

GULFSTREAM INTERNATIONAL GROUP INC  
Form 10-K  
March 31, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2008**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-33884**

**GULFSTREAM INTERNATIONAL GROUP, INC.**

(Name of small business issuer in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-3973956**  
(I.R.S. Employer  
Identification No.)

**3201 Griffin Road, 4th Floor**  
**Fort Lauderdale, Florida**  
(Address of principal executive offices)

**33312**  
(Zip Code)

**Registrant's telephone number, including area code: (954) 985-1500**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock of \$0.01 par value per share	NYSE Amex

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

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

The aggregate market value of the registrant's common equity held by non-affiliates was \$4,912,899 as of June 30, 2008.

Common stock outstanding at March 30, 2009: 2,959,460 shares, none of which are held in treasury.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Registrant's 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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## PART I

### Item 1.

#### Business

##### Overview of Our Business

Gulfstream International Group, Inc. is a holding company that operates two independent subsidiaries: Gulfstream International Airlines, Inc. ( Gulfstream or the Airline ) and Gulfstream Training Academy, Inc. (the Academy ). References to we, our, and us, refer to Gulfstream International Group, Inc. and either or both of Gulfstream or the Academy.

Gulfstream is a commercial airline currently operating more than 150 scheduled flights per day, serving nine destinations in Florida, ten destinations in the Bahamas, and five destinations from Continental Airline's Cleveland hub under the Department of Transportation's Essential Air Service Program. Our fleet consists of 23 B1900D, 19-seat, turbo-prop aircraft. Operating from our headquarters in Fort Lauderdale, Florida, Gulfstream was the thirteenth largest regional airline group in the U.S. in 2007 in terms of number of passengers flown, according to the Regional Airline Association. We operate under a principal code share and alliance agreement with Continental Airlines. We are also party to code share agreements with United, Northwest and Copa Airlines of Panama. In addition to the daily scheduled flights, Gulfstream also offers frequent charter flights within our geographic operating region, including licensed flights to Cuba.

The Academy provides flight training services to fully-licensed commercial pilots. The Academy's principal program is our First Officer Program, which allows participants to obtain a Second-In-Command type rating in approximately four months. Following receipt of this rating, pilots fly between 250 and 400 hours performing first officer duties at Gulfstream. By attending the Academy, pilots are able to enhance their ability to secure a permanent position with a commercial airline. The Academy's graduates are typically hired by various regional airlines, including Gulfstream. In 2008 and 2007, 64 and 80 pilots, respectively, entered the First Officer Program.

#### History

Our business was started by Thomas L. Cooper with the formation of Gulfstream in 1988. Gulfstream began as an airline offering on-demand charter service utilizing nine-passenger, piston-powered aircraft. In 1990, we initiated scheduled commercial service by offering flights from Miami to several locations in the Bahamas. In 1994, after introducing turbo-prop aircraft, we signed our first code share agreement with United Airlines and expanded our routes in both Florida and the Bahamas. Since 1994, we have signed a series of code share agreements with our current code share partners.

Gulfstream first entered into a code share and alliance agreement with Continental, our principal alliance partner, in 1997. Gulfstream and Continental have amended the agreement on several occasions, most recently in March of 2006, which amendment included an extension of the term to 2012. Prior to our acquisition of Gulfstream, Continental assisted Gulfstream from time to time with financial transactions and aircraft acquisitions, and today holds a warrant to purchase 10% of Gulfstream's outstanding shares.

In December 2005, Gulfstream International Group, Inc. was incorporated in Delaware by a group of investors as Gulfstream Acquisition Group, Inc., and changed its name to Gulfstream International Group, Inc. on June 13, 2007. We were formed to acquire Gulfstream and the Academy. In March 2006, we acquired approximately 89% of G-Air Holdings Corp., Inc. ( G-Air ), which owned approximately 95% of Gulfstream at that time, and 100% of the Academy, which held the remaining 5% of Gulfstream. Subsequently, we acquired the remaining 11% of G-Air. Following these transactions, we are the sole owner of Gulfstream and the Academy, subject to Continental's warrant to purchase 10% of the outstanding shares of Gulfstream's common stock.

### **Our Competitive Strengths**

*Long-standing code share agreements with multiple major airlines.* Gulfstream has code share agreements with Continental, United and Northwest. We have been a partner with each of these airlines for more than five years. Recently, our code share agreement with Continental was extended through 2012. We believe that utilizing such agreements enhances our ability to generate revenue from both local and connecting traffic. We also believe that through our alliances, we are able to control costs by contracting for reservations, ground handling and other services at lower costs. In addition, these code share relationships allow us to offer our passengers easy booking through

reservation systems maintained by our code share partners and the benefits of associated frequent flier programs.

*Well positioned in the Bahamas market.* We are a leading carrier to the Bahamas and serve more destinations in the Bahamas than any other U.S. airline. We maintain our own facilities and employees at all ten of our destinations in the Bahamas and we enjoy a close cooperative relationship with Bahamian business and tourism officials. We believe that our focus on the Bahamian market allows us to identify new market opportunities and develop those opportunities more efficiently than new market entrants.

*Diverse route network and utilization of small aircraft.* We have connecting hubs in several key Florida cities, daily charter flights to Cuba, and flights from Continental Airline's Cleveland hub to five smaller cities in Pennsylvania, New York, and West Virginia. This network enables us to establish multiple flight crew and maintenance bases that reduce overall operating costs and enhance operational reliability. The size and scale of this operation create practical barriers to entry for new entrants and increase our ability to shift capacity according to seasonal and business-versus-leisure demand patterns. Additionally, the relatively small size and efficiency of our turboprop aircraft combine to produce trip costs that are substantially lower than operators flying larger and more expensive jet aircraft.

*We offer reliable, quality service.* We have been consistently among the highest-ranked regional airlines in the country in terms of reliability. For 2008, our on-time performance was 77%, compared to the 76.0% average on-time performance reported by the Department of Transportation for all reporting airlines. Gulfstream has received the FAA Diamond Award, the highest level of recognition for maintenance training, for eight consecutive years.

*The Academy has a unique first officer program.* We believe the Academy has established a strong reputation for quality instruction. We offer our students the opportunity to accumulate flight hours with an airline regulated under Part 121 of the FAA regulations, sometimes referred to as Part 121 flight hours. Many airlines require pilot applicants to have a certain number of Part 121 flight hours or equivalent experience and so our students enhance their hiring prospects with regional airlines through our first officer program. In addition, the Academy provides Gulfstream with a reliable and cost-effective source of first officers and pilots.

## **Our Strategy**

Our business strategy is to utilize small-capacity aircraft to target markets that are unserved or underserved by competing airlines. Small capacity aircraft allow for lower costs per flight, and enable us to operate profitably with fewer passengers per flight than airlines operating larger equipment.

*Utilize turboprop aircraft to selectively expand the number of markets we serve.* We use 19-passenger turboprop aircraft. Turboprop aircraft offer substantially lower acquisition costs than regional jet aircraft and, in addition, tend to



be more fuel efficient than other aircraft. We believe this allows us to provide service on short, lower volume routes and achieve attractive margins, in contrast to airlines that have focused their fleets on larger regional jet aircraft, increasingly in the 70- to 90-seat category. The efficiencies associated with turboprop aircraft are more pronounced on short haul routes such as ours. Additionally, turboprop aircraft have the ability to operate out of airports with runways that are too short for certain regional jets.

We are actively seeking opportunities to grow by adding new routes, aircraft, alliance partners, or the acquisition of other regional airlines. We look for unserved or underserved short haul city pairs that have a high degree of potential for long-term profitability. These opportunities will likely include operating in new geographic areas outside our current Florida base. For example, we recently added flights from Continental Airline's Cleveland hub to five small cities in Pennsylvania, New York and West Virginia under the Department of Transportation's Essential Air Service program. We have held discussions with various parties concerning new code share arrangements, additional turboprop aircraft as well as the acquisition of regional airlines. Any potential transaction involving a new code share partner or acquisition would require Continental's prior consent. There is no assurance that we will be able to reach acceptable terms with regard to any potential transaction and if we are able to do so, that Continental would consent to such a transaction.

*Use of alliance and code share agreements.* Utilizing our alliance and code share agreements enhances our ability to generate revenue for both local and connecting traffic. By having multiple code share partners, we are able to increase our revenue per flight by accessing several sources of connecting passengers relative to what would be available within a single code share partnership arrangement. This is particularly true given that our main connecting airports are not hubs for any of our code share partners. These agreements also provide the opportunity to contract for services at lower costs, as well as to gain access to airport and other facilities, relative to what we would be able to do independently.

Further, we believe that by providing high quality service under our code share partnerships with multiple airlines in existing markets, our opportunities for expanding the scope of our relationship with those carriers may be greater.

*Increase enrollment at the Academy.* We seek to increase enrollment at the Academy through implementation of various marketing initiatives. We believe we can enhance enrollment by increasing cooperation with other regional airlines and primary flight training centers in order to produce higher levels of applicant referrals. We also encourage enrollment by developing closer integration with accredited higher education institutions offering two- and four-year degrees. Additionally, we seek to attract prospective First Officer candidates from different sources by offering training services to other regional air carriers operating similar aircraft types. We also continuously seek to assist prospective candidates in obtaining tuition financing from third party sources.

## **Gulfstream International Airlines**

### *Markets Served*

Gulfstream serves a number of short distance, low volume routes in Florida and the Bahamas, and offers flights from Continental Airline's Cleveland hub to five small cities in Pennsylvania, New York and West Virginia. We offer more Bahamian destinations with more scheduled daily flights than any other U.S. carrier. Further, Gulfstream is the sole provider of scheduled service on a number of our routes. Gulfstream's current route maps are depicted below.



As of December 31, 2008, we provided non-stop service in 29 city pairs. We believe that we are the highest-frequency service provider in 26 of these 29 city pairs. We tailor our flight schedules to individual market demands in order to optimize both profitability and the number of connecting passengers to and from our code share partners. In 2008, our average fare was \$145 and our average flight length was 202 miles.

All of our flights are marketed as Continental. In addition, certain flights are also marketed through our other code share partners. We estimate that over 60% of our revenue is derived from local point to point traffic within Florida and the Bahamas. The balance of our revenue is derived from connecting traffic from our code-share partners and other carriers destined primarily for the Bahamas. Continental is our largest connecting partner, with passengers connecting to and from Continental flights providing approximately 20% of our revenue.

Gulfstream currently operates approximately two daily round trips under charter agreements associated with our Cuba operations and two to three daily round trip flights to Andros Island under an agreement with a government subcontractor. In addition, Gulfstream operates on-demand charters for various customers throughout the year.

***Code Share Agreements***

*Continental Code Share Agreement*

Our primary alliance partner is Continental. Pursuant to an amended and restated alliance agreement with Continental dated December 30, 1999, which we refer to as the Continental code share agreement, Gulfstream displays the Continental CO designator code on all of our flights marketed to the public. Our customers may participate in Continental's One Pass frequent flyer program.

Under this agreement, we pay Continental for various services, including ticketing, reservations, revenue accounting, and various levels of airport services. We also incur fees for computerized reservation system transactions and participation in Continental's frequent flyer program.

Gulfstream receives all of the revenue generated by local, or non-connecting, passengers flown, and a portion of the total revenue from passengers connecting to or from Continental. Continental sets all prices for connecting markets, and Gulfstream sets prices for our local markets. Approximately 20% of our passenger revenue is derived from passengers connecting from Continental flights.

The term of this agreement will continue through at least May 3, 2012, unless earlier terminated for cause. Cause is defined to include:

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breach of any material provision of the agreement that is not cured within a 60-day period;

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suspension or revocation of our authority to operate as an airline, either in whole or with respect to the CO-designated flights;

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citation by any government authority for significant noncompliance with any material marketing or operation law, rule or regulation with respect to a CO-designated flight;

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the filing of a petition in bankruptcy by or against us;

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our failure to maintain required insurance coverage;

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our failure to maintain any of our aircraft in an airworthy condition;

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our failure to conduct operations in accordance with standards, rules and regulations promulgated by any government authority; or

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Except as otherwise agreed by us and Continental, a completion factor by us of less than 95% during any 21 day period or 50% during any three day period with respect to Continental flights operated by us (including in such

calculations all flights canceled less than one week prior to the date of its scheduled operation and excluding flights not completed due to weather or ATC).

In addition, Continental may terminate the agreement immediately if there is a change of control, as defined in the agreement, of Gulfstream without Continental's prior written consent.

Continental has not executed its right to appoint an individual to Gulfstream's board of directors. It also has the right to observe the Company's board meetings. Continental may also receive our audited financial statements, inspect our books, accounts and records and audit our operational procedures.

Gulfstream and Continental have agreed to indemnify each other for any damages arising out of either party's acts or omissions related to the agreement. Specifically, Gulfstream has agreed to indemnify Continental for any losses arising from our possession and use of Continental's tickets, boarding passes and other materials, including, but not limited, to lost or forged tickets.

With certain exceptions, we are required to obtain Continental's consent to enter into additional airline code share agreements. We have also agreed to limit utilization of the United Airlines designator code to specific numbers of flights and between specific cities.

In addition to our long-term principal alliance with Continental, we have the following code share agreements:

*United Airlines Code Share Agreement*

We entered into a code share agreement with United in 1994, which has been amended several times, most recently in October of 2006. We provide code share operations with United to and from Tampa, Miami, Key West, Ft. Lauderdale, Orlando, Grand Bahama Island and Nassau, Bahamas. Approximately 8% of our passenger revenue is derived from passengers connecting from United's flights. The agreement may be cancelled upon 180 days' written notice, unless either party breaches the agreement, in which case it may be terminated upon shorter notice.

Revenue sharing formulas for proration of revenue are set forth in a separate prorate agreement, which is amended or replaced annually. Our passengers may also participate in the United frequent flyer program.

### *Northwest Airlines Code Share Agreement*

Gulfstream has entered into a code share agreement and related prorate agreement, each dated February 11, 2000, with Northwest, which permits us to use the NW designator code to identify certain of Gulfstream's regional flights. Currently, we operate NW-designated code share flights to and from Tampa, Miami, Key West, Ft. Lauderdale and Nassau, Bahamas. Revenue from NW-designated flights is allocated pursuant to the prorate agreement. Approximately 7% of our passenger revenue is derived from passengers connecting from Northwest's flights.

The agreement is terminable upon 180 days' notice without cause, but may be terminated immediately for cause.

Cause, as defined in the agreement, includes the failure to maintain specified levels of operational reliability, bankruptcy, loss of airline licensing or dissolution. Additionally, Northwest may terminate immediately if we or one of our affiliates begins operating any aircraft with 60 or more seats and a takeoff weight of 70,000 pounds or more.

We have agreed to provide Northwest with 30 days' prior written notice before entering into any code share or frequent flyer agreement with another major airline serving the cities where we provide NW-designated flights. Additionally, our customers may participate in the Northwest frequent flier program.

