions in the Stock Purchase Agreement which: (A) if any cash consideration is involved, is not subject to any financing contingency, and with respect to which Mercury s Board of Directors shall have determined (taking into account the advice of Mercury s financial advisors) that the acquiring party is capable of consummating the proposed Acquisition Transaction on the terms proposed and that receipt of all governmental and regulatory approvals required to consummate the proposed Acquisition Transaction is likely in a reasonable time period; and (B) Mercury s Board of Directors shall have reasonably and in good faith determined that the proposed Acquisition Transaction is more favorable to the shareholders of Mercury, from a financial

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point of view, than the Proposed Transaction (taking into account the advice of Mercury s financial advisors).

Acquisition Proposal means any offer or proposal (other than an offer or proposal by Allied Capital) relating to any Acquisition Transaction.

Acquisition Transaction means any transaction or series of related transactions other than the Proposed Transaction involving: (i) any acquisition or purchase from Mercury by any person or group (as defined in Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations thereunder) of all of the outstanding voting securities of Air Centers or any tender offer or exchange offer that if consummated would result in any person or group beneficially owning all of the outstanding voting securities of Air Centers or any merger, consolidation, business combination or similar transaction involving Air Centers pursuant to which Mercury holds none of the equity interests in the surviving or resulting entity of such transaction; (ii) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition or disposition of all or substantially all of the assets of Air Centers; or (iii) any liquidation, dissolution, recapitalization or other significant corporate reorganization of Air Centers.

Covenants

Pursuant to the Stock Purchase Agreement, both parties have agreed (1) to make all filings and give all notices necessary to consummate the Stock Purchase Agreement, including filings required under the HSR Act; (2) after the closing, to continue to work together in good faith to obtain a real property lease in the name of Air Centers or its designee for the Atlanta FBO location; (3) to make a timely election under Section 338(h)(10) of the Internal Revenue Code; and (4) to execute all documents reasonably necessary or convenient to make effective the Stock Purchase Agreement.

Pursuant to the Stock Purchase Agreement Mercury has agreed

to allow Allied Capital access to Air Centers and its books and records until January 16, 2004 to conduct a due diligence investigation;

to conduct the FBO Business in the ordinary course;

to notify Allied Capital of the breach of any representation or warranty, covenant, contract or agreement contained in the Stock Purchase Agreement;

to continue the participation of Air Centers in the Employee Benefit Plans until the Closing Date;

to assist Allied Capital in establishing employee benefit plans for Air Centers effective after the Closing Date;

upon the request of Allied Capital to cause the trustee of any Mercury Air Center Employee Pension Plan that is intended to qualify under Section 401 of the Internal Revenue Code, to transfer all assets and liabilities attributable to those employees of Mercury Air Center who are employed by Mercury Air Center immediately after the Closing Date;

upon the request of Allied Capital, to enter into a transition services agreement with Air Centers providing for continued participation by Air Centers in Mercury s payroll system and Mercury Air Center s Employee Benefit Plans for a period of up to 180 days following the Closing Date, upon reimbursement to Mercury of the actual and direct costs thereof, such transitions services agreement has been executed and is currently held in escrow subject to completion of an exhibit to the transition service agreement in a form acceptable to Allied Capital;

to pay any liability or obligation arising out of the termination of John Enticknap s employment with Mercury or out of certain provisions in John Enticknap s employment agreement with Mercury relating to a change in control of Air Centers;

to apply the proceeds from the sale of the shares toward payment in full of the Funded Debt, including the Allied Capital Note;

to take all action necessary to transfer the FBO assets to Allied Capital;

to obtain releases of Air Centers from all guaranty obligations with respect to indebtedness (as defined in the SPA) of the Corporation;

to file a Proxy Statement with the Securities and Exchange Commission (SEC), to respond to SEC comments, and to make other filings with governmental authorities, all as soon as practicable;

to set forth in the Proxy Statement a unanimous recommendation of the Board of Directors to vote in favor of the Proposed Transaction, unless (A) Mercury received a Superior Proposal and (B) the Board of Directors of Mercury determines in good faith after consultation with its outside legal counsel, that its recommendation of a Superior Proposal is required in order for the Board of Directors to comply with its fiduciary obligation to Mercury s stockholders;

to call and hold a meeting of its stockholders for the purpose of voting upon the adoption of the Stock Purchase Agreement which obligation shall exist irrespective of the presence of a Superior Proposal and the withdrawal of the Board of Directors recommendation of the Proposed Transaction, except that the Board may withdraw or withhold its recommendation that the stockholders of Mercury vote in favor of the approval of the Proposed Transaction in response to receipt of a Superior Proposal provided that the Stock Purchase Agreement is terminated, an alternative acquisition agreement is entered into and a termination fee is paid; and

to have J. Morrow & Co. to assist Mercury in soliciting proxies for the stockholders meeting.

Release of Seller from Guaranty Obligation

Pursuant to the Stock Purchase Agreement, as soon as practicable after the Closing, Allied Capital has agreed to use its best efforts to obtain releases of Mercury from all guaranty and related obligations entered into by Mercury with respect to the FBO leases (the Seller Guarantees). Allied Capital has agreed that such best efforts on the part of Allied Capital to facilitate obtaining such guarantee releases shall include offering to substitute guarantees by Air Centers for the Seller Guarantees or posting letters of credit up to $2,000,000 in the aggregate. In the event that, despite Allied Capital s efforts, it is unable to obtain all such guarantee releases, Allied Capital has agreed, subject to the terms of the Stock Purchase Agreement, to indemnify, reimburse and hold harmless any and all Seller Indemnified Persons from and against any liability, obligation, loss or expense to which Seller Indemnified Persons may become subject as a result of the Seller Guarantees. Any indebtedness, advances or loans by Allied Capital to Air Centers will be subordinate to Mercury Air Center s obligation to indemnify Mercury under the Stock Purchase Agreement as evidenced by a subordination agreement to be agreed upon between the parties and executed as of the Closing Date. Such agreement has been entered into and is currently being held in escrow. In addition, Allied Capital has agreed that it will not sell or transfer any FBO location or equity control of any of Air Centers subsidiaries which owns an FBO location to a person or entity not affiliated with Allied Capital without first obtaining a release in favor of Mercury of any Seller Guarantee for any FBO location affected by such sale or transfer.

Agreement Not to Compete

Mercury has agreed that for a period of five full years after the Closing Date (Restricted Period), it shall not directly or indirectly engage in the FBO Business or any business or activity that competes with the business of Air Centers in North America, Europe and the Caribbean (the Geographic Area), directly or indirectly (other than as a holder of not more than one percent of the total outstanding stock of a publicly held company), provided, however, that Mercury may perform the following activities: (i) engage in contracts with the U.S. government; (ii) provide into-plane services in countries outside the United States; (iii) perform air cargo services; (iv) continue the operations of MercFuel, Inc.; (v) continue the operations of Maytag Aircraft Corporation as conducted on the date of the Stock Purchase Agreement; and (vi) continue the operations of the FBO located at Long Beach as conducted on the Closing Date. Mercury has also agreed that, for a period

of two full years after the Closing Date, it shall not: (i) solicit the employment of, or attempt to employ, any of the employees employed by Air Centers as of the Closing Date; (ii) recruit, solicit or induce or attempt to induce any of the employees employed by Air Centers as of the Closing Date to terminate his or her employment with, or otherwise cease his or her relationship with Air Centers or Allied Capital or its affiliates.

Voting Undertakings

Certain directors and officers of Mercury collectively holding approximately 37.4% of Mercury s issued and outstanding common and preferred stock have entered into voting undertakings with Allied Capital as of the date of the Stock Purchase Agreement. Until the earlier of the closing of the Proposed Transaction or termination of the Stock Purchase Agreement, such stockholders have agreed to vote for the approval of the Stock Purchase Agreement and The Proposed Transaction, and vote against (i) any Acquisition Proposal other than the Stock Purchase Agreement, (ii) approval or adoption of resolutions or actions which could reasonably be expected to result in any of the conditions of Mercury s obligations under the Stock Purchase Agreement not being satisfied. Such directors and officers have also agreed not to, directly or indirectly: (a) solicit, initiate, encourage or take any action intended to encourage, enter into, engage in or continue any discussions, or enter into any agreement or understanding, with any other person or entity (other than Allied Capital or its affiliates) regarding the transfer, directly or indirectly, of any capital stock of or any other interest in Air Centers or any of its assets (including one or more FBO locations or by way of a license); or (b) disclose any non-public information relating to Air Centers or any assets comprising the FBO Business or afford access to the properties, books or records of Mercury Air Center to any other person or entity that may be considering acquiring, or has acquired, an interest in Air Centers. The transferee of any shares held by such officers and directors will also be bound by the terms and conditions of the Voting Undertaking.

Indemnification

Mercury has agreed to indemnify, reimburse and hold harmless Allied Capital and its affiliates (including, without limitation, Air Centers after the Closing), directors, officers, agents, employees, and controlling persons, from and against all liability, obligation, loss or expense as a result of, based upon or arising out of directly or indirectly (i) a breach of any representation or warranty of Mercury or Air Centers; (ii) any indemnification obligation of Mercury for breach of certain tax-related provisions in the Stock Purchase Agreement; (iii) any deficiency in closing working capital; (iv) any obligation or loss under certain applicable sale transaction documents with respect to prior stock or asset sales; (v) the breach of any covenant or agreement made by Mercury or Air Centers; (vi) any federal, state or local excise taxes, jet fuels taxes or sales taxes (and any penalties and interest related thereto) in connection with the operation of the FBO Business prior to the Closing; (vii) a certain litigation matter brought by Michael Marigny (a former employee) against Mercury; (viii) any insured claim relating to the operation of the FBO Business prior to the Closing if the insurer of such claim is unable to pay or otherwise fails to pay the claim for any reason within 180 days after the final processing of the claim; (ix) compliance with Required Secondary Containment (as defined and discussed in Environmental Matters below) for any one or more of the FBO s comprising the FBO Business on the Closing Date, excluding the Long Beach FBO; (x) the Long Beach FBO; and (xi) any noncompliance with applicable laws related to the Required Cap Ex regulatory compliance improvements.

Allied Capital has agreed to indemnify and hold harmless Mercury and its affiliates, directors, officers, agents, employees, and controlling persons from and against all liabilities, obligations, loss or expense as a result, of based upon or arising out of, directly or indirectly, any inaccuracy or breach of (i) any representation or warranty of Allied Capital; (ii) any covenant or agreement of Allied Capital; and (iii) any indemnification obligations of Allied Capital to Mercury and its affiliates as it relates to any matters, events and circumstances arising or accruing after the Closing Date.