### *Copa Code Share Agreement*

We entered into a code share agreement on July 1, 2005 with Copa Airlines, to permit us to use the CM designator code on Gulfstream's flights from Miami to Orlando, Tampa, Key West, Gainesville, Nassau and Freeport. The agreement requires us to provide certain minimal operational standards. Copa Airlines, a Continental alliance partner, handles reservation services for passengers of CM-designated flights, as it would for all other Copa Airlines flights, through the Continental reservation system and provides check-in and ticketing services. We receive a standard prorated amount for each passenger we fly on a CM-designated flight. To date, this has not been a material source of our revenue.

### *Marketing*

Under our code share agreement, Continental provides all reservations and related services for sales and marketing for CO-designated flights. Northwest, United and Copa Airlines are responsible for reservations of connecting passengers marketed under their respective codes.

We are responsible for the scheduling of all of our flights and are also responsible for setting prices and managing revenue for our local passengers. Local passengers are passengers whose itinerary is not constructed using a single fare over multiple flight segments. Our code share partners are responsible for setting prices and managing revenue for our connecting passengers. We retain all of the revenue associated with our local passengers and a portion of the revenue associated with connecting passengers pursuant to revenue sharing agreements with our code share partners.

### *Flight Equipment*

Our fleet currently consists of B1900D aircraft. The average age of our B1900D fleet is 13 years. The B1900D aircraft is a 19-seat, twin engine turbo prop that has a pressurized, stand-up cabin, and cruises at 300 miles per hour. It is ideal for short trips, and its lower operating costs make it much more economical than larger mid-sized aircraft for the frequent, short flights that we operate. We lease 23 B1900Ds under agreements that expire between 2008 and 2010; however, at our option, we can extend 15 of these leases. We also have the option to purchase up to 21 of these aircraft.



In December 2004, we purchased seven EMB-120 aircraft from Atlantic Southeast Airlines. In March of 2007, we purchased an additional EMB-120, which entered into revenue service in December 2007. These aircraft were operated until September and October 2008, when all eight aircraft were sold.

We believe that our fleet is well suited for the markets we serve. Our turbo-prop aircraft allow us to operate short distance sectors efficiently and achieve break-even revenues at lower levels than larger jet aircraft. This allows us to operate more flights per day and target smaller markets, which we believe provides us with a key advantage at non-hub airports. In addition, by operating only one aircraft type, we are able to simplify our maintenance training and parts inventory and achieve lower overall operating costs. These aircraft are no longer being manufactured and there is a limited supply of used aircraft of this type.

### ***Training and Aircraft Maintenance***

Airframe maintenance performed on our aircraft can be divided into two general categories: line maintenance and heavy maintenance. Line maintenance consists of routine, scheduled maintenance checks, including pre-flight, daily and overnight checks, and any diagnostics and routine repairs. Heavy maintenance consists of more complex inspections and overhauls, and servicing of the aircraft. Most of our line maintenance and heavy maintenance is performed by our own highly experienced technicians at our hangar in Fort Lauderdale. Parts and supply inventories are primarily maintained in Fort Lauderdale and, in smaller amounts, at our locations in Miami, Tampa and West Palm Beach in Florida, and Dubois, Pennsylvania. Some line maintenance is also carried out at other locations in Florida by employees or third-party contractors. Maintenance checks are performed in accordance with the guidelines established by the aircraft manufacturer. These checks are based on the number of hours or calendar months flown by each individual aircraft.

We employ over 100 maintenance professionals, including engineers, supervisors, technicians and mechanics, who perform airframe maintenance in accordance with maintenance programs that are established by the manufacturer and approved and certified by international aviation authorities. Every mechanic is trained in manufacturer-specified procedures and goes through our rigorous in-house training program. Each of our mechanics is licensed by the Federal Aviation Authority ( FAA ). Our safety and maintenance procedures are reviewed and periodically audited by the FAA. We have received the FAA Diamond Award, the highest level of recognition for maintenance training, for eight consecutive years.

We have agreements for maintaining our engines, propellers, landing gears and avionics with third-party contractors. Our engines are maintained under a long-term agreement with a third party provider, which provides for engine maintenance under a fleet management program.

### ***Pricing and Revenue Management***

We believe effective revenue management, particularly during peak periods, contributes to our strong operating performance. We are responsible for setting prices in local markets and our code share partners are responsible for setting prices in connecting markets. We try to maximize the overall revenue of our flights by utilizing certain revenue management policies. Our revenue management systems and procedures enable us to understand markets, anticipate customer demand and respond quickly to revenue enhancement opportunities.

The number of seats offered at each fare is established through a continual process of forecasting and analysis. Generally, past booking history and seasonal trends are used to forecast anticipated demand. These historical forecasts are combined with current bookings, upcoming events, competitive pressures and other factors to establish a mix of fares designed to maximize revenue. This allows us to balance loads and capture more revenue from existing capacity.

### ***Seasonality***

Our business is subject to substantial seasonality, primarily due to leisure and holiday travel patterns, particularly in the Bahamas. Traditionally, we experience the strongest demand from February to July, and the weakest demand from August to October, during which period we typically suffer operating losses. As a result, our operating results for a quarterly period are not necessarily indicative of operating results for an entire year, and historical operating results are not necessarily indicative of future operating results. Our results of operations generally reflect this seasonality. Our operating results are also impacted by numerous other cycles and factors that are not necessarily seasonal.

***Government Regulation***

All interstate air carriers, including Gulfstream, are subject to regulation by the Department of Transportation ( DOT ), the FAA and other governmental agencies. Regulations promulgated by the DOT primarily relate to economic aspects of air service. The FAA requires operating, air worthiness and other certificates and certain record-keeping procedures. FAA approval is required for personnel who engage in flight, maintenance or operating activities and flight training and retraining programs. Generally, governmental agencies enforce their regulations through certifications, which are necessary for the continued operations of Gulfstream, and proceedings, which can result in civil or criminal penalties or revocation of operating authority. The FAA can also issue maintenance directives and other mandatory orders relating to, among other things, grounding of aircraft, inspection of aircraft, installation of new safety-related items and the mandatory removal and replacement of aircraft parts.

We believe Gulfstream is operating in compliance with FAA regulations and holds all necessary operating and airworthiness certificates and licenses. We incur substantial costs in maintaining current certifications and otherwise complying with the laws, rules and regulations to which Gulfstream is subject. Our flight operations, maintenance programs, record keeping and training programs are conducted under FAA-approved procedures. We do not operate at any airports where the FAA has restricted landing slots.

All air carriers are required to comply with federal laws and regulations pertaining to noise abatement and engine emissions. All air carriers are also subject to certain provisions of the Federal Communications Act of 1934, as amended, because of their extensive use of radio and other communication facilities. Gulfstream is also subject to certain other federal and state laws relating to protection of the environment, labor relations and equal employment opportunity. We believe that Gulfstream is in compliance in all material respects with these laws and regulations.

### ***Safety and Security***

We are committed to the safety and security of our passengers and employees. Since the September 11, 2001 terrorist attacks, Gulfstream has taken many steps, both voluntarily and as mandated by governmental agencies, to increase the safety and security of our operations. Some of the safety and security measures we have taken, along with our code share partners, include: aircraft security and surveillance, positive bag matching procedures and enhanced passenger and baggage screening and search procedures. We are committed to complying with future safety and security requirements.

### ***Charter Services***

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

Pursuant to a services agreement between Gulfstream and GAC, Gulfstream provides use of its aircraft and flight crews at the option of GAC, as well as Gulfstream's name, insurance, and service personnel, including passenger, ground handling, security, and administrative. Gulfstream also maintains the financial records for GAC. Gulfstream receives 75% of the operating profit generated by GAC's Cuban charter operation.

In June 2006, Gulfstream began charter services under a long-term subcontract with Computer Sciences Corporation to operate daily flights between West Palm Beach and Andros Town, Bahamas. This contract provides for approximately two to three daily round trips and had an initial period of 21 months from inception, with extensions up to an additional 12 years. The latest 2-year extension was signed on February 8, 2008. The contract is structured as a fixed-fee arrangement, with adjustments for market fuel prices. It further specifies performance standards, as well as bonus payments for exceeding those standards. As part of this agreement, Gulfstream leases two B1900D aircraft to support the operation.

In preparation for this operation, Gulfstream obtained certification from the Commercial Airline Review Board of the U.S. Department of Defense ( DOD ). Having this certification could have the effect of increasing the number of opportunities for Gulfstream to provide additional charter flights to the DOD.

Gulfstream also provides on-demand passenger charter services based on aircraft availability.

## **The Academy**

The Academy offers training programs for pilots holding commercial, multi-engine, and instrument certifications. Pilots with these ratings are qualified to fly commercial aircraft but seek to improve their marketability by accumulating additional training and flying time. The Academy enhances our student's career prospects by providing them with the training and experience necessary to obtain pilot positions with commercial airlines.

Traditionally, pilots can work as flight instructors for up to two years to gain this additional training and flying time. The Academy offers an alternative to this traditional means of gathering additional flight experience. By enrolling in the Academy, students are able to more quickly accumulate the qualifications demanded by the commercial airlines. A number of U.S. airlines accept Academy graduates with a lower total flight time than these airlines require of other newly hired pilots, reflecting the value they place on the Academy's training. The Academy graduates have also experienced a high success rate in completing training at airlines, which translates into cost savings for the airlines.

The principal program offered by the Academy is the First Officer Program, which is a comprehensive program designed to prepare pilots for their commercial airline careers. The program entails a train to proficiency concept, typically resulting in well over 500 hours of training time, including ground school, simulator time and observation flights. This first portion of the program can be completed in three months. The second portion of the program involves up to 400 hours of FAA Regulation Part 121 commercial airline flight hours as a First Officer at Gulfstream. FAA Regulation Part 121 established operating standards and is the principal operating regulation applicable to all major US airlines. Gulfstream relies on the Academy as its preferred source of pilots, and nearly all of our permanent pilots are graduates of the First Officer Program.

The Academy also provides training services to Gulfstream. While the Academy holds a FAA Part 142 certificate, enabling us to operate a flight training center on behalf of other airlines, we presently do not provide any training services to other airlines.

The Academy employs approximately four full-time flight and ground instructors. The Academy's instructors have, on average, been providing training for approximately 15 years each and have cumulatively amassed in excess of 63,000 actual flight hours. The Academy enrolled 80 and 64 students in 2007 and 2008 respectively. The Company estimates that 99% were or will be hired by airlines after graduation, including those hired by Gulfstream. The Academy does not make loans to our students, but we do have arrangements with several financial institutions to facilitate the financing of students' tuition.

The Academy's training facility in Fort Lauderdale has several ground school classrooms, a series of flight training devices used for procedural training and cockpit familiarization, as well as two non-motion flight simulators, one of which is for B1900D aircraft training. The Academy contracts for full-motion flight simulators at facilities in Atlanta, Georgia, Orlando, Florida, and Fort Pierce, Florida.

### **Ground Operations**

In the Bahamas, we lease ticket counters, check-in and boarding and other facilities and Gulfstream's employees provide substantially all of the operations services.

In Key West, Florida, we lease our facilities and Gulfstream's employees provide operations services. At all other Florida airports, Gulfstream contracts out all or a portion of our ground operations. From time to time, Gulfstream reviews these arrangements and evaluates the most economical operations structure.

In the markets we serve from Continental's Cleveland hub, we lease ticket counters, check-in and boarding and other facilities, and Gulfstream's employees provide substantially all of the operations services. We also lease gate and ramp space in Dubois and Franklin, Pennsylvania, as well as a 20,000 square foot hangar in Dubois.

### **Insurance**

We maintain insurance policies that we believe are of types customary in the industry and in amounts we believe are adequate to protect against material loss. These policies principally provide coverage for public liability, passenger liability, baggage and cargo liability, property damage, including coverage for loss or damage to our flight equipment, and workers' compensation insurance. We cannot assure, however, that the amount of insurance we carry will be sufficient to protect us from a material loss.

### **Environmental Matters**

We are subject to various federal, state, local and foreign laws and regulations relating to environmental protection matters. These laws and regulations govern such matters as environmental reporting, storage and disposal of materials and chemicals and aircraft noise. We are, and expect in the future to be, involved in environmental matters and conditions at, or related to, our properties, but we do not expect the resolution of any such matters to have a material adverse effect on the Company's operations. We are not currently subject to any material environmental cleanup orders or actions imposed by regulatory authorities. We are not aware of any active material environmental investigations related to our assets or properties.

## Raw Materials and Energy

Fuel costs are a major component of our operating expenses. We contract with World Fuel Services to provide approximately half of our fuel, principally for international destinations. Most of our domestic fuel consumption is provided by Continental. The following chart summarizes our fuel consumption and costs:

	<b>Years Ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
Gallons consumed, in thousands	10,729	8,479
Total cost, in thousands (1)	\$ 24,912	\$ 28,452
Average price per gallon (2)	\$ 2.32	\$ 3.36
Percent of airline revenue (3)	24.7 %	30.2 %

(1)

Total cost excludes into-plane service fees.

(2)

Average price per gallon excludes into-plane service fees.

(3)

Includes into-plane service fees.

Fuel costs are extremely volatile, as they are subject to many global economic and geopolitical factors that we can neither control nor accurately predict. Significant increases in fuel costs would have a material adverse effect on our operating results.

On a purchase-order basis with World Fuel Services, we purchase bonded fuel for our international flights, which are exempt from federal excise taxes. Therefore, our fuel costs may not be directly comparable to costs incurred by other airlines. Gulfstream has, from time to time, implemented limited fuel cost management programs in the form of pre-ordering of specific quantities of fuel at specific locations at then-market rates. These cost management programs have not had a material impact on our financial results.

In the past, we have not experienced difficulties with fuel availability and we currently expect to be able to obtain fuel at prevailing market prices in quantities sufficient to meet our future needs. Pursuant to our contract flying arrangements with our code share partners, we will bear the economic risk of fuel price fluctuations.

Gulfstream is a party to derivative instruments for the purpose of hedging the risks of increases in jet fuel prices through February 2009 covering approximately 20% of its estimated fuel usage. These fuel hedge contracts were established effective September 1, 2008 as a requirement of a financing completed at that time.



Gulfstream recognized a loss on settled hedges of \$340,000 for 2008. At December 31, 2008, it recognized unrealized losses of \$314,000 on outstanding fuel hedge contracts encompassing 168,000 gallons of jet fuel through February 2009 at a fixed price of \$3.37 per gallon. The realized loss as of February 28, 2009 on contracts open as of December 31, 2008 amounted to \$332,000. We are not a party to any derivative or other arrangement designed to hedge against or manage the risk of an increase in fuel prices subsequent to February 2009.

### **Trademarks and Trade Names**

Our flights are operated under the names of our code share partners, including Continental, United Airlines, Northwest Airlines, and Copa Airlines. Because we do not operate scheduled flights under our trade names, we have not registered any trademarks or trade names.

### **Employee and Labor Relations**

As of December 31, 2008, we had 554 full time employees, of which 544 were employed by Gulfstream and 10 were employed by the Academy. Of the 544 employees of Gulfstream, 170 are union employees.

As of December 31, 2008, Gulfstream employs the following:

#### **Classification**

Pilots	170
Station personnel	198
Maintenance personnel	125
Administrative and clerical personnel	9
Management	16
Other flight operations	26
Total employees	544

Gulfstream's tenured pilots are represented under a collective bargaining agreement with the Teamsters Union. A new agreement was ratified by the members in June 2006 and continues through June 2009. During 2008, we eliminated over twenty flight attendant positions as a result of our sale of our eight Embraer aircraft. At this point, no other employees are represented by unions. We have never experienced a work stoppage and no labor disputes, strikes or labor disturbances are currently pending or threatened against us. We believe we have good relations with our union employees at each of our facilities.

As of December 31, 2008, the Academy employed six full-time administrative employees and four full-time flight and ground instructors. None of our Academy employees are represented by labor unions.

## **Item 1A.**

### **Risk Factors**

An investment in our common stock is risky. You should carefully consider the following risks, as well as the other information contained in this Form 10-K, before investing. If any of the following risks actually occurs, our business, business prospects, financial condition, cash flow and results of operations could be materially and adversely affected. In this case, the trading price of our common stock could decline, and you might lose part or all of your investment.

We may amend or supplement the risk factors described below from time to time by other reports we file with the SEC in the future.

### **Risks Related To Our Industry**

#### ***The airline industry is unpredictable.***

The airline industry has experienced tremendous challenges in recent years and will likely remain volatile for the foreseeable future. Among other factors, the financial challenges faced by major carriers, including Delta Airlines, United Airlines and Northwest Airlines, and increased hostilities in the Middle East and other regions have significantly affected, and are likely to continue to affect, the U.S. airline industry. These conditions have resulted in declines and shifts in passenger demand, increased insurance costs, volatile fuel prices, increased government regulations and tightened credit markets, all of which have affected, and will continue to affect, the operations and financial condition of participants in the industry, including us, major carriers (including our code share partners), competitors and aircraft manufacturers. These industry developments raise substantial risks and uncertainties which will affect us, major carriers (including our code share partners), competitors and aircraft manufacturers in ways that we currently are unable to predict.

#### ***The airline industry is subject to the impact of terrorist activities or warnings.***

The terrorist attacks of September 11, 2001 and their aftermath negatively impacted the airline industry in general, including our operations. In particular, the primary effects experienced by the airline industry included a substantial loss of passenger traffic and revenue. While airline passenger traffic and revenue have recovered since the terrorist

attacks of September 11, 2001, additional terrorist attacks could have a similar or even more pronounced effect. Even if additional terrorist attacks are not launched against the airline industry, there will be lasting consequences of the September 11, 2001 attacks, including increased security and insurance costs, increased concerns about future terrorist attacks, increased government regulation and airport delays due to heightened security. Additional terrorist attacks or warnings of such attacks, and increased hostilities or prolonged military involvement in the Middle East or other regions, could negatively impact the airline industry, and result in decreased passenger traffic and yields, increased flight delays or cancellations associated with new government mandates, as well as increased security, fuel and other costs. There can be no assurance that these events will not harm the airline industry generally or our operations or financial condition in particular.

***Our operations may be adversely impacted by increased security measures mandated by regulatory authorities.***

Because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports significantly increased their rates and charges to air carriers, including us, and may do so again in the future. On November 19, 2001, the U.S. Congress passed, and the President signed into law, the Aviation and Transportation Security Act, also referred to as the Aviation Security Act. This law federalized substantially all aspects of civil aviation security and created the Transportation Security Administration ( TSA ) to which the security responsibilities previously held by the Federal Aviation Administration ( FAA ) were transitioned. The TSA is an agency of the Department of Homeland Security. The Department of Homeland Security and the TSA and other agencies within the Department of Homeland Security have implemented numerous security measures, including the passing of the Aviation Security Act, that affect airline operations and costs, and are likely to

implement additional measures in the future. The Department of Homeland Security has announced greater use of passenger data for evaluating security measures to be taken with respect to individual passengers, expanded use of federal air marshals on flights (thus displacing revenue passengers), investigating a requirement to install aircraft security systems (such as active devices on commercial aircraft as countermeasures against portable surface to air missiles) and expanded cargo and baggage screening. Funding for airline and airport security required under the Aviation Security Act is provided in part by a \$2.50 per segment passenger security fee for flights departing from the U.S., subject to a \$10 per roundtrip cap; however, airlines are responsible for costs incurred to meet security requirements beyond those provided by the TSA. There is no assurance this fee will not be raised in the future as the TSA's costs exceed the revenue it receives from these fees. Similarly, we could be adversely affected by any implementation of stricter security measures by the Bahamian government. We cannot provide assurance that additional security requirements or security-related fees enacted in the future will not adversely affect us financially.

***The airline industry is heavily regulated.***

All interstate airlines are subject to regulation by the Department of Transportation (the DOT), the FAA and other governmental agencies. Regulations promulgated by the DOT primarily relate to economic aspects of air service. The FAA requires operating, air worthiness and other certificates; approval of personnel who may engage in flight, maintenance or operation activities; record keeping procedures in accordance with FAA requirements; and FAA approval of flight training and retraining programs. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not have a material adverse effect on our operations. We incur substantial costs in maintaining our certifications and otherwise complying with the laws, rules and regulations to which we are subject. A decision by the FAA to ground, or require time-consuming inspections of, or maintenance on, all or any of our aircraft for any reason may have a material adverse effect on our operations. In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations. From time to time, various airports throughout the country have considered limiting the use of smaller aircraft, such as our aircraft, at such airports. The imposition of any limits on the use of our aircraft at any airport at which we operate could have a material adverse effect on our operations. Because we operate only one type of aircraft and have our operations centered at Fort Lauderdale Airport, we are particularly susceptible to any such limitations.

***The FAA may change its method of collecting revenues.***

The FAA funds its operations largely through a tax levied on all users of the system based on ticket sales as well as a tax on fuel. As the airline industry changes, the trust fund that provides funding for the FAA's capital accounts and all or some portion of its operations has experienced an increase in its costs without a corresponding rise in its revenue such that in its fiscal 2004, the FAA's costs exceeded its revenues by more than \$4 billion. Further, the existing authority for the current FAA taxing system expired on September 30, 2007. After almost two years of short-term extensions and continuing resolutions, the Subcommittee on Aviation of the House Committee on Transportation and Infrastructure is presently conducting hearings concerning the FAA. The committee is hoping to have a long-term funding law in place this year. At times during this reauthorization process, eliminating or amending the current tax system and implementing user fees have been discussed that could cause us to incur potentially significant additional expenses. There can be no assurance that the final version of the FAA reauthorization bill would exempt small commercial aircraft such as those operated by Gulfstream from these new charges. If such a user fee or tax rate increase is implemented, we may not be able to pass this increased expense on to our customers. Such an expense could have a material adverse impact on our ability to conduct business.

A Senate draft version of the FAA Reauthorization Bill has proposed a \$25 per-flight fee be charged on all flights, regardless of aircraft size. The recently passed House version of the Bill does not include such a fee.

***The airline industry is characterized by low profit margins and high fixed costs.***

The airline industry is characterized generally by low profit margins and high fixed costs, primarily for personnel, debt service and rent. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing could have a disproportionate effect on an airline's operating and financial results. Accordingly, a minor shortfall in our expected revenue levels could harm our business.

***The airline industry is highly competitive.***

In general, the airline industry is highly competitive. Gulfstream not only competes with other regional airlines, some of which are owned by or operated as code share partners of major airlines, but we also face

competition from low cost carriers and network airlines on many of our routes. One of our primary competitors in the Bahamas market, Bahamasair, is owned by the government of the Bahamas and receives substantial subsidies to fund operating losses. The receipt of these subsidies may reduce the airline's requirement to take necessary actions to improve profitability, including raising prices to offset fuel costs. Gulfstream also competes with alternative forms of transportation, such as charter aircraft, automobiles, commercial and private boats and trains.

Barriers to entry in most of Gulfstream's markets are limited, and some of its competitors are larger and have significantly greater financial and other resources. Moreover, federal deregulation of the industry allows competitors to rapidly enter markets and to quickly discount and restructure fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats.

### **Risks Related To Our Business**

#### ***We have substantial fixed obligations.***

As of December 31, 2008, we had \$5.1 million of long-term debt and related warrant liability. In addition, we have lease payments of approximately \$5.7 million per year on our fleet of 23 B1900D aircraft, as well as restructured creditor obligations of \$6.6 million for the return of engines borrowed from the lessor, and other matters, payable over the next several years.

Throughout 2008, we faced substantial operating and liquidity challenges. We responded by selling assets, raising additional capital, and restructuring creditor obligations. We believe we are now positioned to benefit from the fundamental improvements that were implemented or occurred during 2008, including lower and more stable jet fuel prices; higher average fares and increased fees for excess baggage; substantially reduced lift capacity to equate to declining demand; structural cost reductions throughout the organization; and the cost efficiency of a single aircraft fleet. Based on these factors, we believe we can fund our operations and obligations for the next twelve months from cash on hand and cash flow from operations. However, there can be no assurance that our operations will generate sufficient cash flow to service our debt and lease obligations on a longer-term basis, especially given the current evidence of a rapidly weakening global and domestic economy and the potential for continued volatility in the price of jet fuel. The size of our debt and lease obligations could negatively affect our financial condition, results of operations and the price of our common stock.

#### ***Our recently issued debentures and warrants create additional risks and obligations.***

In September 2008, we consummated a financing in which we issued debentures for \$5.1 million ( Senior Debentures ) and a warrant to purchase 578,870 shares of common stock ( Senior Warrant ) to Shelter Island Opportunity Fund, LLC and debentures for \$1.0 million ( Junior Debenture ) and a warrant to purchase 225,000 shares of common stock to Gulfstream Funding, LLC ( Junior Warrant ). As a result of this financing, we face additional risks and uncertainties, including those relating to the floating interest rate on the Senior Debenture, the financial covenants of the Senior Debenture, the repayment of the Senior Debenture and Junior Debenture and the repurchase of the Senior Warrant.

The Senior Debenture bears interest at the higher of a fixed rate of 11% or a floating rate of prime plus 4%. A significant increase in the prime rate could cause our interest expense to increase and might impair our ability to service this debt. In addition, the Senior Debentures subject the Company to certain covenants, including covenants that we have (i) consolidated minimum quarterly EBITDA starting in the quarter ending December 31, 2008, (ii) six month EBITDA averages starting in the six months ending June 30, 2011, (iii) minimum monthly accounts receivable

balance of \$3.5 million, and (iv) minimum monthly cash balance of \$750,000. If we are not able to comply with these covenants, we would be in default under the Senior Debenture and the holder could elect to accelerate our repayment obligation. On September 30, 2008, we were in violation of the covenant to maintain a minimum monthly accounts receivable balance of \$3.5 million, with an accounts receivable balance on such date of \$3.1 million. For the quarter ended December 31, 2008, we were in violation of the covenant for consolidated minimum quarterly EBITDA. Shelter Island Opportunity Fund, LLC granted one-time waivers with respect to non-compliance with these financial covenants.

The debenture and the repurchase obligation associated with the Senior Warrant represent significant obligations for us and we may not be able to make all of the required payments. The Senior Debenture requires monthly payments of principal ranging from \$75,000 to \$175,000 beginning on December 31, 2008, with the remaining principal amount of \$750,000 due upon maturity, and the Junior Debenture requires payment of the principal, to the extent not prepaid, upon maturity. In addition, the holder of the Senior Warrant may, at its option,

require us to repurchase the common stock issued upon exercise of the warrant for \$3,000,000 at any time after the earlier of the repayment in full of the Senior Debenture or September 2011, until August 2014. We may not have sufficient liquidity to make such payments or repurchase, or such payments or repurchase may significantly impair our liquidity.

***Sales of a substantial number of shares of our common stock in the public market, or the perception that this may occur, may depress the market price of our common stock.***

As a result of issuing the Senior Warrant, the Junior Warrant and the Junior Debenture in September 2008, we may be required to issue an additional 1,078,870 shares of our common stock, representing 36% of the outstanding equity as of March 30, 2009. Further, the Senior Warrant includes an adjustment provision that could require us to issue a greater number of shares to Shelter Island under certain circumstances. The shares issuable upon exercise of the Senior Warrant and the Junior Warrant and conversion of the Junior Debenture represents a significant percentage of our presently outstanding common stock and the issuance of such shares would result in dilution to our current stockholders and could cause the market price of our common stock to decline. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

***We would be adversely affected by the loss of key personnel.***

Our success is dependent upon the continued services of our management team. Our executives have substantial experience and expertise in our business and have made significant contributions to our growth and success. The loss of one of our executives or any other key employees (including the senior management team of the Airline and the Academy) could adversely affect our business, financial condition or results of operations. We do not maintain key-man life insurance on our management team.

***Expansion of operations could result in operating losses.***

We are actively seeking opportunities to grow by adding new routes, aircraft, alliance partners, or by acquiring other regional airlines. These opportunities will likely include operating in areas away from our current Florida base. For example, we redeployed certain assets to profitable routes by initiating service in September 2008 between Continental's Cleveland hub and five smaller cities in Pennsylvania, New York and West Virginia in conjunction with Essential Air Service routes awarded by the Department of Transportation. Similar material increases in the scope or scale of our operations could lead to integration difficulties, which could result in short and/or long-term operating losses.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud and, as a result, our business could be harmed and current and potential stockholders could lose confidence in us, which could cause our stock price to fall.***

We are required to perform the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Auditor attestation requirements of management's assessment will first apply to us for our fiscal year ending December 31, 2009. As a result, we expect to incur substantial additional expenses and diversion of management's time. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their effect on our operations since there is limited precedent available by which to measure compliance adequacy. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we may not be able to accurately report our financial results or prevent fraud and might be subject to sanctions or investigation by regulatory



authorities such as the SEC or the NYSE Amex. Any such action could harm our business or investors' confidence in us, and could cause our stock price to fall.

### **Risks Related To Gulfstream**

#### ***Gulfstream is dependent on our code share relationships.***

Gulfstream depends on relationships created by code share agreements with Continental, United and Northwest for a significant portion of our revenues. Currently, passengers that have connected from Continental, United and Northwest account for approximately 22%, 8% and 7% of our passenger revenue, respectively. Additionally, virtually all of our local, or non-connecting, traffic is booked through Continental's reservation system. Any material modification to, or termination of, our code share agreements with any of these partners could have a material adverse effect on our financial condition and the results of operations. Each of the code share agreements contains a number of grounds for termination by our partners, including failure to meet specified

performance levels. Further, these agreements limit our ability to enter into code share agreements with other airlines.