Pursuant to the Stock Purchase Agreement, no indemnification shall be available to Allied Capital for breach of certain representations or warranties of Mercury or Air Centers until the aggregate amount of such claims is at least $2,000,000, and then to the full extent of such claim in excess of $2,000,000 (General Breaches Deductible Amount) not to exceed 25% of the Purchase Price received by Mercury, which we

estimate to be 25% of $73,100,000 or $18,275,000. Certain claims which are indemnifiable by Mercury are not subject to such limitations.

Mercury has agreed to indemnify Allied Capital and its affiliates (including, without limitation, Air Centers after the Closing) directors, officers, agents, employees, controlling persons, for any liability obligation, loss or expense relating to a complaint filed by Signature Flight Support Corporation. See Risk Factors .

Atlanta FBO Escrow

Pursuant to the Stock Purchase Agreement, and an Escrow Agreement which is currently being held in escrow, pending closing, Allied Capital will deposit $8,270,000 of the Purchase Price (the Escrowed Funds) with an Escrow Agent. Except as provided below, Mercury will be entitled to obtain a disbursement from the Escrowed Funds in the amount of $1,654,000 on each of the first five anniversaries of the Closing Date (collectively, the Atlanta Installment Payments). If Air Centers for any reason ceases to provide FBO services at the Atlanta FBO Location or receives notification that it will be required to cease to provide FBO services at the Atlanta FBO Location prior to payment in full of the Atlanta Installment Payments, the Atlanta Installment Payments not yet disbursed from escrow will be disbursed from escrow to Allied Capital. If, prior to disbursement from escrow of all the Atlanta Installment Payments, Air Centers enters into a real property lease for the Atlanta FBO Location with a lease term of at least five years (a Qualifying Lease), then the Atlanta Installment Payments not yet disbursed from escrow will be disbursed from escrow as follows:

(i) if the Final Price (as defined below) is greater than or equal to $10,270,000, then 100% of such payments shall be disbursed to Mercury; or

(ii) if the Final Price is less than $10,270,000, then an amount equal to the Final Price less (A) all Atlanta Installment Payments previously disbursed to Mercury and (B) $2,000,000, shall be disbursed to Mercury, and any funds remaining in the escrow, excluding investment income, shall be disbursed to Allied Capital.

Investment income earned on the Atlanta Installment Payments will be retained in the escrow account until final disbursement and such income will be allocated and disbursed between Mercury and Allied Capital pro rata based on the amount of the Atlanta Installment Payments disbursed to each of Mercury and Allied Capital.

Final Price means the product of: (A) the pro forma earnings before interest, taxes, depreciation and amortization of the Atlanta FBO Location for the 12 calendar months immediately following the effective date of the Qualifying Lease (taking into account (i) the rental expense and all related fees and other amounts payable under the Qualifying Lease during such time period and (ii) a pro rata allocation of selling, general and administrative expense (but in any event such selling, general and administrative expense shall not be less than $288,200), but otherwise determining such pro forma earnings based on the historical methodology of Mercury); and (B) 6.32.

Expenses

Allied Capital has agreed to pay all of its legal, accounting, due diligence and other out-of-pocket expenses and Mercury has agreed to pay all of its and Mercury Air Center s accounting, investment banking and other out-of-pocket expenses. All required filing fees under the HSR Act have been split equally between Allied Capital and Mercury. In addition, Mercury has agreed to pay all of the costs and expenses incurred by it to print and file this Proxy Statement with the SEC and to solicit proxies from Mercury s stockholders. Any fees and expenses of the Independent Accounting Firm retained to resolve disputes between the parties are to be split equally between Mercury and Allied Capital, unless there is a dispute as to taxes, in which event the parties shall pay the Independent Accounting Firm in proportion to the Independent Accounting Firm s determination of each party s respective liability for taxes. Any arbitration fees, costs and expenses shall be paid by the prevailing party. Unless Mercury is the prevailing party in arbitration between the parties, the

parties have agreed that Mercury shall pay all costs and expenses incurred by Allied Capital to enforce its rights under the Stock Purchase Agreement.

Environmental Matters

For a period of sixty-two (62) days following execution of the Stock Purchase Agreement (Environmental Review Period), Mercury agreed to cooperate fully with Allied Capital, at Allied Capital s expense, in the performance by Allied Capital of its environmental due diligence review of the FBO Business. Mercury also agreed to provide Allied Capital and its environmental consultants with access to the premises leased to Mercury under the Real Property Leases to the extent such properties are related to, used in, or necessary for the operation of, the FBO Business (the FBO Properties), for the purpose of updating or performing environmental due diligence, including Phase I environmental site assessments, but not Phase II environmental site assessments, sampling or testing unless and only to the extent required by Environmental Law. Additionally, Allied Capital agreed to cause any of its environmental consultants that perform sampling or testing at the FBO Properties to: (a) maintain commercially reasonable insurance coverages to protect Mercury against any liabilities caused by such sampling or testing; and (b) provide an indemnity in favor of Mercury for any liabilities caused by such sampling or testing. Allied Capital agreed to provide to Mercury copies of all final environmental reports prepared by the environmental consultants engaged by Allied Capital in connection with Allied Capital s due diligence review of the FBO Business (the Allied Environmental Reports).

Following Allied Capital s Environmental due diligence investigation and negotiations conducted thereafter, the parties agreed that the Final Environmental Budget is $0, and that no adjustment to the Purchase Price is due Allied Capital arising out of known environmental matters. The parties agreed, however, that if within 18 months after Closing, Allied Capital or Air Centers receive any written notice from any governmental authority or any rule, interpretation or other mandate is published by any governmental authority requiring secondary containment pursuant to any environmental law for extended or overnight fuel truck parking at any FBO comprising the FBO Business on the Closing Date, excluding the Long Beach FBO (Required Secondary Containment), then Mercury will be required to indemnify Allied Capital and its affiliates (including, without limitation, Air Centers after the Closing) from and against any liability obligation, loss or expense arising out of such Required Secondary Containment, including reimbursement of any fines, penalties or other losses relating to noncompliance with Required Secondary Containment.

Indemnity Obligations for Unknown Environmental Matters

To the extent Allied Capital is required by Environmental Law to correct or otherwise satisfy noncompliance events or to remediate or otherwise respond to environmental conditions related to Unknown Environmental Matters, Mercury shall be required to indemnify Allied Indemnified Persons from and against any such liability, obligation, loss or expense, or actions or claims in respect thereof, to which such Allied Capital Indemnified Persons may become subject as a result thereof, or based upon or arising, directly or indirectly, therefrom. However, this indemnity shall not include any liability, obligation, loss or expense, or action or claims in respect thereof, for which Air Centers has a legally enforceable indemnity obligation with respect thereto from a third party having the financial resources to satisfy such indemnity obligation, in Allied Capital s reasonable discretion.

Allied Capital s claims against Mercury for Unknown Environmental Matters are subject to the limitations set forth below:

(i) the first $500,000 of claims are at Allied Capital s sole cost and expense;

(ii) the next $500,000 of claims are at Mercury s sole cost and expense;

(iii) the next $1,000,000 of claims are to be split equally and on a pari passu basis between Mercury and Allied Capital; and

(iv) any additional claims are at Mercury s sole cost and expense.

Any claim by Allied Capital for Unknown Environmental Matters will expire if notice of such claim has not been provided by Allied Capital to Mercury on or before the 10th anniversary of the Closing Date. Mercury will not have any liability for indemnifiable claims for Unknown Environmental Matters to the extent the aggregate amount of all indemnifiable claims suffered or incurred by Allied Capital for Unknown Environmental Matters exceeds 10% of the Purchase Price.

Treatment of Payments

Payments by Mercury relating to claims made by Allied Capital for Unknown Environmental Matters shall not count toward the General Breaches Deductible Amount.

Termination

The Stock Purchase Agreement may be terminated at any time prior to the Closing (i) by mutual written consent of Mercury and Allied Capital; (ii) by either Mercury or Allied Capital if the Closing shall not have occurred by May 14, 2004, provided that the failure of the Proposed Transaction to occur is not due to the willful failure of the party seeking to terminate the Stock Purchase Agreement to perform any of its obligations thereunder; (iii) by Mercury, if (A) Allied Capital makes a material misrepresentation or breaches a representation, warranty, or covenant, and such breach or misrepresentation, if curable, is not cured within ten days after written notice from Mercury; or (B) any condition to Mercury s obligation to effect the Closing becomes incapable of fulfillment through no fault of Mercury; (iv) by Allied Capital, if (A) Mercury makes a material misrepresentation or materially breaches a representation, warranty or covenant and such breach or misrepresentation, if curable, is not cured within ten days after written notice from Allied Capital or (B) any condition to Allied Capital s obligation to effect the Closing becomes incapable of fulfillment through no fault of Allied Capital; (v) by Mercury or Allied Capital if there is any law prohibiting or making illegal consummation of the Proposed Transaction, or any final order enjoining either Air Centers or Mercury, on the one hand, or Allied Capital, on the other, from consummating the Proposed Transaction, provided that the party seeking to terminate the Stock Purchase Agreement pursuant to this clause shall have used all reasonable efforts to remove or vacate such order; (vi) by Allied Capital at any time on or prior to May 14, 2004, if Air Centers will be adversely affected by any change related to the Amended and Restated Cost Sharing Agreement effective April 19, 2000 among the Reno Fueling Facilities Corporation (RFFC) and the RFFC Contracting Airlines; (vii) by Allied Capital, if (A) Mercury s Board of Directors withdraws, amends or modifies in any manner adverse to Allied Capital its recommendation to its stockholders in favor of the approval of the Stock Purchase Agreement and the Proposed Transaction, or (B) if Mercury fails to include in the Proxy Statement the unanimous recommendation of its Board of Directors in favor of approval of the Stock Purchase Agreement and the Proposed Transaction, or (C) Mercury s Board of Directors approves or recommends any other Acquisition Proposal; or (D) Mercury breaches the no shop provisions of the Stock Purchase Agreement or (E) Mercury enters into a letter of intent or similar document accepting any other Acquisition Proposal; (viii) by Mercury in order to enter into a binding definitive agreement providing for a Superior Proposal (Alternative Agreement), if (A) Mercury s Board of Directors determines in good faith after consultation with its outside legal counsel that entering into such Alternative Agreement is required in order for the Board of Directors to comply with its fiduciary obligations to Mercury s stockholders, (B) immediately prior to such termination, Mercury pays Allied Capital $3,500,000, (C) Mercury shall have given Allied Capital at least 48 hours prior written notice of its intention to enter into an Alternative Agreement, which notice is accompanied by a correct and complete copy of such Alternative Agreement, and during such period gives Allied Capital the opportunity to meet with Mercury s Board of Directors to suggest such modifications to the terms of the Stock Purchase Agreement that Allied Capital may deem advisable; and (D) concurrently with such termination Mercury enters into such Alternative Agreement; or (ix) by either Mercury or Allied Capital if stockholder approval of the Stock Purchase Agreement is not obtained on or before May 14, 2004; provided, however, that Mercury may not terminate the Stock Purchase Agreement pursuant to this pro vision where the failure to obtain such stockholder approval was caused by the action or failure to act of Mercury, and such action or failure to act constitutes a breach by Mercury of the Stock Purchase Agreement.