Gulfstream's code share partners may expand their direct operation of regional jets, thus limiting the expansion of our relationships with them. A decision by any of Gulfstream's code share partners to phase out Gulfstream's contract-based code share relationships or enter into similar agreements with one or more of Gulfstream's competitors could have a material adverse effect on Gulfstream's business, financial condition or results of operations.

Also, our code share partners may be restricted in increasing the level of business that they conduct with Gulfstream, thereby limiting our growth. Union scope clauses at major airlines may limit or prohibit certain types of code share operations, including those by Gulfstream.

***Gulfstream is dependent on the financial strength of our code share partners.***

Gulfstream is directly affected by the financial and operating strength of its code share partners. In the event of a decrease in the financial or operational strength of any of the code share partners, such partner may be unable to make the payments due to Gulfstream under the code share agreement. It is possible that if any of the code share partners file for bankruptcy, Gulfstream's code share agreement with such partner may not be assumed in bankruptcy and could be modified or terminated. Two of our code share partners, United Airlines and Northwest Airlines, have recently emerged from Chapter 11 reorganization. There was no impact to the code share agreement as a result of these reorganizations.

***We operate our code share relationships as revenue-sharing arrangements.***

Under the revenue sharing, or pro rate, arrangements that we have in place with our code share partners, we bear substantially all costs associated with our flights. Because we are responsible for such costs, factors such as rising fuel costs, increases in operating expenses and decreases in ticket prices or passenger loads could cause our profits to decrease and could have a material adverse effect on our financial condition or results of operations.

***The availability of additional and/or replacement code share partners is limited and airline strategic consolidations could have an impact on operations in ways yet to be determined.***

The airline industry has undergone substantial consolidation, including the recent merger of Delta Airlines and Northwest, and it may in the future undergo additional consolidation. Other developments include domestic and international code share alliances between major carriers, such as the SkyTeam Alliance, that currently includes Delta Airlines, Continental and Northwest, among others, and the Star Alliance, that currently includes United Airlines and US Airways, among others, and to which Continental has chosen to move effective in October 2009. Any additional consolidation or significant alliance activity within the airline industry could limit the number of potential partners with whom Gulfstream could enter into code share relationships and materially adversely affect our relationship with our current code share partners.

There is no assurance that our relationship with our code share partners would survive in the event that any such code share partner merges with another airline.

Similarly, the bankruptcy or reorganization of one or more of our competitors may result in rapid changes to the identity of our competitors in particular markets, a substantial reduction in the operating costs of our competitors or the entry of new competitors into some or all of the markets we serve. We are unable to predict exactly what effect, if any, changes in the strategic landscape might have on our business, financial condition and results of operations.

***There are constraints on our ability to establish new operations to provide airline service to major airlines other than our code share partners.***

Our code share agreement with Continental requires that we seek their consent prior to establishing new code share agreements, subject to limited exceptions, as well as prior to acquiring another regional carrier. In the absence of such consent, we would have to establish a new operating subsidiary, separate from Gulfstream, which would require a substantial expenditure of management time and Company resources.

Additionally, pursuant to our code share agreement with Northwest, we may only provide airline service to other major airlines using aircraft certificated as having (1) less than 60 seats and (2) a maximum gross takeoff weight of less than 70,000 pounds (or such greater seat or weight limits as may be established under Northwest's collective bargaining agreement with its pilots).

***Fluctuations in fuel costs could adversely affect our operating expenses and results.***

Aircraft fuel consumes a significant portion of our airline revenue (24.7% for 2007 and 30.6% for 2008). The price of aircraft fuel is unpredictable and has increased significantly in recent periods based on events outside of our control, including geopolitical developments, regional production patterns, environmental concerns and financial speculation. Because of the effect of these events on the price and availability of aircraft fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty. We cannot assure you increases in the price of fuel can be offset by higher revenue. We carry limited fuel inventory and we rely heavily on our fuel suppliers. We cannot assure you we will always have access to adequate supplies of fuel in the event of shortages or other disruptions in the fuel supply. Price escalations or reductions in the supply of aircraft fuel will increase our operating expenses and could cause our operating results and net income to decline. Additionally, price escalations or reductions in the supply of aircraft fuel could result in the curtailment of our service. Some of our competitors may be better positioned to obtain fuel in the event of a shortage.

***Our business is subject to substantial seasonal and cyclical volatility.***

Gulfstream's business is subject to substantial seasonality, primarily due to leisure and holiday travel patterns, particularly in the Bahamas. Traditionally, we experience the strongest demand from February to July, and the weakest demand from August to October, during which period we typically suffer operating losses. As a result, our operating results for a quarterly period are not necessarily indicative of operating results for an entire year, and historical operating results are not necessarily indicative of future operating results. Our results of operations generally reflect this seasonality. Our operating results are also impacted by numerous other cycles and factors that are not necessarily seasonal. These factors include the extent and nature of fare changes and competition from other airlines, changing levels of operations, national and international events, fuel prices and general economic conditions, including inflation. Because a substantial portion of both personal and business airline travel is discretionary, the industry tends to experience adverse financial results in general economic downturns.

***Any inability to acquire and maintain additional compatible aircraft or engines would increase our operating costs and could harm our profitability.***

Our fleet currently consists of 23 B1900D turboprop aircraft, each equipped with two engines. Although our management believes there is an adequate supply of such aircraft and engines available at reasonable prices and terms to meet our current needs, we are unable to predict how long these conditions will continue. Any increase in demand for these aircraft or engines could restrict our ability to obtain additional aircraft, engines and spare parts. Because the aircraft we operate are not in active production, we may be unable to obtain additional suitable aircraft, engines or spare parts on satisfactory terms or at the time needed for our operations or for the implementation of our growth plan. Further, as fuel costs increase or remain at elevated levels, the demand for highly fuel-efficient turboprop aircraft may also increase. This increase in demand could cause a shortage in the supply of reasonably priced turboprop aircraft. Such a decrease could adversely affect our ability to expand our fleet or to replace outdated aircraft, which in turn could hinder our growth or reduce our revenues.

***Maintenance expenses for Gulfstream's fleet could increase.***

Gulfstream's fleet consists of aircraft that were delivered from 1994 to 1996. As the age of our aircraft increases, additional resources may be required to sustain their reliability levels. There can be no assurance that such additional resources will not be material.

***Any inability to extend the lease terms of our existing aircraft or obtain financing for additional aircraft could adversely affect our operations.***

We finance our aircraft through operating lease financing. Most of our existing fleet of B1900Ds are leased from the manufacturer pursuant to a lease agreement that expires in 2010. We have the option to extend the leases for up to 15 aircraft from six to 24 months after the expiration period; however, there can be no assurance that this lease agreement can be extended further on reasonable terms. If we are unable to extend these leases, we also have the option to purchase up to 21 of these aircraft; however, we may not be able to secure financing on acceptable terms, if at all. Further, the B1900D is not currently produced by their manufacturers and there is currently a limited supply of these aircraft. If we are unable to obtain replacement aircraft on economically reasonable terms, our business could be materially adversely affected.

***The airline industry has been subject to a number of strikes which could adversely affect our business.***

The airline industry has been negatively impacted by a number of labor strikes. Any new collective bargaining agreement entered into by other regional carriers may result in higher industry wages and add increased pressure on Gulfstream to increase the wages and benefits of our employees. Furthermore, since each of Gulfstream's code share partners is a significant source of revenue, any labor disruption or labor strike by the employees of any one of Gulfstream's code share partners could have a material adverse effect on our financial condition or results of operations.

***Competitors or new market entrants may introduce smaller aircraft or direct hub flights, which could reduce our competitive advantage.***

We operate relatively small aircraft on short flight routes, which enables us to maintain a low cost structure, giving us a competitive advantage over other airlines. If new market entrants or existing competitors were to introduce smaller aircraft into the marketplace, their costs may be lower than ours, allowing them to gain a competitive advantage. In addition, competitors could introduce new direct flights from their hubs to our key cities which could reduce the competitiveness of our Florida connecting points.

***Gulfstream flies and depends upon only one aircraft type, and would be adversely affected if the FAA were to ground our fleet.***

Gulfstream's fleet consists of 23 B1900D turboprop aircraft. The FAA requires operating, air worthiness and other certificates; approval of personnel who may engage in flight, maintenance or operation activities; record keeping procedures in accordance with FAA requirements; and FAA approval of flight training and retraining programs. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not have a material adverse effect on our operations. We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. A decision by the FAA to ground or require additional time-consuming inspections of or maintenance on the B1900D aircraft for any reason may have a material adverse effect on the operations of Gulfstream.

***Gulfstream is at risk of losses and adverse publicity stemming from any accident involving our aircraft.***

While Gulfstream has never had a fatal crash over our history, it is possible that one or more of our aircraft may crash or be involved in an accident in the future, causing death or injury to individual air travelers and our employees and destroying the aircraft. An accident or incident involving one of Gulfstream's aircraft could involve significant potential claims of injured passengers and others, as well as repair or replacement of a damaged aircraft and our consequential temporary or permanent loss of service. In the event of an accident, our liability insurance may not be adequate to offset the exposure to potential claims and we may be forced to bear substantial losses from the accident. Substantial claims resulting from an accident in excess of related insurance coverage would harm our operational and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that Gulfstream's operations are less safe or reliable than other airlines, which could result in a material reduction in passenger revenues.

***If Gulfstream is forced to relocate our Fort Lauderdale maintenance base, we may not be able to operate as successfully.***

The lease for Gulfstream's principal maintenance facility, located at Hollywood-Fort Lauderdale International Airport, expires at the end of May 2009. We are presently in negotiations with Broward County for an extension of the term of the current lease. Broward County has been considering for some time an improvement to the Hollywood-Fort Lauderdale International Airport that could eventually result in a teardown of Gulfstream's maintenance hangar and require Gulfstream to seek an alternate location for a successor maintenance hangar on the airfield. If Gulfstream is forced to relocate its Fort Lauderdale maintenance operations, it may be prohibitively expensive to relocate and/or construct a maintenance hangar. Gulfstream may not be able to operate as efficiently or successfully from any other location. In addition, it is possible that Gulfstream would be unable to secure a suitable alternative location for our maintenance hangar. Were this to occur, we may be forced to outsource our airplane maintenance for a period of time, which would substantially increase our maintenance costs and cause us significant operational disruptions.

***Hurricanes and other adverse weather conditions could adversely affect Gulfstream's business.***

Our routes in Florida and the Bahamas are particularly susceptible to the impact of hurricanes. In the event that a hurricane threatened one of our departure locations, we may be forced to cancel flights and/or relocate our fleet, either of which would cause us to lose revenues. Related storm damage could also affect telecommunications capability, causing interruptions to our operations. A hurricane could cause markets such as the Florida Keys and the Bahamas to sustain severe damage to their tourist destinations and thus cause a longer-term decrease in the number of persons traveling on our routes.

Additionally, during periods of fog, ice, low temperatures, hurricanes, storms or other adverse weather conditions, flights may be cancelled or significantly delayed. A significant interruption or disruption in service due to adverse weather or otherwise, could result in the cancellation or delay of a significant portion of Gulfstream's flights and, as a result, could have a severe impact on our business, operations and financial performance.

***Gulfstream may experience labor disruptions or an increase in labor costs.***

All of Gulfstream's permanent pilots are represented by International Brotherhood of Teamsters Airline Division Local 747, commonly known as the Teamsters. Our collective bargaining agreement with our pilots expires in 2009. Although we have never had a work interruption or stoppage and we believe our relations with our union and non-union employees are generally good, Gulfstream is subject to risks of work interruption or stoppage and/or may incur additional administrative expenses associated with union representation of our employees. Any sustained work stoppages could adversely affect Gulfstream's ability to fulfill our obligations under our code share agreements and could have a material adverse effect on our financial condition and results of operations.

Additionally, labor costs constitute a significant percentage of our total operating costs. Our labor costs normally constitute approximately 25% of our total operating costs. Any new collective bargaining agreements entered into by other airlines may also result in higher industry wages and increased pressure on us to increase the wages and benefits of our employees. Future agreements with our employees' unions may be on terms that are not economically as attractive as our current agreements nor comparable to agreements entered into by our competitors. Any future agreements may increase our labor costs or otherwise adversely affect us. Additionally, we cannot assure you that the compensation rates that we have assumed will correctly reflect the market for our non-union employees, or that there will not be future unionization of our currently nonunionized groups, which could adversely affect our costs.

***Our business is heavily dependent on the Bahamas markets and a reduction in demand for air travel to this market would harm our business.***

Almost half of our scheduled flights have the Bahamas as either their destination or origin and our revenue is linked primarily to the number of tourists and other passengers traveling to and from the Bahamas. Bahamian tourism levels are affected by, among other things, the political and economic climate in the Bahamas' main tourism markets, the availability of hotel accommodations, promotional spending by competing destinations, the popularity of the Bahamas as a tourist destination relative to other vacation options, and other global factors, including natural disasters or negative publicity due to safety and security. No assurance can be given that the level of passenger traffic to the Bahamas will not decline in the future. A decline in the level of Bahamas passenger traffic could have a material adverse effect on our results of operations and financial condition.

***The current regulation of travel to Cuba is subject to political conditions and a change in the current restrictions could impair our ability to provide flights or minimize our competitive advantage.***



Pursuant to a services agreement that we have entered into with GAC, we may provide the use of our aircraft, flight crews and other services to GAC for its operation of charter flights to Cuba, in exchange for which we receive 75% of the operating profit generated by such charter flights. GAC's flights to Cuba depend on political conditions prevailing from time to time in Cuba and the United States. Currently, GAC is one of a limited number of operators who provide flights from the United States to Cuba. If relations between the United States and Cuba worsen, these flights may be prohibited entirely and we may lose significant revenues due to GAC's inability to operate these flights. Conversely, if relations between the United States and Cuba significantly improve, demand for access to Cuba could increase dramatically, causing the market for flights from the United States to Cuba to be flooded with new entrants. In either scenario, our business, financial condition and results of operations could be materially and negatively affected.

***Cuba's status as a state sponsor of terrorism could impact the sustainability and growth of the Company's flights to Cuba.***

Cuba is listed as a state sponsor of terrorism by the U.S. Department of State, and as such, GAC's flights to Cuba are subject to any restrictions that may be imposed as a result of such designation. GAC could be subjected to regulations and requirements that could increase its costs of operating flights to Cuba, restrict the number or manner of flights it operates to Cuba or prohibit such flights entirely. The Company's business, financial condition and results of operations could be materially and negatively affected by further restrictions, or prohibitions, on doing business in Cuba as a country designated as a state sponsor of terrorism.

***We rely on third parties to provide us with facilities and services that are integral to our business and can be withdrawn on short notice.***

We have entered into agreements with third-party contractors, including other airlines, to provide certain facilities and services required for our operations, such as certain maintenance, ground handling, baggage services and ticket counter space. We will likely need to enter into similar agreements in any new markets we decide to serve. All of these agreements are subject to termination upon short notice. The loss or expiration of these contracts, the loss of FAA certification by our outside maintenance providers or any inability to renew our contracts or negotiate contracts with other providers at comparable rates could harm our business. Our reliance upon others to provide essential services on our behalf also gives us less control over costs and over the efficiency, timeliness and quality of contract services.