Effect of Termination

In the event the Stock Purchase Agreement is terminated pursuant to clause (iii) above, Allied Capital will remain liable to Mercury for any misrepresentation, breach of warranty or nonfulfillment of, or failure to perform, any covenant or agreement of Allied Capital existing at the time of such termination; and (ii) Mercury shall be entitled to, among other remedies, specific performance or other injunctive relief and reimbursement of all costs and expenses incurred by Mercury in connection with the Proposed Transaction.

In the event the Stock Purchase Agreement is terminated pursuant to clause (iv) above, Mercury will remain liable to Allied Capital for any misrepresentations, breach of warranty or nonfulfillment of, or failure to perform , any covenant or agreement of Mercury or Air Centers existing at the time of such termination; and (ii) Allied Capital shall be entitled to, among other remedies, specific performance or other injunctive relief and reimbursement of all costs and expenses incurred by Allied Capital in connection with the Proposed Transaction.

Liquidated Damages

Mercury is required to pay Allied Capital liquidated damages in the amount of $3,500,000 (i) within one business day after demand by Allied Capital if the Stock Purchase Agreement is terminated pursuant to clause (vii) above; and (ii) concurrently with and as a condition to any termination of the Stock Purchase Agreement by Mercury pursuant to clause (viii) above. If the Stock Purchase Agreement is terminated by Allied Capital or Mercury pursuant to clause (ix) above, Mercury is required to pay Allied Capital $3,500,000 (i) within one business day after demand by Allied Capital if the Stock Purchase Agreement is terminated by Allied Capital, and (ii) concurrently with any termination of the Stock Purchase Agreement by Mercury.

License Agreement

Concurrently with the closing of the Stock Purchase Agreement, Mercury and Allied Capital will enter into a license agreement pursuant to which Mercury will, at closing, assign the trade names, trademarks and service marks MERCURY, AIR CENTERS, the names of Mercury Air Center s Subsidiaries, and the associated logos, applications and registrations (the Marks) for use in the FBO Business, provided that Mercury may continue to use the Marks in its continuing businesses. The License Agreement has been executed and is being held in escrow.

Transition Services Agreement

Concurrent with the closing of the Stock Purchase Agreement, Mercury and Allied Capital will enter into a transition services agreement, which agreement will be acceptable to Allied Capital in its sole discretion, whereby Mercury will agree to provide certain administrative services to Air Centers for a limited period of time after the closing date, subject to reimbursement by Allied Capital for the actual and direct costs thereof. The Transition Services Agreement has been executed and is being held in escrow, however, it is a condition to Allied Capital s obligation to close that Exhibit A to the transition services agreement be completed in a form satisfactory to Allied Capital.

LAX Fuel Farm Sublease

We have also entered into, and deposited into escrow, an LAX Fuel Farm Sublease. The LAX Fuel Farm Sublease provides for a five year term whereby Mercury will sublease space to Air Centers currently used by Air Centers for the operation of its LAX Fuel Farm for fuel quality control and for office space. The agreement currently provides that the sublease shall continue through December 31, 2004, and any extension thereto provided that Air Centers consents to the extension. The Sublease may be reduced at the option of Air Centers upon thirty (30) days notice for office space. It may also be terminated if Air Centers is required by Los Angeles World Airports to open a new fuel farm at its new Imperial Highway facility. Air Centers has agreed that it will be responsible for closing the fuel farm at the termination of the Prime Lease. Air Centers is paying rent in the amount of $15,832.55 per month.

Certain Information Concerning Allied Capital

Allied Capital Corporation (Allied Capital), a Maryland corporation, is a business development company that participates in the private equity markets. Allied Capital provides long-term debt and equity investment capital to support the expansion of companies in a variety of industries. Allied Capital generally invests in public middle market companies though, from time to time, it invests in public companies that lack access to public capital. Allied Capital has been investing in businesses for over 40 years and has financed thousands of companies nationwide.

Allied Capital s principal executive offices are located at 1919 Pennsylvania Ave., N.W., Washington, D.C. 20006, and its phone number is (202) 331-1112.

All information under this caption has been supplied by Allied Capital to Mercury.

Mercury s Continuing Businesses

If the Proposed Transaction is approved, Mercury will continue its Air Cargo, MercFuel and Maytag businesses and will continue to own the Long Beach FBO. Mercury and Allied have executed and deposited into escrow transition services agreement requiring Mercury to provide certain administrative services to Air Centers for a limited time period after the closing date subject to reimbursement by Allied Capital for the actual and direct costs thereof. MercFuel and Air Centers have also executed, and deposited into escrow, an LAX Fuel Farm Sublease whereby Mercury will sublease space to Air Centers currently used by Air Centers for the operation of its LAX Fuel farm for fuel quality control and for office space.

Air Cargo Operations

The Corporation s Air Cargo operations are conducted through its wholly-owned subsidiary, Mercury Air Cargo, Inc. (Air Cargo) which provides the following services: cargo handling, cargo space logistics services, and general cargo sales agent services.

Cargo Handling

Air Cargo provides domestic and international air cargo handling, air mail handling and bonded warehousing (collectively Cargo Handling). Air Cargo handles cargo at Los Angeles International Airport (LAX), Hartsfield-Jackson Atlanta International Airport (ATL Atlanta, GA), Dorval International Airport (YUL Montreal, Canada), Mirabel International Airport (YMX Montreal, Canada) and Lester B. Pearson International Airport (YYZ Toronto, Canada). Since February 2001, operations at ATL have been handled by Lufthansa Handling under the terms of a five-year sub-lease of a 104,646 square foot warehouse and operations area. Air Cargo continues to provide cargo handling at ATL utilizing Lufthansa Handling as a sub-contract service provider for the operations. In fiscal 2003, the Cargo Handling operations comprised 78% of Air Cargo s revenue.

Air Cargo provides cargo handling services at four warehouse locations at LAX making Air Cargo one of the largest independent cargo handling companies company at LAX and one of a small number of non-airline air cargo service providers of contractual cargo containerization and palletization for domestic and international airlines as well as cargo airlines at the airport. The largest of Air Cargo s warehouses at LAX is a 110,000 square foot warehouse (not including space subleased to the U.S. Post Office) plus office space of 37,783 square feet (the Avion Warehouse) at which the Corporation completed an extensive renovation of a previously existing airport facility and commenced operations in April 1998. The lease for this warehouse facility is currently scheduled to expire in 2006.

Air Cargo competes in the cargo handling business based on the quality and timeliness of the service it provides along with a competitive pricing structure. Long-term growth in Air Cargo s handling business will be realized by continuing to add new customers to its existing cargo handling locations or by increased volume from its existing customer base.

Air Cargo brokers cargo space on flights within the United States and on international flights to Europe, Asia, the Middle East, Australia, Mexico and Central and South America. Space logistics involves the contracting for bulk cargo space on airlines and selling that space to customers with shipping needs. Air Cargo has an established network of shipping agents who assist in obtaining cargo for shipment on space purchased from airlines, and who facilitate the delivery and collection of freight charges for cargo shipped by Air Cargo. In fiscal 2003, the space logistics revenue comprised 8% of Air Cargo s revenue.

Air Cargo s contract with South African Airways (SAA) to utilize all of SAA s cargo capacity on its passenger flights from the United States to South Africa was automatically extended for another year beginning in April 2003. Air Cargo s one-year commitment for these routes are approximately $4.6 million. This allows Air Cargo to effectively arrange and schedule cargo shipments and optimize the return to SAA and to its freight forwarders while providing a reasonable margin to Air Cargo.

Unlike a cargo airline which operates its own aircraft, Air Cargo s space logistics business arranges for the purchase of cargo space on scheduled flights or supplemental flights at negotiated rates. Air Cargo is thereby able to profit from the sale of air cargo space worldwide without the overhead cost of owning and operating an aircraft. In some instances, Air Cargo has entered into fixed minimum commitments for cargo space resulting in exclusive or preferred rights to broker desirable cargo space profitably. Due to the large volume of cargo space contracted, Air Cargo is able to secure air cargo space at rates lower than an individual freight forwarder could arrange. Air Cargo is then able to pass on these lower rates to its customers and still realize a profit.

General Sales Agent Services

Air Cargo also serves as a general sales agent (GSA) directly through its subsidiaries, Hermes Aviation, Inc., Hermes Aviacion de Mexico, S.A. de C.V., and Aero Freightways, Inc. of Canada for airlines in the Far East, Canada, Mexico, Central and South America and in the United States. In this capacity, Air Cargo sells the transportation of cargo on client s airline flights, using the clients own airway bills. Air Cargo earns a commission from the airlines for selling their cargo space. In fiscal 2003, the GSA business revenue comprised 9% of Air Cargo s total revenue. As with its space logistics business, the growth for Air Cargo s GSA business is not constricted by requirements for physical facilities or by large capital commitments.

Mercury World Cargo

Mercury World Cargo operates a small aircraft which has been certified pursuant to a part 135 cargo airline. Using its FAA part 135 cargo airline certificate, which qualifies Mercury World Cargo (MWC) as an airline certified to transport cargo in accordance with Federal Aviation Administration and the Department of Transportation regulations, MWC is able to enter into interline agreements (contracts between carriers for transportation of cargo) with other airlines worldwide. Using the MWC airway bill (an airway bill is a bill of lading for the airline industry) as the cargo transportation document and the other airlines air cargo capacity, MWC is able to provide a service for both freight forwarders and airlines. Effectively, MWC provides a secondary brand to airlines that prefer not to utilize their own brand for discounted freight. During its first full year of operations MWC produced revenues of approximately $1 million. Revenue in fiscal 2004 is expected to increase as MWC realizes the full year benefit of agreements signed in fiscal 2003. In fiscal 2003, the MWC revenue comprised 3.2% of Air Cargo s revenues.

MercFuel

The Corporation s fuel sales operations, except for aviation fuel sales through the Corporation s Air Centers business unit, are handled through MercFuel, Inc. (MercFuel), a wholly owned subsidiary of the Corporation. The Corporation transferred all of its assets and business activities associated with its fuel sales operations to MercFuel in October 2000. MercFuel facilitates the management and distribution of aviation fuel serving as a reseller of aviation fuel for major oil companies, affording the oil companies indirect access to certain customers without the credit risk or administrative costs associated with the management of these customer accounts. MercFuel competes based on the quality of its services by offering a combination of reliable and timely supply, competitive pricing and credit terms, and a real time analysis of the availability,

quantity and pricing of fuel in airports and terminals throughout the world. MercFuel works through third party suppliers for fuel storage and into-plane delivery.

MercFuel is able to leverage its scale of operations to obtain credit terms and competitive pricing from its suppliers that may not be afforded to MercFuel s customers on an individual basis. Many of the major oil companies that provide fuel supply to MercFuel have limited infrastructure to support the small to medium sized and foreign carriers that comprise a large portion of MercFuel s customer base. This arrangement allows MercFuel to offer more competitive pricing and credit terms to its customers than they would be able to obtain directly from the major oil companies. With over 24 years of service in the aviation fuel reselling and distribution industry, MercFuel has established itself as a reliable and price competitive reseller which has resulted in the establishment of significant contracts with smaller and medium sized commercial carriers and business fleet managers. MercFuel s resale service provides an established distribution network for oil companies worldwide and through MercFuel provides them access to certain markets and customers which they do not directly serve. In addition, MercFuel provides the administrative support required in serving this customer base which would otherwise be required by the major oil companies and assumes the credit risk of supplying this customer base. MercFuel s experience in the aviation fuel reselling industry allows it to assess those risks in a more effective and efficient manner.

In many cases, the small to medium sized commercial carriers and business fleet managers are subject to securing aviation fuel supply on the spot market, which can vary significantly on a day-to-day basis. MercFuel provides a 24-hour 7 days a week single source coordinated distribution system on a national and international basis through its network of over 400 third party supply locations nationally and 1,000 international locations through which customers can purchase fuel. As a result of this integrated network, MercFuel is able to provide its customers with reliable and competitive fuel pricing from airport to airport enabling its customers to reduce their exposure to the volatile spot market.

Through its automated on-line system, MercFuel provides its corporate and general aviation customers with online pricing, fuel location and ordering information streamlining its customers fuel purchase process and reducing their administrative costs associated with fuel logistics by providing a single source through which fuel procurement can be arranged and automatically released to the business jet customer.

MercFuel s continued success in attracting and retaining its customer base is due, in part, to its willingness to extend credit on an unsecured basis to many of its customers. Otherwise, these customers would be required to prepay, post letters of credit with their suppliers, or pay on shorter credit terms. MercFuel recognized that active oversight and management of credit risk is essential to Mercury s success. Mercury s executive staff and MercFuel management meet regularly to assess and evaluate MercFuel s credit exposure, in the aggregate and by individual customer. Mercury s credit committee is responsible for approving credit lines above certain pre-established amounts, and for setting and maintaining credit standards to ensure overall credit quality and optimize its credit portfolio. MercFuel purchases aviation and other fuel at prices that are generally tied to market based formulas from several major oil companies and certain independent and state owned oil companies to meet the expected requirements of its customers. From time-to-time, MercFuel will commit to purchase a fixed volume of fuel, at a fixed price, over an established period of time to meet selected customers purchase requirements at set locations. MercFuel s payment terms generally range from 10 to 20 days, except for bulk purchases which are generally payable in shorter periods. MercFuel has agreements with certain suppliers under which MercFuel purchases a minimum amount of fuel each month at prices which approximate the market price. MercFuel also makes occasional spot purchases of fuel to take advantage of market differentials. To insure supply availability, MercFuel carries limited inventories at various locations. The amount of inventory held at any particular point in time varies depending on market conditions.

Outside of the United States, MercFuel does not maintain fuel inventory, but arranges to have fuel delivered directly to its customers aircraft through into-plane arrangements. Domestically, fuels sales are made on either an into-plane basis where fuel is supplied directly into MercFuel s customers aircraft with fuel provided by MercFuel s supplier or the fuel is delivered from MercFuel s inventory. While inventory is maintained at more than forty (40) locations, inventory levels are maintained at minimum levels.

MercFuel purchases its fuel from suppliers worldwide at prices that are generally tied to market-based formulas. MercFuel is currently extended unsecured credit for its fuel purchases. If MercFuel s relationship with any of these key suppliers terminates, MercFuel may not be able to obtain sufficient quantity on competitive terms to meet its customers demands. MercFuel may encounter difficulty and/or delays in securing aviation fuel from alternative sources. In addition, financial or supply disruptions encountered by MercFuel s suppliers could also limit the availability of fuel supplied to MercFuel.

For the fiscal year ended June 30, 2003, MercFuel s average cost of fuel was 94 cents per gallon, an increase of 17 cents per gallon, or 22% from fiscal 2002. Although MercFuel believes that there are currently adequate aviation fuel supplies to meet its customers needs, events outside of MercFuel s control have in the past resulted in, and could in the future result in, spot shortages or rapid price changes. Although MercFuel has generally been able to pass through fuel price changes to its customers, extended periods of high fuel costs could adversely affect MercFuel s ability to purchase fuel in sufficient quantities because of credit limits placed on MercFuel by its fuel suppliers and availability under Mercury s existing credit facility.

Government Contract Services

Mercury conducts its government contract services through its wholly owned subsidiary, Maytag Aircraft Corporation (Maytag or Government Contract Services), which is headquartered in Colorado Springs, Colorado. Maytag provides aircraft refueling, air terminal services, base operating support, and weather data services in 17 countries on four continents.

Aircraft Refueling

Maytag provides aircraft refueling and related services at 12 military bases in the United States, one in Greece, and one in Okinawa, Japan. Maytag s refueling contracts generally have a term of four years, with expiration dates ranging from December 2003 to March 2006. Under the terms of its refueling contracts, Maytag supplies all necessary personnel and equipment to operate government-owned fuel storage facilities and provides 24-hour refueling services for a variety of military and contractor aircraft. All fuel handled in these operations is government owned. In connection with its government contract refueling business, Maytag owns, leases, and operates a fleet of refueling trucks and other support vehicles. For fiscal 2003, the aircraft refueling contracts generated revenue and pretax earnings of $8.7 million and $0.7 million, respectively.

Air Terminal Services

Maytag provides air terminal and ground handling services to the United States (U.S.) Government at 18 locations under five contracts. The contracts cover two U.S. military bases (one each in Japan and Korea) and sixteen international airports in Latin America, Japan, Korea and Kuwait. Air terminal services contracts are generally for a base period of up to one year, with government options for multiple one-year extension periods. The expiration dates for Maytag s air terminal contracts range from March 2004 (Kuwait) to September 2004 (Latin America) Maytag s multi-site Latin America air terminal contract has options to extend through September 2005. Air terminal and ground handling services include the loading and unloading of passengers and cargo, transient alert, and flight planning services. For fiscal 2003, the air terminal services contracts generated revenue and pretax earnings of $8.2 million and $2.3 million, respectively.

Base Operating Support Services

Maytag provides base operating support (BOS) services on a subcontract basis at Niagara Falls, NY, Westover, MA, Youngstown, OH and Willow Grove, PA Air Reserve Facilities and Patrick Air Force Base. Under the terms of the subcontracts, Maytag provides multi-function services, including fuel management, traffic management, airfield management, air terminal operations, and vehicle operations and maintenance services. Contract expirations range from March 2004 to September 2004, with one to three pre-priced one year options, except for Niagara Falls which expires in March 2004 and is up for competitive bidding. The Corporation believes the U.S. Government will exercise all options to extend the contracts. For fiscal 2003, the BOS contracts generated revenue and pretax earnings of $5.9 million and $40,000, respectively.

Weather Data Services

Maytag provides weather observation and/or weather forecasting services at six locations within the United States pursuant to four contracts (the Weather Data Contracts) with the United States Government comprised of two weather observation and forecasting contract and three weather observation contracts plus a weather forecasting responsibility under the Westover BOS contract and a weather observation responsibility under the Niagara Falls BOS contract. Maytag also provides air traffic control services at the U.S. Air Force Academy in Colorado Springs, CO. The Weather Data Contracts provide firm fixed prices for specified services and are generally for a base period of one year, with multiple one-year options at the U.S. Government s election. The Weather Data Contracts for weather observation have an expiration date of September 30, 2003 with three pre-priced option years to follow. The Weather Data Contract for weather observation and forecasting within the U.S. Air Force Academy has options to extend through January 2005. For fiscal 2003, the Weather Data Contracts generated revenue and pretax earnings of $1.6 million and $226,000, respectively.

All of Maytag s government contracts are subject to competitive bidding. Refueling, air terminal, and weather forecasting contracts are generally awarded to the offeror with the proposal that represents the best value to the government. In a best value competition, the proposals are evaluated on the basis of price, past performance history of the offeror, and the merit of the technical proposal, creating a more subjective process.

Maytag s contracts are all subject to termination at the discretion of the United States Government, in whole or in part. Termination of a contract may occur if the United States Government determines that it is in its best interest to discontinue the contract, in which case closure costs will be paid to Maytag. Termination may also occur in Maytag defaults under a contract. Maytag has never experienced any such default termination.

As Maytag s business activities are associated with government contracts that have set termination dates to enable the government to renew the contracts through a competitive bid process, one of Maytag s business activities is the participation in the preparation and submission of contract bids for contracts currently awarded to Maytag and for new contracts that fit the type of activities (refueling, base operating support, air terminal services and weather observation and forecasting) in which Maytag is involved. In addition, the governmental agencies have the option to extend the expiration dates of existing and/or engage in new contracts activities through a successful bidding process. However, as the awarding of contracts is based upon the decision of the government agency s representative for the contract bids submitted, Maytag may not be able to retain existing contracts upon expiration and may be unsuccessful in bidding on new contracts.

Risk Factors

Certain Cautionary Information

In connection with the Private Securities Litigation Reform Act of 1995 (the Litigation Reform Act), Mercury is hereby disclosing certain cautionary information to be used in connection with written materials and oral statements made by or on behalf of its employees and representatives that may contain forward-looking statements within the meanings of the Litigation Reform Act. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as may, expect, anticipate, estimate, or continue or the negative thereof or other variations thereon or comparable terminology. The reader is cautioned that all forward-looking statements are necessarily speculative and there are numerous risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements.