***Aviation insurance is a critical safeguard of our financial condition and it might become difficult to obtain adequate insurance at a reasonable rate in the future.***

We believe that our insurance policies are of types customary in the industry and in amounts we believe are adequate to protect us against material loss. It is possible, however, that the amount of insurance we carry will not be sufficient to protect us from material loss. Some aviation insurance could become unavailable, available only for reduced amounts of coverage, or available only at substantially higher rates, which could result in our failing to comply with the levels of insurance coverage required by our code share agreements, our other contractual agreements or applicable government regulations. Additionally, war risk coverage or other insurance might cease to be available to our vendors or might only be available for reduced amounts of coverage.

### **Risks Related To the Academy**

***A decrease in demand for regional airline pilots could adversely impact the Academy's ability to attract and retain students.***

We believe that the employment of our graduates is essential to our ability to attract and retain students. In the event that regional airline industry demand for pilots decreases significantly, it would have a detrimental impact on the ability of our graduates to gain employment, which could have an adverse effect on enrollment.

***The value of the Academy could be diminished if other airlines lower their required minimum flight hours.***

Academy students are pilots who hold commercial, multi-engine and instrument ratings who are qualified to operate commercial flights but who seek to enhance their marketability by logging additional training and flight hours. The Academy offers pilots the opportunity to log flight hours more quickly than the traditional time-building method of

flight instructing. If the airlines who hire Academy graduates were to reduce the number of logged hours that they require new pilots to have, the value of the Academy could be diminished and the Academy could suffer decreased enrollment and a loss of revenues.

***The inability to finance tuition costs could adversely affect the Academy's enrollment.***

Most of our students depend upon some form of third-party financing to finance part or all of the cost of tuition. This type of financing is only available from limited sources. The inability of prospective students to obtain third-party financing could adversely affect our ability to attract and retain students.

***Workplace error by graduates of the Academy could expose us to legal action.***

Many of the pilots that graduate from the Academy are ultimately employed by airlines other than Gulfstream. In the event of an accident caused by one of the graduates of the Academy, it is possible that the Academy could be named as a defendant in any lawsuit that may arise. There can be no assurance that our insurance policy will be adequate to cover the potential losses from any such claims.

## **Risks Related To Our Common Stock**

***We do not pay cash dividends on our capital stock, and we do not anticipate paying any cash dividends in the future.***

We have never paid cash dividends on our capital stock and do not have current plans to do so. Instead, we will likely retain our future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will likely be your sole source of gain for the foreseeable future.

***Our certificate of incorporation and bylaws, and Delaware law contain provisions that could discourage a takeover.***

Our certificate of incorporation and bylaws and Delaware law contain provisions that might enable our management to resist a takeover. As described in Description of Capital Stock Anti-Takeover Provisions of Delaware Law and Charter Provisions , these provisions may:

.  
discourage, delay or prevent a change in the control of our company or a change in our management;

.  
adversely affect the voting power of holders of common stock; and

.  
limit the price that investors might be willing to pay in the future for shares of our common stock.

***Our future operating results may be below securities analysts or investors expectations, which could cause our stock price to decline.***

We may be unable to generate significant revenues or grow at the rate expected by securities analysts or investors. In addition, our costs may be higher than we, securities analysts or investors expect. If we fail to generate sufficient revenues or our costs are higher than we expect, our results of operations will suffer, which in turn could cause our stock price to decline.

Our operating results in any particular period may not be a reliable indication of our future performance. In some future quarters, our operating results may be below the expectations of securities analysts or investors. If this occurs, the price of our common stock will likely decline.

***Potential investors could be prohibited from investing, or choose not to invest, in our common stock because we provide services to a company that operates flights to Cuba.***

Cuba has been identified as a state sponsor of terrorism by the U.S. Department of State. Some potential investors, including certain pension funds or trust funds, may be prohibited from investing, or may choose not to invest, in companies that do business with or in countries designated as sponsors of terrorism. Additionally, unrestricted potential investors may choose not to invest in our common stock based solely or in part on the fact that we provide services to GAC, a company that operates flights to Cuba. The exclusion of such investors may limit the market for

shares of our common stock or negatively impact the further development of an active trading market for our common stock.

***Our common stock has only been publicly traded for a short period of time, and the price of our common stock could fluctuate substantially, possibly resulting in class action securities litigation.***

Before our initial public offering in December 2007, there has been no public market for shares of our common stock. For the three months ended January 31, 2009, the average daily trading volume of our common stock has been approximately 5,636 shares. An active public trading market may not develop or, if developed, may not be sustained. The market price for our common stock in the future will be affected by a number of factors, including:

.

actual or anticipated variations in our results of operations or those of our competitors;

.

changes in earnings estimates or recommendations by securities analysts or our failure to achieve analysts earnings estimates; and

.

developments in our industry.

Because of the low trading volume, our stock price is subject to greater volatility. Following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies. Class action securities litigation, if instituted against us, could result in substantial costs and a diversion of our management resources, which could significantly harm our business.

***We are not in compliance with NYSE Amex continued listing standards***

Our common stock is listed for trading on the NYSE Amex, which is the successor to the American Stock Exchange (the Exchange). The Exchange requires listed companies to meet certain continued listing standards. These standards include specified minimum stockholders equity thresholds when an Issuer sustains net losses over a number of years.

We have not met the threshold set forth in Section 1003(a) of the Exchange's Company Guide because, for the 2008 fiscal year, we have stockholders equity of less than \$2 million and losses from continuing operations and/or net losses in two out of our three most recent fiscal years. As a result, we may receive a formal notice from the Exchange that we have not met this continued listing requirement.

We believe that in the event we receive such a notice that we will be afforded an opportunity to submit a plan to the Exchange setting out the actions that we would take to return to compliance. There can be no assurance that our Plan would be accepted by the Exchange or that, if accepted, we would be able to achieve the results submitted in the Plan.

In the event our common stock was delisted by the Exchange, we would be in breach of a covenant of our loan and security agreement with Shelter Island Opportunity Fund, LLC, and, in the absence of a waiver, the maturity of our secured original issue discount debenture could be accelerated.

***The liability of our officers and directors is limited.***

Our certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- .
- any breach of their duty of loyalty to the corporation or its stockholders;
- .
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- .
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- .
- any transaction from which the director derived an improper personal benefit.

This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our certificate of incorporation and bylaws also provide that we will indemnify our directors, officers, employees and agents for damages arising in connection with their actions in such capacities, subject to certain limitations as set forth in the bylaws.

There is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification will be required or permitted. We are not aware of any pending or threatened litigation or proceeding that might result in a claim for indemnification.

**Item 1B.**

**Unresolved Staff Comments**

None.

**Item 2.**

**Properties**

We currently lease all of our facilities, including our corporate headquarters and largest space (other than hanger and ramp space) near the Fort Lauderdale-Hollywood International Airport. We lease ticket counter space, gate space and operations space at various airports throughout our system, most of which are not under long-term leases.

Our principal facilities and facilities that we lease under long-term leases, and their primary uses and segments are as follows:

<b>Location</b>	<b>Square Feet</b>	<b>Use</b>	<b>Segment</b>
Fort Lauderdale, Florida	12,600	Headquarters, Operations	Gulfstream, Academy
Fort Lauderdale, Florida	3,750	Training Facility	Academy
Fort Lauderdale-Hollywood International Airport, Florida	249,000	Hanger and Ramp Space	Gulfstream
Fort Lauderdale, Florida	8,000	Warehouse, Storage and Shop	Gulfstream
Miami International Airport	1,050	Cuba Operations	Gulfstream
Tampa International Airport	7,613	Gate and Ramp Space	Gulfstream
Venango Regional Airport	684	Gate and Ramp Space	Gulfstream
Dubois Regional Airport	1,133	Gate and Ramp Space	Gulfstream
Dubois Regional Airport	20,000	Hangar	Gulfstream

### **Item 3.**

#### **Legal Proceedings**

In January 2006, a former salesman of the Academy formed a business that the Company believes competes directly with the Academy for student pilots. Thereafter, the former President of the Academy resigned his position at the Academy and the Company believes he became affiliated with the alleged competing business. The Academy has initiated a lawsuit against these former employees, alleging violation of non-competition and fiduciary obligations. The defendants, including the Academy's former President, subsequently filed a counterclaim against the Academy based upon lost earnings and breach of contract. The case is currently set for trial in the second quarter of 2009.

From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. As of the date of this annual report, we were not engaged in any other legal proceedings which are expected, individually or in the aggregate, to have a material adverse effect on us.

### **Item 4.**

#### **Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2008.





## PART II

### Item 5.

#### Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

##### *Market Information*

Our common stock has been traded on the NYSE Amex (formerly, the American Stock Exchange) under the symbol GIA since December 14, 2007. The following table sets forth the high and low closing prices of our common stock for the periods indicated and reported by the NYSE Alternext.

	<b>High</b>	<b>Low</b>
<b>Year Ended December 31, 2008:</b>		
Fourth Quarter	\$ 3.27	\$ 1.00
Third Quarter	\$ 3.75	\$ 0.75
Second Quarter	\$ 5.25	\$ 2.09
First Quarter	\$ 9.04	\$ 4.51
<b>Year Ended December 31, 2007:</b>		
December 14, 2007 to December 31, 2007	\$ 8.80	\$ 7.50

As of March 23, 2009, there were approximately 36 stockholders of record of our common stock, although we believe that there are a significantly larger number of beneficial owners of our common stock. On March 28, 2009, the last reported sale price of our common stock on the NYSE Amex Exchange was \$2.05.

##### *Dividends*

We have not paid cash dividends on our capital stock and we do not anticipate paying any cash dividends in the future. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Additionally, we are party to general agreements that limit our ability to pay dividends. Under our credit facilities, we and our subsidiaries are prohibited from declaring dividends without the consent of our lender. Gulfstream is permitted under its primary aircraft lease agreement to pay dividends only if its average cash position after paying the dividend would equal or exceed \$4,000,000 over the prior twelve month period. In addition, in the event that Gulfstream declares a dividend, Gulfstream has an obligation under the warrant held by Continental to pay Continental cash in an amount equal to what Continental would have been entitled to had it exercised its warrant immediately prior to such dividend. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the board of directors may deem relevant.

***Recent Sales of Unregistered Securities***

None.

***Initial Public Offering and Use of Proceeds from Recent Securities Offerings***

See the discussion of [Liquidity and Capital Resources-Overview](#) under Item 7 of this annual report.

***Repurchase of Equity Securities***

We do not have any programs to repurchase shares of our common stock and no such repurchases were made during the quarter ended December 31, 2008.

**Item 6.****Selected Financial Data**

The following selected historical and pro forma financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations following this section and our financial statements and related notes included in this annual report.

The following table sets forth selected financial data as of and for the years ended December 31, 2007 and 2008. The selected financial data as of and for the years ended December 31, 2007 and 2008 were derived from our audited financial statements. Our audited financial statements as of December 31, 2007 and 2008 are included below under Item 8 of this Form 10-K. The historical results are not necessarily indicative of the operating results to be expected in any future period.

	<b>Year Ended December 31,</b>		<b>Percent</b>
	<b>2007</b>	<b>2008</b>	<b>Change</b>
	<b>(In thousands, except</b>		
	<b>per share data)</b>		
<b>Revenue</b>			
Airline passenger revenue	\$ 104,230	\$ 88,527	-15.1 %
Essential Air Services		2,512	
Academy, charter and other revenue	8,066	14,217	76.3 %
<b>Total Revenue</b>	<b>112,296</b>	<b>105,256</b>	<b>-6.3 %</b>
<b>Operating Expenses</b>			
Flight operations	13,794	13,177	-4.5 %
Aircraft fuel	25,774	30,350	17.8 %
Aircraft rent	6,430	5,593	-13.0 %
Maintenance	24,574	24,478	-0.4 %
Passenger service	23,312	21,759	-6.7 %
Promotion & sales	7,782	6,623	-14.9 %
General and administrative	7,325	7,110	-2.9 %
Depreciation and amortization	3,761	2,754	-26.8 %
Loss on sale of equipment		4,754	
Goodwill impairment	2,391	2,703	13.0 %
Operating Expenses	115,143	119,301	3.6 %
<b>Loss from operations</b>	<b>(2,847 )</b>	<b>(14,045 )</b>	<b>-393.3 %</b>
<b>Non-Operating Income and (Expense)</b>			
Interest expense	(1,146 )	(1,306 )	14.0 %
Loss on extinguishment of debt	(174 )		-100.0 %
Other income	227	43	-81.1 %

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Non-Operating Income and (Expense)		(1,093 )		(1,263 )		15.6 %
<b>Loss before taxes</b>		(3,940 )		(15,308 )		288.5 %
Benefit for income taxes		(834 )		(509 )		-39.0 %
<b>Net loss</b>		(3,106 )		(14,799 )		376.5 %
Net loss per share:						
Basic	\$	(1.50 )	\$	(5.00 )		
Diluted	\$	(1.52 )	\$	(5.00 )		
Shares used in computing net loss per share:						
Basic		2,075		2,957		
Diluted		2,075		2,957		

Earnings per share were calculated as follows:

(In thousands, except share and per share data)	Year Ended December 31,	
	2007	2008
Net loss	(3,106 )	(14,799 )
Effect of GIA warrants	(39 )	
Net loss - diluted	\$ (3,145 )	\$ (14,799 )
Weighted average shares outstanding - basic and diluted	2,075,000	2,957,000
Loss per common share:		
Basic	\$ (1.50 )	\$ (5.00 )
Diluted	\$ (1.52 )	\$ (5.00 )

Annual Operating Statistics (unaudited):	Year Ended December 31,		Percent Change
	2007	2008	
Available seat miles (000's) (1)	289,297	227,386	-21.4 %
Revenue passenger miles (000's) (2)	169,687	127,092	-25.1 %
Revenue passengers carried	858,031	629,563	-26.6 %
Departures flown	70,222	56,598	-19.4 %
Passenger load factor (3)	58.7 %	55.9 %	-4.8 %
Average yield per revenue passenger mile (4)	\$ 0.614	\$ 0.716	16.6 %
Revenue per available seat miles (5)	\$ 0.360	\$ 0.400	11.1 %
Operating costs per available seat mile (6)	\$ 0.385	\$ 0.511	32.8 %
Fuel cost per available seat mile (9)	\$ 0.089	\$ 0.133	49.8 %
Average passenger fare (7)	\$ 121.48	\$ 144.61	19.0 %
Average passenger trip length (miles) (8)	198	202	2.1 %
Aircraft in service (end of period)	35	23	-34.3 %
Fuel cost per gallon (incl taxes)	\$ 2.32	\$ 3.36	44.8 %

1.