IF THE PROPOSED TRANSACTION IS NOT APPROVED OR IF THE PROPOSED TRANSACTION CLOSES AFTER APRIL 14, 2004, WE WILL BE IN DEFAULT OF OUR SENIOR CREDIT FACILITY, AND THE LENDERS MAY REQUIRE US TO FORCE A LIQUIDATION OF OUR ASSETS.

On December 5, 2003, the Company and its Lenders under the Facility, executed the Fifth Amendment to Loan and Security Agreement and Forebearance Agreement (the Forebearance Agreement). In

accordance with the terms of the Forebearance Agreement, as amended on February 16, 2004, the Lenders agreed to forebear from exercising their rights and remedies under the Senior Secured Credit Facility for the following events of default, as defined in the Loan and Security Agreement: (1) the Company s failure to deliver its annual audited financial statements for fiscal year 2003 within the prescribed time-frame allowed; (2) the formation of a subsidiary, Mercury Air Center Long Beach, without the prior consent of the Lenders; (3) the Company s failure to deliver supplemental schedules to J. H. Whitney as required under the terms of the $24 million Senior Secured 12% Note; and (4) the Company s failure to achieve the EBITDA financial covenant for the twelve month period ended December 31, 2003. The Forebearance Agreement, as amended, states that the Lenders agree, for a limited time but no later than April 14, 2004, to forebear from exercising their rights and remedies under the Senior Secured Credit Facility with respect to the events of default noted above. If the Proposed Transaction does not close by April 14, 2004, and the Lenders do not agree to amend the FBO Sale closing date in the Forbearance Agreement, the Lenders would have the right to exercise their rights and remedies under the Facility with respect to the events of default noted above. In that event, we would need to pay-off or replace the Facility, either by selling one or more FBO s or other assets or divisions of our Company, or by entering into a new credit agreement with other lenders. If we were unable to do so, the Lenders may require us to force a liquidation of our assets may undertake other legal remedies.

IF THE PROPOSED TRANSACTION IS NOT APPROVED WE WILL ALSO HAVE TO PAY A BREAK-UP FEE TO ALLIED CAPITAL.

If the Proposed Transaction is not approved, in addition to the risk set forth above, we will be required to pay Allied Capital a break-up fee of $3.5 million.

IF THE PROPOSED TRANSACTION IS APPROVED AND THE SALE DOES NOT CLOSE, WE WILL BE IN DEFAULT OF OUR SENIOR CREDIT FACILITY AND MAY HAVE TO PAY A BREAK-UP FEE TO ALLIED CAPITAL.

The sale might not be consummated even though the stockholders approve the sale. Stockholder approval is only one of the closing conditions. If the remaining closing conditions are not satisfied or waived, the sale might not be consummated even if the stockholders approve the sale. In that event, as set forth in the risks factors above, we would be in default of our senior credit facility. Under certain circumstances, we may also still be liable to pay the break-up fee to Allied Capital.

BECAUSE OUR REVENUES AND GROSS MARGINS DEPEND HEAVILY ON OUR FBO BUSINESS, THE LOSS OF THIS UNIT WILL HAVE A NEGATIVE IMPACT ON OUR GROSS MARGIN AND OPERATING RESULTS.

We have reported a net loss of $2.8 million or $.86 per basic and diluted share for fiscal 2003. The FBO Business contributed approximately 21.6% and 24.6% of our total revenues in fiscal 2003 and 2002, respectively, and approximately 49.5% and 48.7% of our gross margins in fiscal 2003 and 2002, respectively. As a result of the Proposed Transaction, we will be dependent on our air cargo (Air Cargo), fueling (MercFuel) and governmental services (Maytag) business units for our success. Accordingly, our operations will be less diversified and we believe the effect of risks pertaining to our remaining operating units, including those listed below, on our future results of operations will be increased.

THE LATE FILING OF OUR 2003 FORM 10-K MAY AND OUR FIRST FISCAL QUARTER 2004 FORM 10-Q MAY HARM OUR FUTURE ABILITY TO RAISE CAPITAL OR ACCESS THE MARKET.

We filed our 2003 Form 10-K on December 31, 2003, 78 days after the extended due date of October 14, 2003 and have filed our 10-Q for the quarter ended September 30, 2003 on January 13, 2004. The late filing of our Form 10-K and Form 10-Q negatively impacts our ability to raise capital, in at least two respects. First, we will be unable to utilize a Form S-3 registration statement until January 2005. As many equity providers typically demand S-3 registration rights in connection with infusions of capital, we may not be able to obtain capital from such providers. Second, many debt and equity providers will not raise capital for companies who have not been current in their recent SEC filings. Consequently, we may be unable to access the capital markets should the need arise in the future.

OUR FINANCIAL POSITION WILL BE HARMED IF WE CANNOT OBTAIN A RELEASE OF A LETTER OF CREDIT ISSUED IN CONNECTION WITH CEDFA.

We currently have outstanding a tax exempt bond which was issued pursuant to a loan agreement between the Corporation and the California Economic Development Financing Authority (CEDFA). The principal amount on the bond is currently $14,000,000. Repayment terms consist of semi-annual principal payment of $500,000 with a redemption of $4.0 million at the end of the fifteenth year (2013). The loan carries a variable rate which is based on a weekly remarketing of the bonds. In addition, a letter of credit has been issued by the Corporation s Senior lender to guaranty the credit at an annual cost of approximately 3.1% of the principal. This bond, and the supporting letter of credit, will remain outstanding following the closing. If we cannot obtain a release of the letter of credit, our financial position will be harmed.

BECAUSE THE RECESSION HAS IMPACTED THE COMMERCIAL AVIATION BUSINESS MORE THAN IT HAS THE CORPORATE AVIATION BUSINESS, THE SALE OF THE FBO BUSINESS WILL INCREASE THE VOLATILITY IN OUR FINANCIAL RESULTS.

MercFuel derives 83.3% of its revenues from fuel sales to commercial aviation customers and 16.7% of its revenues from fuel sales to corporate aviation customers, whereas Air Centers derives 0% of its revenues from fuel sales to commercial aviation customers and 56.7% of its revenues from fuel sales to corporate aviation customers. (Air Centers also provides into-plane services dispensing fuel owned by third parties to selected airlines). The commercial aviation business has been most severely impacted by the current economic downturn. Consequently, the sale of Air Centers will leave us with that portion of our business which has been most impacted by the downturn which will increase the volatility and risk of our businesses as a whole.

OUR GOVERNMENT SERVICES BUSINESS MAY DECLINE AS COMPETITION INCREASES OR OUTSOURCING DECREASES IN THE DOD SECTOR.

Mercury s government contract services business could be adversely affected with increased competition, less outsourcing, the possible U.S. Governmental transition to more small business set aside contracts, or another round of base closures. Growth of Maytag s government contract services business is dependent on obtaining additional contracts and renewing existing contracts through the process of competitive bids, and on expanding the types of outsourcing services provided to the U.S. Such efforts may be limited by changes in U.S. Government policy or market conditions. To the extent that U.S. Government policy moves toward more contract set asides, Maytag, which operates primarily in the unrestricted market, will be affected possibly requiring a move toward more subcontracting opportunities. Any directed base closures at Maytag operated locations, should recommendations from the Base Realignment and Closure Commission (BRAC) be approved, would have a negative impact on both retaining and winning contracts.

BECAUSE OF CAPACITY CONSTRAINTS, WE MAY NOT BE ABLE TO CONTINUE TO GROW OUR CARGO BUSINESS.

Growth prospects for Air Cargo are limited by the availability of additional strategically located warehouse facilities. Mercury s cargo handling operations are conducted at the Los Angeles and Hartsfield-Jackson International Airports in the United States, and at the Dorval, Mirabel and Lester B. Pearson International Airports in Canada. Continuous long-term growth in Mercury Air Cargo s operations can be realized only by maintaining and expanding current warehouse facilities at existing or new locations.

THE PROPOSED RENTAL INCREASE FOR OUR AVION WAREHOUSE, WILL, IF ENACTED, ADVERSELY IMPACT THE PROFITABILITY OF AIR CARGO.

In April 2002, Mercury received a notice from Los Angeles World Airports (LAWA) of a proposed rental increase for the Avion warehouse retroactive to June 18, 2001. Mercury submitted protests to the LAWA Staff and Board of Commissioners regarding the proposed increase on the basis that: (1) Mercury has made a substantial investment in the warehouse facility and the proposed rental increase would greatly reduce Mercury s ability to achieve an acceptable rate of return on Mercury s investment to date; (2) if any increase is to be made, it should be determined based on Mercury being the developer of the facility and not strictly a

tenant; (3) that the amount of the proposed increase is not justified given the general business environment of the air cargo handling operations. In response to Mercury s protests to the proposed increase, in September 2002 Mercury received a revised notice from LAWA of a reduced proposal for a rental increase for the Avion warehouse. The proposed rental increase is effective retroactive to June 18, 2001 and then continue forward on a prospective basis. Through the period ended June 30, 2003, the accumulated amount of the retroactive rent adjustment, as currently proposed by the LAWA Staff, is $1,579,000. LAWA Staff has indicated that the retroactive portion rent increase would be payable by Mercury in equal month installments over the remaining term of the lease agreement, which is scheduled to expire June 2006. The proposed monthly rent, on a go-forward basis, would increase by $64,600 or 35% from the existing monthly rent. As of the date of this Proxy Statement, the LAWA Staff will present its recommendation on January 20, 2004 at which time the LAWA Board of Commissioners will vote on the proposed rental increase. If the proposed rental increase is presented to the LAWA Board of Commissioners in its current form and approved by the LAWA Board of Commissioners, it will adversely affect the profitability of Mercury s Cargo Handling operations at LAX. In expectation of the approval of the proposed increase, Mercury has accrued $918,000 for the retroactive rent adjustment, which is net of increased retroactive sublease rental income, as of June 30, 2003.

UNDER THE STOCK PURCHASE AGREEMENT, WE ARE REQUIRED TO INDEMNIFY ALLIED CAPITAL AGAINST CERTAIN MATTERS.

Under the Stock Purchase Agreement, we have agreed, subject to certain minimum and maximum thresholds and other limitations, to indemnify Allied Capital and its affiliates against (i) a breach of any representation or warranty of Mercury; (ii) any indemnification obligation of Mercury for breach of any tax-related provisions in the Stock Purchase Agreement; (iii) any deficiency in closing working capital; (iv) any obligation or loss under certain applicable sale transaction documents with respect to prior stock or asset sales; (v) the breach of any covenant or agreement made by Mercury or Air Centers prior to the Closing Date; (vi) any federal, state or local excise taxes, jet fuels taxes or sales taxes (and any penalties and interest related thereto) in connection with the operation of the FBO Business prior to the Closing; (vii) a certain matter brought by Michael Marigny against Mercury; (viii) any insured claim relating to the operation of the FBO Business prior to the Closing if the insurer of such claim is unable to pay or otherwise fails to pay the claim for any reason within 180 days after final processing of the claim; (ix) compliance with Required Secondary Containment (as defined and discussed in Environmental Matters below) for any one or more of the FBO s comprising the FBO Business on the Closing Date, excluding the Long Beach FBO; (x) the Long Beach FBO; and (xi) any noncompliance with applicable law related to the Required Cap-Ex regulatory compliance improvements. These indemnification obligations generally survive closing for a period of eighteen months, although certain of such obligations survive until expiration of the applicable statute of limitations.

We are also required to indemnify Allied Capital and its affiliates against certain Unknown Environmental Matters. This environmental indemnification is also subject to certain minimum and maximum thresholds, and survives closing for a period of ten years. Any indemnity payment we are required to make to Allied Capital could harm our financial results.

Mercury has agreed to indemnify Allied Capital and its affiliates including, directors, officers, agents, employees, controlling persons, obligation, loss or expense relating to the complaint filed by Signature Flight Support Corporation.

WE MAY BE REQUIRED TO MAKE DEMANDS ON ALLIED CAPITAL IF WE ARE UNABLE TO OBTAIN RELEASES FROM OUR GUARANTEES.

Pursuant to the Stock Purchase Agreement, Allied Capital has agreed to use its best efforts to obtain releases of Mercury from all guaranty and related obligations entered into by Mercury with respect to the FBO leases (the Seller Guarantees). In the event that, despite Allied Capital s efforts, it is unable to obtain such guarantee releases, Allied Capital has agreed, subject to the terms of the Stock Purchase Agreement, to indemnify, reimburse and hold harmless any and all Seller Indemnified Persons from and against any liability, obligation, loss or expense to which Seller Indemnified Persons may become subject as a result of the Seller Guarantees. In the event Mercury is unable to obtain such releases, we may continue to be liable on such Seller s Guarantees and would then have to make demands on Allied Capital for reimbursement of same. This

may lead to protracted litigation among Mercury, the holders of such guarantees, and Allied Capital. Further, to the extent that the Seller Guarantees are not released, we may be required to show the remaining stream of lease payments as debt on our balance sheet. It is also possible that this matter may be covered in a footnote because of Allied financial strength and its ability to back up its indemnity. Such additional debt or the guarantee itself on our balance sheet could adversely affect our banking relationships and ability to raise additional capital. At this time it is not possible to determine what locations, if any, will not release Mercury from the Seller Guarantees.

THE LIQUIDITY OF OUR COMMON STOCK MAY BE HARMED AS A RESULT OF THE PROPOSED TRANSACTION.

Our Common Stock is listed on the American Stock Exchange. There is currently a limited trading market for our Common Stock. If the Proposed Transaction is consummated, the trading market for our Common Stock may become even less liquid, as many stockholders are interested in taking an equity position in Mercury due only to the perceived advantages of the FBO Business. Our common stock has traded significantly below its all-time high for some time and the market factors adversely impacting our stock price such as competitive pressures and a lack of perceived high growth opportunities in our remaining businesses are unlikely to change in the foreseeable future. We were previously unable to successfully raise equity capital for MercFuel and we have received only limited indications of interest at unacceptable prices for our other businesses. It is unlikely that the securities market will recognize potential in the remaining business sufficient to sustain the current valuation of our common stock.

THE CONCENTRATION OF OWNERSHIP BY OUR AFFILIATED STOCKHOLDERS MAY DELAY OR PREVENT ANY MERGER OR TAKEOVER OF MERCURY, WHICH MAY LIMIT THE AMOUNT OF PREMIUM A STOCKHOLDER WOULD OTHERWISE OBTAIN ON HIS COMMON STOCK.

Certain of our existing stockholders have significant influence over our management and affairs, which they could exercise against your best interests. As of February 23, 2004, our officers and directors, together with entities that may be deemed affiliates of or related to such persons or entities, beneficially owned over 37.4% of our outstanding common and/or preferred stock. As a result, these stockholders, acting together, may be able to influence significantly our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Accordingly, this concentration of ownership may have the effect of impeding a merger, consolidation, takeover or other business consolidation involving us, or discouraging a potential acquiror from making a tender offer of our shares. This concentration of ownership could also adversely affect our stock s market price or lessen any premium over market price that an acquiror might otherwise pay.

PRO FORMA AND STAND-ALONE FINANCIAL INFORMATION

Certain pro forma and stand-alone financial information is attached to this proxy statement as Exhibit D .

DUE DILIGENCE FINANCIAL PROJECTIONS (UNAUDITED) FOR AIR CENTERS AND MERCURY AIR GROUP GOING FORWARD.

Attached hereto as Exhibit I, are projected financial statements representing Mercury management s estimate of the financial performance and the resultant financial position of the Company s Mercury Air Centers, Inc. subsidiary for each of the fiscal years 2005 through 2007 and for the periods then ended as well as Mercury for the same periods without Air Centers. The projected financial statements for Air Centers were prepared by Mercury from information submitted to Allied during its due diligence process and the Mercury statements were prepared by Mercury from information submitted to Imperial Capital for the preparation of its opinion. The statements are summaries and were prepared in a manner consistent with the Company s historical accounting policies but management does not represent that these projected financial statements have been prepared in accordance with accounting principals generally accepted in the United States of

America. Actual results for Mercury may differ significantly from those presented in this exhibit. Actual results for Air Centers may differ significantly from those presented in this Exhibit under Allied Capital s ownership.

In addition, Mercury s management has set out in Exhibit I the material assumptions underlying such projections as well as impact of certain post closing inter-company transactions.

There are no material contracts or events relating to the future performance of these entities which have not been disclosed to the public.

SELECTED FINANCIAL DATA

Certain selected financial data is attached to this proxy statement as Exhibit E .

THE BOARD OF DIRECTORS OF MERCURY BELIEVES THAT THE PROPOSED TRANSACTION IS IN THE BEST INTERESTS OF, AND IS FAIR TO, MERCURY AND ITS STOCKHOLDERS. THE BOARD OF DIRECTORS UNANIMOUSLY APPROVED THE PROPOSED TRANSACTION, AND UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSED TRANSACTION AT THE ANNUAL MEETING.

PROPOSAL TWO ELECTION OF DIRECTORS

The Nominating Committee of the Board of Directors has recommended seven individuals for election to the Corporation s Board of Directors. The solicited proxies may be voted to fill only the seven seats on the Board of Directors for which nominees are named in this Proxy Statement. Each director elected will hold office until the next Annual Meeting of stockholders and until his successor is elected and qualified or until the director s earlier death, resignation or removal. All of the nominees are currently directors of the Corporation previously elected by the stockholders except for Angelo Pusateri.

Unless otherwise indicated thereon, all proxies received will be voted in favor of the election of the indicated seven nominees of the Board of Directors named below as directors of the Corporation. Should any of the nominees not remain a candidate for election on the date of the Meeting (which contingency is not now contemplated or foreseen by the Board of Directors), proxies solicited hereunder may be voted for substitute nominees selected by the Board of Directors. The seven nominees for director receiving the greatest number of votes cast in person or by proxy will be elected.

Information Regarding Nominees

Listed below are the persons who have been nominated to serve as directors for the ensuing year, together with their ages and all Corporation positions held by them. All nominees have consented to being named in the proxy statement, and have agreed to serve if elected.

Name	Age	Positions
Philip J. Fagan, Jr., M.D.	60	Chairman of the Board
Joseph A. Czyzyk	56	President, Chief Executive Officer and Director
Frederick H. Kopko, Jr.	48	Director
Gary J. Feracota	43	Director
Sergei Kouzmine	40	Director
Michael J. Janowiak	40	Director
Angelo Pusateri	63	Director

Philip J. Fagan, Jr., M.D. has been Chairman of the Board of Directors in a non-executive capacity since July 2000 and served as a director of Mercury Air Group from September 1989 to June 2000. Dr. Fagan has been the Chief Executive Officer and President of the Emergency Department Physicians Medical Group, Inc. since its inception in 1978. Dr. Fagan has also been President of Fagan Emergency Room Medical Group since its inception in 1989. Both companies are currently located in Burbank, California. Dr. Fagan received a B.S. in Chemistry from Notre Dame and an M.D. from Tulane University of Medicine.

Joseph A. Czyzyk has been President and a Director of Mercury Air Group since November 1994 and has served as Chief Executive Officer since December 1998. Mr. Czyzyk also served as President of Mercury Service, Inc., a discontinued division of Mercury Air Group which sold aviation fuel and provided refueling services for commercial aircrafts, from August 1985 until August 1988, and President of Mercury Air Cargo, Inc from August 1988 until August 1997. Mr. Czyzyk served as an Executive Vice President of Mercury Air Group from November 1990 through November 1994. Mr. Czyzyk received a B.S. in Civil Engineering from California State University of Los Angeles and served in the U.S. Navy. Mr. Czyzyk has

served the City of Los Angeles as a Taxi Commissioner since 1998 and was elected President of the Board of Taxicab Commissioners in July 2002. Pursuant to his employment agreement, the Board of Directors will continue to nominate Mr. Czyzyk as a candidate for election to the Board of Directors while Mr. Czyzyk remains employed by Mercury. See Employment Agreements.

Frederick H. Kopko, Jr. has been a director of Mercury Air Group since October 1992. Mr. Kopko has been a partner in the law firm of McBreen & Kopko since January 1990. Mr. Kopko presently serves on the Board of Directors of Butler International, Inc. and Sonic Foundry, Inc. He was admitted to practice law in the State of Illinois. He attended the University of Connecticut, receiving a Bachelor of Arts degree in economics, magna cum laude. He, thereafter, received his Juris Doctorate degree from the University of Notre Dame where he was editor of the Notre Dame Law Review. Mr. Kopko also attended the University of Chicago and obtained his Master of Business Administration degree with High Honors.