Available seat miles or ASMs represent the number of seats available for passengers in scheduled flights multiplied by the number of scheduled miles those seats are flown.

2.

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Revenue passenger miles or RPMs represent the number of miles flown by revenue passengers.

3.

Passenger load factor represents the percentage of seats filled by revenue passengers and is calculated by dividing revenue passenger miles by available seat miles.

4.

Average yield per revenue passenger mile represents the average passenger revenue received for each mile a revenue passenger is carried.

5.

Revenue per available seat mile or RASM represents the average total operating revenue received for each available seat mile.

6.

Operating cost per available seat mile represents operating expenses divided by available seat miles.

7.

Average passenger fare represents passenger revenue divided by the number of revenue passengers carried.

8.

Average passenger trip length represents revenue passenger miles divided by the number of revenue passengers carried.

9.

Fuel cost per available seat mile represents fuel cost divided by the number of available seat miles.

<b>(In thousands)</b>	<b>As of December 31,</b>	
	<b>2007</b>	<b>2008</b>
Working Capital	\$ (13,137 )	\$ (7,747 )
Property and Equipment, net	19,998	2,793
Total Assets	39,421	19,370
Long-Term Debt, net of current portion	6,415	2,849
Total Stockholders' Equity (Deficit)	9,401	(4,665 )





**Item 7.**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion of our financial condition and results of operations in conjunction with the audited financial statements and the notes to those statements included elsewhere in this Form 10-K. The discussion and analysis throughout this report contains certain forward-looking terminology such as believes, anticipates, will, and intends or comparable terminology. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Potential purchasers and current holders of the Company's securities are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by the cautions and risks described herein. See Forward-Looking Statements at the front of this report. You should specifically consider the various risk factors identified in this Form 10-K that could cause actual results to differ materially from those anticipated in these forward-looking statements.*

**Overview**

We operate a scheduled airline, scheduled and on-demand charter services and a flight training academy for commercial pilots.

Our most significant market opportunity relates to the fact that we currently operate in and have targeted future expansion in unserved and underserved short haul markets, which is a growing opportunity for two principal reasons. Many smaller markets are being abandoned by major carriers, as they shift their focus increasingly to international markets and away from domestic markets and hubs. In addition, many smaller markets are also being abandoned by regional airlines, as they continue to gravitate toward larger jet aircraft in the 70-100 seat range, and away from smaller turboprop aircraft. As a result, we will continue to seek opportunities to grow in the expanding number of smaller underserved or unserved markets that are suitable for our fleet of small-capacity aircraft.

Our most significant challenges relate to:

- .
- volatility in the price of aircraft fuel, which accounts for 30.6% of our airline operating expenses;
- .
- a deteriorating economic environment; and
- .
- securing cost-effective maintenance resources, as the average age of our aircraft fleet increases.

Each of our business components is briefly described below.

***Airline***

We began providing air charter service in 1988, and have provided scheduled passenger service in Florida and the Bahamas since 1990. We signed our first major code share agreement with United Airlines in 1994. In 1997,

Gulfstream entered into a cooperative alliance and code share agreement with Continental and has since operated as a Continental Connection carrier. We also have code share agreements with United, Northwest, and Copa Airlines. We estimate that over 60% of our revenue is derived from local point to point traffic within Florida and the Bahamas, with connecting traffic from our code-share partners and other carriers destined primarily for the Bahamas making up the balance. Continental is our largest connecting partner, with passengers connecting to and from Continental flights providing approximately 20% of our revenue. Revenue generated by the airline is classified in our statement of operations as Airline Passenger Revenue.

During September and October 2008, Gulfstream inaugurated service to five communities from Continental Airline's hub in Cleveland, Ohio under the Department of Transportation's Essential Air Service Program, including service to Bradford, Franklin and Dubois in Pennsylvania, as well as Jamestown, New York and Lewisburg, West Virginia. In addition, Gulfstream has taken the opportunity to provide service to routes abandoned by other airlines by utilizing our more efficient turboprop airplanes to replace jet carriers. As such, Gulfstream reallocated capacity within its core Florida and Bahamas route system to proven markets where competitors have reduced or eliminated service.

#### ***Cuba and Other Charter Revenue***

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

Pursuant to a services agreement between Gulfstream and GAC dated August 8, 2003 and amended on March 14, 2006, Gulfstream provides use of its aircraft, flight crews, the Gulfstream name, insurance, and service personnel, including passenger, ground handling, security, and administrative. Gulfstream also maintains the financial records for GAC. Pursuant to the March 14, 2006 amended agreement, Gulfstream receives 75% of the operating profit generated by GAC's Cuban charter operation. Prior to March 14, 2006, Gulfstream received all of the operating profit generated up to a cumulative total of \$1 million, and then 75% thereafter.

Prior to January 1, 2008, operating profit earned under the services agreement had been reported in the statement of operations as Academy, charter and other revenue. The Company had evaluated the applicability of Financial Standards Accounting Board ( FASB ) Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, ( FIN 46 ) to the accounting by the Company of the services agreement between its wholly-owned subsidiary, Gulfstream, and the Cuba charter business operated by GAC. The Company had concluded that compliance with the consolidation or disclosure requirements of FIN 46 as it relates to the Cuba charter business would not materially impact the consolidated financial statements of the Company for periods prior to January 1, 2008.

The Company evaluated the applicability of FIN 46 to its results of operations for periods after January 1, 2008. As a result of the increasing significance of the Cuba charter business to our overall performance, we have consolidated the results of the Cuba charter business as a variable interest entity effective January 1, 2008.

In addition to the Cuba revenue described above, our charter revenues are principally derived from on-demand charter services, sub-service flying for other scheduled airlines and a 15-year agreement with a government subcontractor, subject to two-year renewals, to operate daily flights between West Palm Beach and Andros Town, Bahamas. Revenue and related expenses associated with Gulfstream's charter activity are reported gross as charter revenue and within the appropriate expense categories of the Company's statement of income.

### ***Academy***

The Academy offers training programs for pilots holding commercial multi-engine instrument certifications and at least 190 hours of flying time. Pilots with these ratings are qualified to fly commercial airplanes, but are often unable to find positions with airlines without additional training and flying time. The Academy enhances its students' career prospects by providing them with the training and experience necessary to obtain pilot positions with commercial airlines. The Academy enrolled 80 and 64 students in 2007 and 2008, respectively, virtually all of whom were hired by airlines after graduation, including those hired by Gulfstream. The Academy's revenues are included as Academy, Charter and Other Revenue in our statement of income, and its expenses are included as general and administrative expenses.

### **Current Developments**

For the Company, 2008 was very much a transition year. Late 2007 and early 2008 were characterized by an unprecedented rise in fuel prices, extraordinary engine maintenance expenses on our fleet of Embraer Brasilia aircraft and a rapidly weakening economy. In January 2008, we adopted a revised business plan to avoid a liquidity shortfall, and by the end of 2008 we had achieved the following major objectives:

Sold our fleet of eight Embraer Brasilia aircraft for net proceeds of \$5.1 million, after debt repayment;

Redeployed aircraft to profitable routes, both within our traditional markets and to destinations serviced from Cleveland, Ohio;

Secured \$6.1 million of additional debt capital during the third quarter;

Restructured past-due and future creditor obligations exceeding \$7 million in December 2008;

Increased average fares and initiated excess baggage fees to counter the rising price of jet fuel;

Reduced the complexity of our operations by moving to one fleet type; and

Implemented substantial capacity-related and structural cost reductions throughout the organization.

During the third and fourth quarters of 2008, we completed the sale of our fleet of eight Embraer Brasilia aircraft. As a result of these sales, we raised cash of approximately \$5.1 million, net of expenses and the repayment of \$7.2 million of senior bank debt. In conjunction with the sale of our fleet of eight Embraer Brasilia aircraft, we also restructured our route network, resulting in a 35-40% reduction in our flight capacity (available seat miles), and the elimination of city pairs that were no longer profitable with the extraordinary rise in jet fuel prices through July 2008. We also redeployed aircraft to profitable routes by initiating service in September and October 2008 between

Continental Airline's Cleveland hub and five smaller cities in Pennsylvania, New York and West Virginia as a result of Essential Air Service routes awarded by the Department of Transportation.

We also secured additional capital during the third quarter through the issuance of a \$5.1 million senior secured debenture to an institutional lender, as well as the issuance of a \$1.0 million unsecured debenture to an entity in which members of the Company's Board of Directors own a minority interest. The net proceeds from these debt financings were approximately \$5.0 million and were used to repay \$754,000 of principal and interest outstanding under the Company's revolving credit line, with the balance being used for general corporate purposes.

The final major step to improve our liquidity involved the restructuring of over \$7.0 million in creditor obligations owed primarily to Raytheon Aircraft Credit Corporation ( RACC ), our principal aircraft lessor, and Pratt & Whitney Canada ( P&WC ), our engine maintenance vendor. On December 19, 2008, we entered into a restructuring agreement (the Agreement ) with RACC, as well as an amended engine maintenance agreement with P&WC (the P&WC Agreement ). If we did not complete this multiple-party restructuring, RACC may have declared us in default with respect to our aircraft leases and demanded return of the aircraft, or P&WC may have withheld further engine maintenance services.

The latter half of 2008 was primarily characterized by substantial reductions in capacity and a corresponding decrease in operating costs. The rate of overall cost reductions during the year was not as immediate as our capacity-related revenue reductions, because of the complexities and delays associated with introducing extensive schedule changes, implementing price increases and completing staff reductions and retraining procedures. As a result, our unit operating cost (cost per available seat mile) remained higher than our unit revenue (revenue per available seat mile) throughout most of 2008. Our unit operating costs during 2008 included an unprecedented rise in fuel prices causing an annual increase in fuel cost per available seat mile of 49.8% compared to 2007.

The following factors are expected to have a significant influence on the improvement we expect in our 2009 operating performance compared with our 2008 results:

·  
The price of jet fuel declined dramatically, at a rate even faster than it had escalated, after peaking in July 2008. The price of jet fuel is now lower than it was a year ago. The weakened global economic fundamentals seem to be a stabilizing influence with respect to avoiding the extreme fuel price volatility experienced during 2008, at least for the foreseeable future;

·  
The sale of our Embraer fleet of eight aircraft will result in lower engine maintenance costs in 2009, and will also reduce the complexity and cost associated with flying two different aircraft types;

·  
We reduced our lift capacity (ASMs, or available seat miles) by 35-40% in October 2008 to enable us to balance our capacity to reduced demand resulting from a declining economy;

We substantially increased our average ticket prices;

.

We redeployed assets to profitable routes by initiating service in September 2008 between Continental Airlines Cleveland hub and five smaller cities in Pennsylvania, New York and West Virginia in conjunction with Essential Air Service routes awarded by the Department of Transportation. This revenue source, which is subsidized by the Department of Transportation, is relatively stable especially in a declining economic environment;

.

We added excess baggage fees, consistent with practices adopted throughout virtually the entire airline industry;

.

We implemented substantial capacity-related and structural cost reductions during 2008; and

.

Our cash flow from operations in 2009 and thereafter will benefit from the realization of net operating loss tax carry forwards available in 2009 and subsequent years.

Throughout 2008, we faced substantial internal and external operating and liquidity challenges. We responded by selling assets, raising additional capital, and restructuring creditor obligations. We believe we are now positioned to benefit from the fundamental improvements that were implemented or occurred during 2008, which include lower and more stable jet fuel prices; higher average fares and increased fees for excess baggage; substantially reduced lift capacity to equate to the decline in demand; structural cost reductions throughout the organization; and the cost efficiency of a single aircraft fleet. Based on these factors, we expect to be able to fund our operations and obligations for the foreseeable future from cash flow generated through operations. However, given the risk of a further weakening in the global and domestic economy and the potential for continued volatility in the price of jet fuel, we can make no assurance that we will be able to fund our operations and obligations from internal cash flow generation in the long term.

## Results of Operations

### Comparative Years Ended December 31, 2007 and 2008

As a result of the increasing significance of the Cuba charter business to our overall performance, we have consolidated the results of the Cuba charter business as a variable interest entity for the year ended December 31, 2008 pursuant to the requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. For the year ended December 31, 2008, gross revenue and operating expenses are included in the Consolidated Statement of Operations, and the operating profit of the Cuba charter business is included in consolidated net income. Conversely, for year ended December 31, 2007, the operating profit of the Cuba charter business was included as a component of Revenue, and gross revenue and operating expenses were excluded from the Consolidated Statement of Operations.

The following table sets forth our financial results for the years 2007 and 2008.

	<b>Year Ended December 31,</b>		<b>Percent</b>
	<b>2007</b>	<b>2008</b>	<b>Change</b>
	<b>(In thousands, except per share data)</b>		
<b>Revenue</b>			
Airline passenger revenue	\$ 104,230	\$ 91,039	-12.7 %
Academy, charter and other revenue	8,066	14,217	76.3 %
<b>Total Revenue</b>	112,296	105,256	-6.3 %
<b>Operating Expenses</b>			
Flight operations	13,794	13,177	-4.5 %
Aircraft fuel	25,774	30,350	17.8 %
Aircraft rent	6,430	5,593	-13.0 %
Maintenance	24,574	24,478	-0.4 %
Passenger service	23,312	21,759	-6.7 %
Promotion & sales	7,782	6,623	-14.9 %
General and administrative	7,325	7,110	-2.9 %
Depreciation and amortization	3,761	2,754	-26.8 %
Loss on sale of equipment		4,754	
Goodwill impairment	2,391	2,703	13.0 %
Operating Expenses	115,143	119,301	3.6 %
<b>Loss from operations</b>	(2,847 )	(14,045 )	393.3 %

**Non-Operating Income and (Expense)**

Interest expense	(1,146 )	(1,306 )	14.0 %
Loss on extinguishment of debt	(174 )		-100.0 %
Other income	227	43	-81.1 %
Non-Operating Income and (Expense)	(1,093 )	(1,263 )	15.6 %
<b>Loss before taxes</b>	(3,940 )	(15,308 )	288.5 %
Benefit for income taxes	(834 )	(509 )	-39.0 %
<b>Net loss</b>	\$ (3,106 )	\$ (14,799 )	376.5 %



**Operating Statistics.** The following table sets forth our major operational statistics and the percentage-of-change for the years identified below.

	Year Ended December 31,		Percent Change
	2007	2008	
<b>Annual Operating Statistics (unaudited):</b>			
Available seat miles (000's) (1)	289,297	227,386	-21.4 %
Revenue passenger miles (000's) (2)	169,687	127,092	-25.1 %
Revenue passengers carried	858,031	629,563	-26.6 %
Departures flown	70,222	56,598	-19.4 %
Passenger load factor (3)	58.7 %	55.9 %	-4.8 %
Average yield per revenue passenger mile (4)	\$ 0.614	\$ 0.716	16.6 %
Revenue per available seat miles (5)	\$ 0.360	\$ 0.400	11.1 %
Operating costs per available seat mile (6)	\$ 0.385	\$ 0.511	32.8 %
Fuel cost per available passenger miles (9)	\$ 0.089	\$ 0.133	49.8 %
Average passenger fare (7)	\$ 121.48	\$ 144.61	19.0 %
Average passenger trip length (miles) (8)	198	202	2.1 %
Aircraft in service (end of period)	35	23	-34.3 %
Fuel cost per gallon (incl taxes)	\$ 2.32	\$ 3.36	44.8 %

1.