Gary J. Feracota has been a director of Mercury Air Group since November 2001. Mr. Feracota is, and has since January 2002, been a Principal of the Pinnacle Group, a privately-held fractional yacht leasing company. He is also a management consultant serving growth companies. From June 2001 to January 2002, Mr. Feracota was President and Chief Executive Officer of Anlon Systems, consummating the sale of that company to a private investment group. From September 1997 to June 2001, he was a Partner at Deloitte Consulting. Mr. Feracota was an Associate Partner at Andersen Consulting, where he served as a management consultant from September 1988 to September 1997. He served as Director of Marketing for Seier Technologies from May 1985 to September 1988 and as a Member of the Technical Staff for Texas Instruments from July 1982 to August 1985. Mr. Feracota received a Bachelor degree in Energy Technology and Physics from Northern Illinois University and a Master of Business Administration degree from the University of Chicago.

Sergei Kouzmine has been a director of Mercury Air Group since November 2001. Since February 2001, Mr. Kouzmine has been the President of ISB Development Corporation, a strategic management company. He is also a Financial Operational Principal at Alexander Capital , NASD Broker Dealer, since August 2003. From June 1997 to March 2003 he was the managing general partner of R.I.S., a partnership that invests in Russian businesses and from January 1998 to June 2000, he was the Chairman of the Board of one of the first investment institutions in the Siberian region of the Russian Federation R.I.F. or Research Investment Finance. A nuclear physicist, Mr. Kouzmine earned a bachelor s degree and a doctorate degree in physics, in Russia and earned a Master of Business Administration degree from the University of Chicago s Graduate School of Business, where he graduated with honors.

Michael Janowiak has been a director of Mercury Air Group since September 2002. Mr. Janowiak has been a Principal of a company known as Professional Education International (PEI), a professional training organization, since August 1985. Mr. Janowiak has 19 years experience in the information industry. He founded the publishing/ research division of PEI. He has served on the Advisory Board of the Midtown Foundation since January 2001, as the Subsidiary Director of CIB Marine Bancshares, Inc., since November 2001, as Industry Advisor Illinois Institute of Technology since January 1999, as member of the Advisory Board of Liquio Corporation since August 2002 and as member of the Advisory Board of Idynta Systems since December 2001. Mr. Janowiak attended the University of Arizona and the Stanford University Executive Program.

Angelo Pusateri has been a director of Mercury Air Group since December 2002. In May 2002 he retired from Virgin Atlantic Airways Group, Ltd., after 18 years of service. He was President of Virgin Atlantic Cargo from October 1985 until his retirement and President of Virgin Security Services, Inc. from January 1993 to May 2002. Mr. Pusateri currently is an Adjunct Professor at Hofstra University and lectures on International Strategic Management . He earned a Master of Business Administration degree from City University of New York.

There were four regular scheduled meetings and eleven telephonic meetings of the Board of Directors of the Corporation held during fiscal 2003, the period from July 1, 2002 through June 30, 2003.

Our board has a Compensation Committee, an Audit Committee and a Nominating Committee.

The duties of the Compensation Committee include making all decisions regarding cash and non-cash compensation (excluding standard employee benefits) paid or given to executive officers of the Corporation, negotiating and approving all employment agreements with executive officers, and negotiating and approving all transactions between the Corporation and its executive officers (whether or not the primary purpose of such transactions are compensatory). In addition, the Compensation Committee reviews the chief executive officer s recommendations on compensation of all of our officers and adopting and changing major compensation policies and practices, and reports its recommendations to the whole Board of Directors for approval and authorization. The Compensation Committee also administers the Corporation s non-cash employee incentive plans, including stock purchase and stock option grants. During our fiscal year ended June 30, 2003, Messrs. Feracota, Kouzmine, Janowiak and Kopko were the members of the Compensation Committee. None of Messrs. Feracota, Kouzmine, Janowiak and Kopko is or ever has been an employee of the Corporation. Each of Messrs. Feracota, Kouzmine, and Janowiak met Amex s proposed standards for Compensation Committee independence. Going forward, membership on this committee will be changed to meet Amex s proposed independence requirements. The Compensation Committee met two times during fiscal 2003.

Our Audit Committee reports to the board regarding our independent public accountants, the scope and results of our annual audits, compliance with our accounting and financial policies and management s procedures and policies relative to the adequacy of our internal accounting controls. The Audit Committee is responsible for the appointment, compensation and oversight of the Corporation s outside accounting firm, and for the pre-approval of audit services and permissible non-audit services. The independent auditors report directly to the Audit Committee. The Audit Committee approves all related party transactions, and has the authority to engage independent counsel and other outside advisors.

The Audit Committee is currently comprised of Messrs. Feracota, Kouzmine and Janowiak. Mr. Feracota serves as Chairman of the Audit Committee. The Audit Committee must certify that its meets the current and proposed size, experience and independence requirements of Amex. To reinforce the Audit Committee s dedication to even more stringent legal and ethical accounting standards and practices, the board is reviewing a revised charter for the Audit Committee. A copy of our existing committee charter is attached as Exhibit A. The Audit Committee had eleven meetings during fiscal 2003.

Mercury s Nominating Committee recommends candidates for the election of directors, including when a vacancy occurs. Messrs. Czyzyk, Kopko and Dr. Fagan served on the Nominating Committee during fiscal 2003. The Nominating Committee did not meet formally during fiscal 2003, although the members had extensive informal discussions. Going forward, membership on this committee will be changed to meet Amex s independence requirements.

While the Nominating Committee is responsible for recommending candidates for election as directors at the Annual Meeting, stockholders also have an opportunity to nominate candidates for election to the board. In general, any stockholder wishing to do so must send notice of the intent to make a nomination to the secretary of Mercury Air Group at least 60 but not more than 90 days prior to the first anniversary of the date of the previous year s Annual Meeting. The notice must contain biographical information about the nominee as required by our bylaws and by applicable securities laws and regulations and also information identifying the stockholder making the nomination and any beneficial owners on whose behalf the nomination is made. Further details about how a stockholder may nominate a person to serve on the Board of Directors can be found in our bylaws.

In addition to the standing committees described above, the Board has appointed special committees comprised solely of independent directors to review and make recommendations regarding specific issues. These committees are the Asset Sale Committee, the Special Litigation Committee, the Reverse Stock Split Committee, the Permitted Financing Committee, the Building Lease Committee and the Exchange Offer Committee. Each of these Committees meets as necessary to accomplish its assigned tasks and may, if such committees deem appropriate, hire its own counsel and/or experts to assist it in fulfilling their duties.

During fiscal 2003, each member of the Board of Directors attended at least 75% of the Board meetings and committee meetings for the committees on which he served, except for Sergei Kouzmine who attended 42% of the Board of Directors and committee meetings on which he served.

The seven nominees for director receiving the greater number of votes cast in person or by proxy will be elected.

The Mercury Board of Directors unanimously recommends that the holders of Common and Preferred Stock vote FOR the election of all nominees.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information as of February 23, 2004 with respect to the ownership of the Corporation s Common and Preferred Stock by: (a) each director of the Corporation; (b) each officer named in the Summary Compensation Table; c) the directors and executive officers of the Corporation, as a group; and (d) all persons known to the Corporation to be the beneficial owners of more than five percent (5%) of its outstanding Common Stock or Preferred Stock. As of February 23, 2004, there were 2,971,135 shares of Common Stock and 462,627 shares of Preferred Stock issued and outstanding. All entries in this chart and elsewhere in this proxy statement have been adjusted for the one-for-two reverse stock split of the Common Stock of the Corporation effective June 18, 2003.

	Shares and Percentage of Class Beneficially Owned(2)			
	Common Stock		Preferred Stock	
Name and Address(1)	Shares	Percent	Shares	Percent
Joseph A. Czyzyk	1,138,514(3)	34.8%		
William L. Silva	99,531(4)	3.3%		
Wayne J. Lovett	31,148(5)	1.0%	25,820	5.6%
John Enticknap	31,250(6)	1.0%	25,820	5.6%
Robert Schlax	12,750	*		
Philip J. Fagan, Jr., M.D. 2550 North Hollywood Way, Suite 209 Burbank, CA 91505	1,138,514(7)	34.8%		
Frederick H. Kopko, Jr. 20 North Wacker Drive, Suite 2520 Chicago, IL 60606	1,138,514(8)	34.8%		
Gary Feracota 904 Williams St. River Forest, IL 60305	17,500(9)	*		
Sergei Kouzmine 45 Williamsburg Rd. Evanston, IL 60203	16,000(10)	*		
Michael H. Janowiak 6540 West Joliet Road #38 Countryside, IL 60525	7,500(11)	*		
Angelo Pusateri 17 Cary Rd. New Hyde Park, NY 11040	1,375	*		
CFK Partners	1,138,514(12)	34.8%		
Allied Capital Corporation 1919 Pennsylvania Ave., N.W. Washington, D.C. 20006	226,407(13)	7.1%		
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue 11th Floor Santa Monica, CA 90401	174,101(17)	5.3%		
Beti Ward 6644 Vista Del Mar Playa Del Rey, CA 90293	3,000	*	250,000(14)	43.2%

Name and Address(1)	Shares and Percentage of Class Beneficially Owned(2)			
	Common Stock		Preferred Stock	
	Shares	Percent	Shares	Percent
Jeff Stallones 3808 World Houston Parkway, Suite B Houston, TX 77032	8,250(15)	*	160,987	34.8%
All directors and executive officers as a group (11 persons)	1,355,568(16)	40.4%	51,640	11.2%

* Less than one percent.

(1) Unless otherwise indicated in the table, the address for each of the individuals named in the table is 5456 McConnell Avenue, Los Angeles, California 90066.

(2) The percentage of shares beneficially owned is based on 2,971,135 shares of Common Stock and 462,627 shares of Preferred Stock outstanding as of February 23, 2004. Beneficial ownership is determined in accordance with the rules and regulations of the SEC. The stock ownership information includes current shareholdings and shares with respect to which the named individual has the right to acquire beneficial ownership under options exercisable or other securities convertible within 60 days, as of February 23, 2004. These shares are deemed outstanding for the purpose of computing the percentage of outstanding shares owned by that person. These shares are not deemed outstanding, however, for the purposes of computing the percentage ownership of any other person.

(3) Mr. Czyzyk owns 438,021 shares, which includes 382 shares held by Mr. Czyzyk, as custodian for his children and 2,131 shares held by Mr. Czyzyk s wife as custodian for their children, as to which Mr. Czyzyk disclaims beneficial ownership. Table also includes 125,000 shares issuable upon exercise of options exercisable within 60 days from the date hereof. All of Mr. Czyzyk s shares and options are held by CFK Partners. In addition, CFK Partners holds a proxy to vote all shares owned by Mr. Czyzyk. Table lists all shares and options held by CFK Partners (see note 12 below).