Available seat miles or ASMs represent the number of seats available for passengers in scheduled flights multiplied by the number of scheduled miles those seats are flown.

2.

Revenue passenger miles or RPMs represent the number of miles flown by revenue passengers.

3.

Passenger load factor represents the percentage of seats filled by revenue passengers and is calculated by dividing revenue passenger miles by available seat miles.

4.

Average yield per revenue passenger mile represents the average passenger revenue received for each mile a revenue passenger is carried.

5.

Revenue per available seat mile or RASM represents the average total operating revenue received for each available seat mile.

6.

Operating cost per available seat mile represents operating expenses divided by available seat miles.

7.

Average passenger fare represents passenger revenue divided by the number of revenue passengers carried.

8.

Average passenger trip length represents revenue passenger miles divided by the number of revenue passengers carried.

9.

Fuel cost per available seat mile represents fuel cost divided by the number of available seat miles.

**Net Income.** The consolidated net loss for the year ended December 31, 2008 was \$14.8 million compared to a net loss of \$3.1 million for the year ended December 31, 2007. Our net loss in 2008 was affected by three significant non-cash charges; (1) a pre-tax \$4.8 million non-recurring charge related to the sale of our fleet of eight Embraer aircraft; (2) a goodwill impairment pre-tax charge of \$2.7 million related to the Academy; and (3) a valuation allowance of \$4.0 million related to the write-down of deferred tax assets.

In terms of operations, our net loss in 2008 was also significantly affected by the unprecedented rise in fuel prices during 2008, as well as increased maintenance expenses related to engine overhaul expenses for our Embraer aircraft.

Our consolidated net loss for 2007 was \$3.1 million and included a goodwill impairment pre-tax charge of \$2.4 million related to the Academy.

**Operating Income.** The consolidated operating loss for 2008 was \$14.0 million compared to an operating loss of \$2.8 million for 2007. The following table identifies the operating profit impact of each of our respective operating components, including, for 2008, a pre-tax \$4.8 million non-recurring charge related to the sale of our fleet of eight Embraer aircraft and a goodwill impairment pre-tax charge of \$2.7 million related to the Academy. In 2007, we recognized a goodwill impairment pre-tax charge of \$2.4 million related to the Academy.



(In thousands)	Year Ended December 31,	
	2007	2008
Airline and charter	3,101	(6,944 )
Academy	(2,422 )	(3,063 )
<b>Total income (loss) from operations</b>	679	(10,007 )
Less: General and administrative	3,526	4,038
<b>Consolidated loss from operations</b>	(2,847 )	(14,045 )

The operating loss of the Airline and charter operation in 2008 was \$6.9 million compared to an operating profit of \$3.1 million in 2007. The year over year decline in profitability resulted primarily from the unprecedented rise in fuel prices during 2008, increased maintenance expenses related to engine overhaul expenses for our Embraer aircraft, and the loss on sale of the aircraft, which were sold during the second half of 2008.

**Loss on Sale of Property and Equipment.** During the third and fourth quarters of 2008, we completed the sale of our fleet of eight Embraer Brasilia aircraft for a total gross purchase price of \$12.8 million. As a result of these sales, we raised cash of approximately \$5.1 million, net of expenses and the repayment of \$7.2 million of senior bank debt during July 2008. As a result of these transactions, the Company recognized a pre-tax loss of \$4.8 million during 2008.

**Impairment Charge.** We review for the impairment of identifiable intangible assets at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill of \$5,094,000 was recorded in connection with the acquisition of the Academy and consisted of the excess of cost over the fair value of net assets acquired.

Operating profits and cash flows of the Academy in 2007 were lower than expected due to the negative impact on enrollment caused by an industry-wide pilot shortage and the resulting lowered hiring minimums required by many regional airlines. Therefore, an impairment charge of \$2.391 million was recognized in the Consolidated Statement of Operations for the year ended December 31, 2007.

Operating profits and cash flows of the Academy in 2008 were lower than expected due to the negative impact on student enrollment caused by industry-wide capacity reductions and pilot furloughs due to high fuel prices and a declining economy. Given these circumstances, the remaining goodwill value was eliminated by recognition of an impairment charge of \$2.7 million in the Consolidated Statement of Operations for the year ended December 31, 2008.

**Revenues.** Consolidated revenue decreased 6.3% to \$105.3 million in 2008 from \$112.3 million in 2007. The overall revenue decrease was due principally to a 21.4 % capacity reduction in 2008 that led to a 15.1% decline in passenger revenue during 2008, offset by the inclusion of \$8.0 million of charter revenue during 2008 resulting from the consolidation of our Cuba charter business as a variable interest entity effective January 1, 2008. During 2007, only the operating profit from the Cuba charter business was included as Charter and other revenue. The following table identifies the revenue contribution from each of our operating components.

<b>(In thousands)</b>	<b>Year Ended December 31,</b>		<b>Percent</b>
	<b>2007</b>	<b>2008</b>	<b>Change</b>
<b>Revenue</b>			
Airline passenger revenue	\$ 104,230	\$ 88,527	-15.1 %
Essential Air Service		2,512	
Charter and other revenue	5,345	5,215	-2.4 %
Cuba charter	836	7,987	855.4 %
Academy	3,768	2,712	-28.0 %
Intercompany revenue elimination	(1,883 )	(1,697 )	-9.9 %
<b>Total Revenue</b>	<b>\$ 112,296</b>	<b>\$ 105,256</b>	<b>-6.3 %</b>

**Airline Passenger Revenue.** Airline passenger revenue decreased 15.1% for 2008 compared to 2007. This decrease was primarily attributable to a 26.6% decrease in the number of passengers carried, partially offset by a 19.0% increase in average fares.

We reduced our available seat mile capacity for 2008 by 21.4% compared to 2007. Our average passenger fare increased during 2008 to \$144.61 from \$121.48 during 2007. Increased fares and excess baggage fees helped to offset higher fuel prices. They also contributed, along with capacity reductions, to a decline in the number of passengers flown.

**Charter, Cuba Operations and Other Revenue.** Revenue from charter and other revenue decreased 2.4% to \$5.2 million for 2008 from \$5.3 million for 2007. Revenue from Cuba charter operations was \$8.0 million for 2008 compared to \$0.8 million for 2007. This overall increase was due primarily to a change in accounting treatment effective January 1, 2008 relating to the consolidation of the Cuba charter business as a variable interest entity. The change resulted in the inclusion of \$8.0 million of revenue for our Cuba charter business for 2008. Conversely, for 2007, only the operating profit of \$0.8 million from the Cuba charter business was included as Revenue.

**Academy Revenue.** Academy revenue decreased 28% for 2008 compared to 2007. The decrease related to a decline in intercompany revenue charged to Gulfstream for pilot training of flight crews due to lower pilot attrition rates, as well as fewer commercial pilot students due to a contraction of demand for pilots within the airline industry.

**Airline Operating Expenses.** The following table presents Gulfstream's operating expenses, before general and administrative expenses and the elimination of intercompany expenses, for 2007 and 2008:

(In thousands)	Annual Operating Costs			Percentage of Airline Revenue	
	2007	2008	Percent Change	2007	2008
Flight operations	\$ 15,677	\$ 14,874	-5.1 %	15.0 %	15.0 %
Aircraft fuel	25,774	30,350	17.8 %	24.7 %	30.6 %
Aircraft rent	6,430	5,593	-13.0 %	6.2 %	5.6 %
Maintenance	24,574	24,478	-0.4 %	23.6 %	24.7 %
Passenger service	23,312	21,759	-6.7 %	22.4 %	22.0 %
Promotion & sales	7,782	6,623	-14.9 %	7.5 %	6.7 %
Loss on sale of equipment		4,754			4.8 %
Depreciation and amortization	3,761	2,754	-26.8 %	3.6 %	2.8 %
Total	\$ 107,310	\$ 111,185	3.6 %	103.0 %	112.3 %

**Flight Operations.** Major components of flight operations expense include salaries for pilots, flight attendants and other operations personnel, as well as pilot training expenses.

Flight operations expenses for 2008 declined by 5.1% to \$14.9 million compared to \$15.7 million for the same period last year. These expense declines were due mostly to capacity reductions instituted during 2008 due to the sale of our Embraer aircraft, as well as lower pilot training expenses during 2008 as pilot turnover abated from higher levels during 2007. Flight operations expenses for 2008 also included \$2.4 million resulting from the consolidation of our

Cuba charter business as a variable interest entity. A similar expense is not included for 2007.

**Aircraft Fuel.** As a result of rising fuel prices during the first half of 2008, our average price for jet fuel for 2008 increased to \$3.36 per gallon, an increase of 44.8% from \$2.32 per gallon for 2007.

The Company is a party to derivative instruments for the purpose of hedging the risks of increases in jet fuel prices through February 2009 covering approximately 20% of its estimated fuel usage. These fuel hedge contracts were established effective September 1, 2008 as a requirement of the lender pursuant to the Securities Purchase Agreement for the issuance of the senior debentures. (See Note 11 to the consolidated financial statements).

The Company recognized a loss on settled hedges of \$340,000 during 2008. At December 31, 2008, the Company had outstanding fuel hedge contracts encompassing 168,000 gallons of jet fuel through February 2009 at a fixed price of \$3.37 per gallon. At December 31, 2008, the Company recognized unrealized losses of \$314,000 on outstanding fuel hedge contracts.

**Aircraft Rent.** Aircraft rent is related to the lease costs associated with our 23 Beech 1900D aircraft. Lease expenses for 2008 declined by 13.0% to \$5.6 million compared to \$6.4 million for 2007. The lease cost decreased primarily due to four aircraft that were taken out of service during 2008.

**Maintenance and repairs expense.** Major components of maintenance and repair expense include salaries and wages, repair parts and materials, and expenses incurred from third party service providers required to maintain our aircraft engines.

During 2008, maintenance expense decreased 0.4% to \$24.5 million from \$24.6 million for 2007. Maintenance expense increased as a percentage of airline revenue primarily as a result of increased material and repair costs associated with our Embraer fleet and a new engine overhaul contract for our Beechcraft 1900D fleet requiring higher hourly payments, as well as \$0.8 million of maintenance expense associated with the consolidation as a variable interest entity of our Cuba charter business for 2008. A similar expense was not included for 2007.

**Passenger Service.** Major components of passenger service expense include ground handling services, airport counter and gate rentals, wages paid to airport employees, passenger liability insurance, security and miscellaneous passenger-related expenses. Passenger service expense declined 6.7% to \$21.8 million for 2008 from \$23.3 million for 2007, due primarily to cost reductions implemented as part of our revised business plan. The cost reductions more than offset a \$2.2 million increase attributable to passenger service expense associated with the consolidation of our Cuba charter business as a variable interest entity for 2008.

**Promotion and Sales.** Major components of promotion and sales expense include credit card commissions, travel agent commissions and reservation system fees. Promotion and sales expense decreased 14.9% to \$6.6 million for 2008 from \$7.8 million for 2007. These expense decreases were due primarily to the affect of capacity reductions compared to the same periods last year. The year-over-year expense decline was understated by \$0.7 million of expense in 2008 attributable to passenger service expense associated with the consolidation of our Cuba charter business as a variable interest entity.

**Depreciation and amortization expense.** Depreciation and amortization expense decreased to \$2.8 million for 2008 from \$3.8 for last year. This decrease was primarily due to the sale of our fleet of eight Embraer aircraft during the third quarter of 2008.

**General and Administrative and Academy Operating Expense.** Our consolidated general and administrative expenses include the expenses of the Academy, as set forth in the following table.

(In thousands)	Year Ended December 31,		Percent Change
	2007	2008	
General and administrative expenses	\$ 3,526	\$ 4,038	14.5 %
Academy expenses	3,799	3,072	-19.1 %
Consolidated general and administrative	\$ 7,325	\$ 7,110	-2.9 %

General and administrative expenses, excluding Academy expenses, increased 14.5% to \$4.0 million for 2008 from \$3.5 million for last year. Most of this increase was attributable to public-company expenses, including accounting and legal expenses and director's fees.



Academy expenses decreased by 19.1% to \$3.1 million for 2008 from \$3.8 million for 2007 due primarily to a lower student count and lower expenses associated with flight simulator rentals.

***Non-Operating Income and Expense.*** Interest expense increased 14.0% to \$1.3 million for 2008 compared to \$1.1 million last year. During 2007, interest expense related to \$3.3 million of subordinated debt that was redeemed in December 2007 from proceeds of our initial public offering of common stock, senior bank loans associated with our fleet of Embraer aircraft, and our revolving credit line of \$750,000. The senior bank loans were repaid during 2008 at the time of the sale of our fleet of Embraer aircraft, and our revolving credit line was repaid as well. Unamortized debt discount and expenses associated with the retired debt were charged to interest expense in 2008. In September 2008, the Company issued \$6.1 million of debentures.

**Income Taxes.** We recognized a benefit for income taxes for 2007 and 2008 associated with our pre-tax loss for both periods. As of December 31, 2008, net deferred tax assets of \$5.9 million related primarily to net operating losses. We believe we will begin to utilize the net operating losses to offset pre-tax income beginning in 2009. However, a \$3.9 valuation allowance was provided as of December 31, 2008 related to net deferred tax assets. Visibility regarding the operating environment beyond 2009 has become more uncertain due to the rapid decline in the economy, which accelerated significantly during the fourth quarter of 2008.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations. These liquid financial assets consist of cash as well as short-term investments. As of December 31, 2008, our cash and cash equivalents balance was \$3.2 million and our negative working capital was \$7.7 million compared to negative working capital of \$13.1 million as of December 31, 2007. Our cash requirements have historically been satisfied through a combination of cash flow from operations and debt and equity financings.

On December 19, 2007, we completed our initial public offering of 800,000 shares of common stock. On January 7, 2008, we completed the exercise in full of the underwriter's option to purchase an additional 120,000 shares of common stock to cover overallotments. Following the completion of the underwriter's overallotment option on January 7, 2008, 2,959,460 shares of common stock, par value \$.01 per share, were outstanding. Net proceeds from the offering were \$5.1 million, of which \$0.9 million was received in January 2008 in connection with the exercise of the overallotment option. The gross proceeds totaled \$7.4 million and offering-related costs amounted to \$2.3 million as follows:

- underwriting discount of 8% or \$588,800 (charged against additional paid-in-capital); and
- direct expenses of approximately \$1,729,000 (charged against additional paid-in capital), including legal fees, printing costs, accounting fees, qualified independent underwriter fees and other miscellaneous direct expenses.