(4) Includes 23,906 shares issuable upon exercise of options exercisable within 60 days from the date hereof.

(5) Includes 15,000 shares issuable upon exercise of options exercisable within 60 days from the date hereof and 200 shares held by Mr. Lovett and his wife.

(6) Includes 16,250 shares issuable upon exercise of options exercisable within 60 days from the date hereof.

(7) Dr. Fagan owns 83,313 shares and an additional 85,250 shares issuable upon exercise of options exercisable within 60 days from the date hereof. All of Dr. Fagan s shares and options are held by CFK Partners. In addition, CFK Partners holds a proxy to vote all shares owned by Dr. Fagan. Table lists all shares and options held by CFK Partners (see note 12 below).

(8) Mr. Kopko owns 15,125 shares and an additional 83,688 shares issuable upon exercise of options exercisable within 60 days from the date hereof, all of which are held by CFK Partners. In addition, CFK Partners holds a proxy to vote all shares owned by Mr. Kopko. Table lists all shares and options held by CFK Partners (see note 12 below).

(9) Includes 15,000 shares issuable upon exercise of options exercisable within 60 days from the date hereof.

(10) Includes 15,000 shares issuable upon exercise of options exercisable within 60 days from the date hereof.

(11) Consists of 7,500 shares issuable upon exercise of options exercisable within 60 days from the date hereof.

(12)

Consists of (i) 308,117 Shares beneficially owned, (ii) 83,313 shares and an additional 85,250 shares issuable upon exercise of options owned by Dr. Philip J. Fagan, (iii) 15,125 shares and an additional 83,688 shares issuable upon exercise of options owned by Mr. Frederick H. Kopko, Jr., (iv) 438,021 shares owned by Mr. Czyzyk, which include 382 shares held by Mr. Czyzyk as custodian for his children, and 2,131 shares held by Mr. Czyzyk s wife as custodian for their children and (v) 125,000 shares issuable upon exercise of options owned by Mr. Czyzyk (collectively, the Shares). On July 27, 2000, Philip J. Fagan, M.D., Frederick H. Kopko, Jr. and Joseph A. Czyzyk (collectively,

the Partners) formed CFK Partners f/k/a FK Partners, an Illinois general partnership (CFK Partners). CFK Partners holds all Shares beneficially owned by the Partners. Pursuant to Section 7 of the Partnership Agreement of CFK Partners, the Partners have agreed that the Shares shall be voted for Mr. Czyzyk, Dr. Fagan, and Mr. Kopko, or as designated by Mr. Czyzyk, Dr. Fagan and Mr. Kopko, respectively. Pursuant to the Partnership Agreement, the Partners agreed to elect Dr. Fagan as the Chairman of the Board of Directors of Mercury Air Group and to vote in favor of enacting a change to Mercury Air Group s bylaws to make the Chairman of the Board s position a non-executive officer position. On August 7, 2000, CFK Partners f/k/a FK Partners, Dr. Fagan and Messrs. Kopko and Czyzyk filed a Form 13D with the Securities and Exchange Commission with respect to the Shares owned by them. Reference is made to that Form 13D for a complete description of the terms and conditions, including voting terms and conditions, on which the Shares are being held. Assuming no options are exercised, CFK Partners would beneficially own 24.5% of the outstanding common and preferred stock, voting as a single class.

(13) Consists of 226,407 shares issuable upon exercise of warrants exercisable within 60 days from the date hereof.

(14) Includes 50,000 shares of the Series A 8% Cumulative Convertible Preferred Stock held by Pacific Air Cargo, a company owned by Beti Ward.

(15) Includes 6,250 shares issuable upon exercise of options exercisable within 60 days from the date hereof

(16) Includes 386,594 shares issuable upon exercise of options exercisable within 60 days from the date hereof. Assuming no options are exercised, the directors and executive officers as a group would beneficially own 37.4% of the outstanding common and preferred stock, voting as a single class.

(17) Based on publicly available information reported on February 6, 2004, Dimensional Fund Advisors, Inc. (Dimensional) is a beneficial owner of 174,101 shares as a result of acting as an investment advisor to various investment companies (the Funds). In addition, Dimensional has sole power to dispose of 174,101 shares owned by the Funds.

EXECUTIVE OFFICERS, COMPENSATION AND OTHER INFORMATION

Executive Officers

Set forth in the table below are the names, ages and positions held by all executive officers of the Corporation during fiscal year 2003.

Name	Age	Positions
Joseph A. Czyzyk	56	President, Chief Executive Officer, and Director
Robert M. Schlax	48	Chief Financial Officer and Vice President of Finance
William L. Silva	53	Executive Vice President and President of Maytag Aircraft Corporation (Maytag)
John L. Enticknap	59	Executive Vice President and Chief Operating Officer of Mercury Air Centers, Inc.
Wayne J. Lovett	55	Executive Vice President, Secretary and General Counsel

Executive officers of the Corporation are appointed and serve at the discretion of the Board of Directors. Set forth below is a brief description of the business experience for the previous five years of all executive officers other than Mr. Czyzyk, who is also a director and whose business experiences are described above under the caption Information Regarding Nominees.

Robert M. Schlax has been Chief Financial Officer of Mercury Air Group since November 2002 and Vice President of Finance since February 2002. Prior to joining Mercury Air Group he supported various business units over a 24 year period at UNOCAL Corporation including several key positions in Corporate Accounting. He received his Bachelor of Science in Accountancy from the University of Illinois and his Master of Business Administration degree from Pepperdine University.

William L. Silva has been an Executive Vice President of Mercury Air Group since August 1993. He has been President and Chief Operating Officer of Maytag Aircraft Corporation since March 2000. He also served as Executive Vice President of Maytag from August 1993 through February 2000, Vice President from November 1987 through July 1993, and Director of Operations from October 1982 through 1987. Mr. Silva received a B.A. in Geology from the University of New Mexico. He is a retired U.S. Navy Commander.

John L. Enticknap has been Executive Vice President of Mercury Air Group since December 2000. He has served as Chief Operating Officer of Mercury Air Centers, Inc. since November 1999. He served as Eastern Regional Manager from November 1998 to November 1999, Director of Business Development from April 1995 to November 1999 and as General Manager at the Mercury Air Center at DeKalb Peachtree Airport (PDK) from August 1996 to February 1999. He received a B.S. in Industrial Management from Northeastern University in Boston, Massachusetts and attended graduate school at the University of Pittsburgh. He holds an airline transport pilots certificate with Asmel and helicopter ratings.

Wayne J. Lovett has been Executive Vice President of Mercury Air Group since May 2001 and has served as Corporate Secretary since June 1999. Mr. Lovett has been General Counsel since October 1997. Prior to joining Mercury Air Group he was the presiding Judge of the Lakeway, Texas Municipal Court and was previously Corporate Counsel and Secretary of Communications Transmission, Inc. (now Broadwing). He received a Bachelor of Science in Management from Northeastern University in Boston, Massachusetts and his Juris Doctorate, from South Texas College of Law in Houston, Texas.

Executive Compensation

The following table sets forth the cash compensation paid or accrued by the Corporation to the Chief Executive Officer, and to the Corporation s other four most highly compensated executive officers who were serving as executive officers at the end of fiscal 2003 and each of whose total annual salary and bonus exceed $100,000 (collectively, the named executive officers):

Summary Compensation Table

				Long-Term Compensation		
				Awards	Payouts	
Name and Principal	**Fiscal Year(1)**	**Annual Salary(2)($)**	**Bonus($)**	**Securities Underlying Options(#)**	**Long-Term Compensation Payouts($)**	**All Other Compensation($)**
Joseph A. Czyzyk	2003	847,780	220,000	-0-	-0-	17,450(3)
President/CEO	2002	670,000	235,250	250,000	-0-	980
	2001	548,646	221,000	-0-	-0-	980
Robert M. Schlax	2003	184,883	8,865	-0-	-0-	40(5)
Chief Financial Officer(4)	2002	59,935	-0-	-0-	-0-	40
	2001					
William L. Silva	2003	185,708	33,000	-0-	-0-	6,950(6)
Executive Vice President	2002	165,907	99,000	10,000	-0-	558
	2001	218,999	106,000	-0-	-0-	558
John L. Enticknap	2003	187,860	35,635	-0-	-0-	600(7)
Executive Vice President	2002	171,875	25,000	10,000	-0-	600
	2001	177,907	-0-	10,000	-0-	600
Wayne J. Lovett	2003	200,618	11,310	-0-	-0-	600(8)
Executive Vice President	2002	174,900	25,000	10,000	-0-	600
	2001	167,519	-0-	10,000	-0-	600

(1) The period July 1, 2000 through June 30, 2001 is referred to as fiscal Year 2001; period July 1, 2001 through June 30, 2002 is referred to fiscal Year 2002; and period July 1, 2002 through June 30, 2003 us referred to fiscal Year 2003.

(2) Includes and has been restated to include loan forgiveness with respect to Mercury financed purchases of Common Stock.

(3) Consists of 401(k) contributions and life insurance premiums in the amounts of $300 and 17,150, respectively.

(4) Mr. Schlax became employed by Mercury in February 2002.

(5) Consists of life insurance premiums in the amount of $40.

(6) Consists of 401(k) contributions and life insurance premiums in the amounts of $300 and $6,650 respectively.

(7) Consists of 401(k) contributions and life insurance premiums in the amounts of $300 and $300, respectively.

(8) Consists of 401(k) contributions and life insurance premiums in the amounts of $300 and $300, respectively.

No options were granted to the named executed officers in fiscal 2003.

The following table sets forth information regarding option exercises during fiscal 2003 as well as the number and total of in-the-money options at June 30, 2003 for each of the named executive officers:

Aggregated Option Exercises in the Last Fiscal Year and

Fiscal Year-end Option Values(1)

Name	Shares Acquired on Exercise (#)(1)	Value Realized ($)(2)(3)	Number of Unexercised Options at Fiscal Year-End(#) Exercisable/ Unexercisable(1)	Value of Unexercised In-The-Money Options at Fiscal Year-End($)(3)(4) Exercisable/ Unexercisable(1)
Joseph A. Czyzyk	15,730	53,388	125,000/-0-	0/-0-
Robert M. Schlax	-0-	-0-	0/-0-	0/-0-
William L. Silva	-0-	-0-	23,906/-0-	17,227/-0-
John Enticknap	-0-	-0-	16,250/-0-	0/-0-
Wayne J. Lovett				