We used approximately \$3.3 million of the proceeds to fully redeem our 12% subordinated debentures during December 2007, which were due to mature on March 14, 2009. The remaining funds were available for general working capital purposes.

Our liquidity position during the first three quarters of 2008 had been severely impacted by the rapid escalation of jet fuel prices between October 2007 and July 2008, as well as substantial engine overhaul expenses associated with our Embraer Brasilia aircraft during 2007 and the first half of 2008.

In order to fund the expected liquidity shortfall during 2008, we initiated efforts during the first quarter to sell our eight Embraer aircraft, raise additional debt capital, and restructure past-due and future creditor obligations. During the third and fourth quarters of 2008, we completed the sale of our fleet of eight Embraer Brasilia aircraft. As a result of these sales, we raised cash of approximately \$5.1 million, net of expenses and the repayment of \$7.2 million of senior bank debt. In conjunction with the sale of our fleet of eight Embraer Brasilia aircraft, we also restructured our route network, resulting in a 35-40% reduction in our flight capacity (available seat miles), and the elimination of city pairs that were no longer profitable with the extraordinary rise in jet fuel prices through July 2008. We also redeployed aircraft to profitable routes by initiating service in September and October 2008 between Continental Airline's Cleveland hub and five smaller cities in Pennsylvania, New York and West Virginia as a result of Essential

Air Service routes awarded by the Department of Transportation.

We also secured additional capital during the third quarter through the issuance of a \$5.1 million senior secured debenture to an institutional lender, as well as the issuance of a \$1.0 million unsecured debenture to an entity in which certain members of our Board of Directors own a minority interest. The net proceeds from these debt financings were approximately \$5.0 million and were used to repay \$754,000 of principal and interest outstanding under the Company's revolving credit line, with the balance being used for general corporate purposes.

The final major step to improve our liquidity involved the restructuring of over \$7.0 million in past-due and future obligations owed primarily to Raytheon Aircraft Credit Corporation, our principal aircraft lessor, and Pratt & Whitney Canada, our engine maintenance vendor. On December 19, 2008, we entered into a restructuring agreement with Raytheon Aircraft Credit Corporation, as well as an amended engine maintenance agreement with Pratt & Whitney Canada. If we did not complete this multiple-party restructuring, Raytheon Aircraft Credit Corporation

may have declared us in default with respect to our aircraft leases and demanded return of the aircraft, or Pratt & Whitney Canada may have withheld further engine maintenance services.

Throughout 2008, we faced substantial internal and external operating and liquidity challenges. We responded by selling assets, raising additional capital, and restructuring creditor obligations. We believe we are now positioned to benefit from the fundamental improvements that were implemented or occurred during 2008, which include: higher average fares and increased fees for excess baggage; substantially reduced lift capacity to equate to declining demand; structural cost reductions throughout the organization; and the cost efficiency of a single aircraft fleet. Based on these factors, and lower and more stable jet fuel prices, we expect to be able to fund our operations and obligations for the foreseeable future from cash flow generated through operations. However, given the risk of a further weakening in the global and domestic economy and the potential for continued volatility in the price of jet fuel, we can make no assurance that we will be able to fund our operations and obligations from internal cash flow generation in the long term.

The following table summarizes key cash flow information for the years ended December 31, 2007 and 2008:

<b>Cash Flow Data:</b>	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
Cash Flow Provided by (used in):		
Operating Activities	6,116	(8,447 )
Investing Activities	(6,219 )	10,484
Financing Activities	898	(2,760 )
Net increase (decrease) in cash and cash equivalents	795	(723 )

***Operating activities.***

Cash used in operating activities was \$8.8 million for 2008 compared to \$6.1 million provided by operating activities for 2007. Most of this year-to-year decline in cash flow from operations resulted from the repayment of liabilities, as well as the decline in our net income compared to last year, which was significantly impacted during 2008 by substantial increases in jet fuel costs and increased maintenance expenses related primarily to our fleet of eight Embraer Brasilia aircraft.

***Investing activities.***

Cash provided by investing activities was \$10.5 million for 2008 compared to cash used of \$6.2 million for the same period last year. Cash used in investing activities for both periods was primarily related to capitalized engine overhauls for certain of our Embraer Brasilia aircraft. Cash provided by investing activities in 2008 resulted from the sale of our Embraer Brasilia aircraft during the third quarter.

***Financing activities.***

Cash provided by financing activities for 2008 included \$6.1 million of face value from the issuance of debentures during the third quarter of 2008, and \$0.8 million of net proceeds from the sale to the underwriter of over-allotment shares associated with our initial public offering in December 2007, both of which were offset by debt repayments of \$9.4 million, including aircraft financing for aircraft sold in 2008. Cash provided by financing activities for 2007 was due to net proceeds from our initial public offering in December 2007, which was largely offset by repayments of

debt.

**Debt and Other Contractual Obligations**

We maintained a \$750,000 revolving line of credit from Wachovia Bank, N.A. to assist in funding our cash requirements during our weakest seasonal period, which typically occurs between August and December each year. We accessed this line of credit for a total amount of \$750,000 in September 2007, and it was repaid in full in September 2008.

On March 22, 2007, we entered into a 5-year loan agreement with Wachovia Bank, comprised of two promissory notes in the aggregate principal amount of \$1.75 million to finance the acquisition and refurbishment of one Embraer Brasilia aircraft. The principal balance and accrued interest related to this loan was repaid in full to Wachovia Bank on July 2, 2008.

In December 2005, we entered into a term loan agreement with Irwin Union Bank pursuant to which we borrowed \$8.6 million to refinance seven Embraer Brasilia aircraft, which we originally financed from the seller, Atlantic Southeast Airlines, Inc. (a subsidiary of SkyWest, Inc.). The principal balance and accrued interest related to this loan was repaid in full to Irwin Union Bank on July 17, 2008.

On September 19, 2008, the Company issued \$5.1 million in secured original issue discount debentures (the senior debentures) and warrants to purchase shares of the Company's common stock (the senior warrants). The net proceeds were used to repay principal and interest outstanding under the Company's revolving credit line with the balance being used for general corporate purposes.

The senior debenture bears interest at the higher of prime plus 4% or 11%. Principal and interest is payable monthly over a 36 month term. The senior debentures are secured by the Company's assets and guaranteed by its subsidiaries. The senior debenture contains events of default, which if not waived by the lender, would entitle the lender to accelerate the due date of the Senior Debenture. On September 30, 2008, we were in violation of the covenant to maintain a minimum monthly accounts receivable balance of \$3.5 million, with an accounts receivable balance on such date of \$3.1 million. The lender granted a one-time waiver with respect to non-compliance with this financial covenant. In addition, we obtained a waiver on March 19, 2009 from the lender relating to non-compliance with the covenant for minimum quarterly EBITDA for the quarter ended December 31, 2008.

The senior warrants are exercisable for 578,870 shares at a nominal exercise price and expire in September of 2014. The senior warrants are subject to anti-dilution adjustment for future issuances of common stock at an equity valuation of the Company less than \$5.0 million. The anti-dilution adjustment, if triggered, is designed to maintain the percentage interest in the Company represented by the 578,870 shares at the closing date.

In connection with this transaction, the Company agreed to repurchase, in whole or in part, the shares of common stock underlying the warrants at a total price of \$3.0 million. This option is exercisable from and after the earlier of (i) the repayment in full of all amounts owed by the Company under the senior debenture or (ii) September 19, 2011.

On September 16, 2008, the Company issued a \$1.0 million 12% junior subordinated debenture (the junior debenture) and a warrant to purchase up to 225,000 shares of the Company's common stock to an entity in which certain members of the Board of Directors of the Company own a minority interest. The junior debenture is payable in a lump sum payment due at maturity on November 16, 2011. Interest is payable at \$50,000 annually, and excess interest accrued but unpaid is due at the end of the 24<sup>th</sup> and 36<sup>th</sup> months and at maturity. At the option of the holder, the junior debentures may be converted into shares of the Company's common stock at a conversion price of \$3.00 per share.

The warrant is exercisable through the sixth anniversary of the transaction closing date at an exercise price of \$3.20 per share. Upon conversion of the junior debentures, the number of shares issuable under the junior warrant will decrease by 58,333. The warrant is subject to anti-dilution adjustment for certain future issuances or deemed issuances of common stock at a price per share of less than \$3.20.

The Company established fuel hedge contracts effective September 1, 2008 for the purpose of hedging the risk of increases in jet fuel prices through February 2009 covering approximately 20% of its estimated fuel usage. These fuel hedge contracts were a requirement by the lender pursuant to the Securities Purchase Agreement for the issuance of the Senior Debentures (See Note 8 and Note 11 to the consolidated financial statements).

The Company recognized a loss on settled hedges of \$340,000 for 2008. At December 31, 2008, the Company recognized unrealized losses of \$314,000 on outstanding fuel hedge contracts and included such amount in Accumulated Other Comprehensive Loss. At December 31, 2008, the Company had outstanding fuel hedge contracts encompassing 168,000 gallons of jet fuel through February 2009 at a fixed price of \$3.37 per gallon. The realized loss as of February 28, 2009 on contracts open as of December 31, 2008 amounted to \$332,000.

We perform our airplane maintenance and repairs primarily at our maintenance hangar located at Hollywood- Fort Lauderdale Airport. The lease on our Fort Lauderdale facility is renewed for one-year terms and is currently set to expire on May 31, 2009. We are currently engaged in negotiations to renew this lease for an

additional term. If this lease were not renewed, we would likely incur an increase in our lease and related costs of up to \$100,000 per year. Our current lease cost is approximately \$220,000 per year.



### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Seasonality**

Gulfstream's business is subject to substantial seasonality, primarily due to leisure and holiday travel patterns, particularly in the Bahamas. We experience the strongest demand from February to July, and the weakest demand from August to December, during which period we typically suffer operating losses. As a result, our operating results for a quarterly period are not necessarily indicative of operating results for an entire year, and historical operating results are not necessarily indicative of future operating results. Our results of operations generally reflect this seasonality.

### **Critical Accounting Policies and Estimates**

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Revenue Recognition.* Passenger revenue is recognized when transportation service is provided. Approximately 96% of the passenger tickets for travel on the Company's airline are off-line ticket sales (sold by another airline and used on GIA) and are settled through interline clearing-houses. The majority of these tickets are sold by Continental as a result of the Company's alliance agreement with them. The Company receives the sales proceeds from these ticket sales by monthly settlements with selling carriers through interline clearing-houses when travel has been completed. Since these are off-line ticket sales with respect to the Company, refunds and exchanges are the responsibility of and completed by the airline that sold the ticket.

Approximately 4% of the passenger ticket sales for travel on the Company's airline are on-line tickets (sold by an airline and used on that airline) sold directly by the Company. Passenger revenue associated with these tickets is recognized when transportation is provided or when the ticket expires, rather than when a ticket is sold. These tickets expire one year from the date of issue. The Company is required to charge certain taxes and fees on these tickets.

These taxes and fees include U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are legal assessments on the customer. As we have a legal obligation to act as a collection agent with respect to these taxes and fees, these amounts are not included in passenger revenue. These taxes and fees are recorded as a liability when the amounts are collected and the liability is relieved when payments are made to the applicable government agency or operating carrier.

The amounts associated with passenger tickets sold by the Company are included in the consolidated balance sheet as air traffic liability. Those passenger tickets used during each period are specifically identified and included in the results of operations for the periods in which travel is completed.

Charter revenue, excess baggage fees, and miscellaneous revenue are recognized when transportation service is provided. Enrollment fee revenue is based upon actual training hours used by the students of our pilot training

academy. The remaining unused hours represent deferred tuition revenue.

***Frequent Flyer Awards.*** In connection with its several code share agreements, Gulfstream participates in the respective frequent flyer programs of its code share partners. However, our code share partners are responsible for the overall administration and costs of the program.

Passengers on our airline, who are also participants in the frequent flyer programs of our code share partners, can earn mileage credits in those programs for travel on our airline. Gulfstream incurs costs from its code share partners for mileage credit earned by these passengers in accordance with rates specified in the respective code share agreements.

In addition, participants in these frequent flyer programs may use mileage accumulated in those programs to obtain free trips on one of Gulfstream's flights. Gulfstream receives revenue from its code share partners for travel awards redeemed by its participants on Gulfstream's flight segments in accordance with rates specified in the respective code share agreements.

**Maintenance and Repair Costs.** Gulfstream operates under an FAA-approved continuous inspection and maintenance program. Routine maintenance and repairs are charged to operations as incurred. We account for major engine maintenance activities for our Beechcraft 1900D leased aircraft on the direct expense method. Under this method, major engine maintenance is performed under a long-term contract with a third party vendor, whereby monthly payments are made on the basis of hours flown and are charged to expense as incurred.

Major engine maintenance for our Embraer 120 Brasilia owned aircraft is based on the built-in overhaul method. The built-in overhaul method is based on segregation of the aircraft costs into those that should be depreciated over the useful life of the aircraft and those that require overhaul at periodic intervals. Thus, the estimated cost of the overhaul component included in the purchase price was allocated separately from the cost of the airframe. The initial overhaul component was determined based on estimated flying hours remaining to overhaul. These capitalized overhaul components are amortized based on the ratio of monthly hours flown to estimated hours remaining to overhaul. When major overhaul expenses are incurred, any unamortized balances are charged to current operating expense and the cost of the new overhaul is capitalized and amortized in the same manner. During 2008, the eight Embraer 120 Brasilia aircraft were sold.

**Impairment of Long-Lived and Intangible Assets.** We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Stock-Based Compensation.** Effective January 1, 2006, the Company adopted the accounting and disclosure provisions of SFAS No. 123(R), "Share-Based Payment", which requires that new, modified and unvested share based payment transactions with employees, such as stock options and restricted stock, be measured at fair value on the grant date and recognized as compensation expense over the vesting period.

Our Stock Incentive Plan was adopted by the board of directors and it was approved by our stockholders in 2006. Prior to 2006, there were no stock options outstanding. See *Note (13) Stock Options* for a description of the Company's Stock Incentive Plan, and information regarding stock options granted during 2007 and 2008.

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

	<b>Year ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
Net loss	\$ (3,106,000 )	\$ (14,799,000 )
Effect of GIA warrants	(39,000 )	
Net loss - diluted	\$ (3,145,000 )	\$ (14,799,000 )
Weighted average of shares outstanding - basic and diluted	2,075,000	2,957,000
Loss per common share:		
Basic	\$ (1.50 )	\$ (5.00 )

Diluted \$ (1.52 ) \$ (5.00 )

In 2007 and 2008 there were 321,000 and 1,577,000 shares respectively, attributable to stock options and warrants that have been excluded from the weighted average shares outstanding because the effect on earnings (loss) per share would have been anti-dilutive.

### **New Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements within equity, but separate from the parent's equity. It also requires once a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 will be effective for

the Company beginning January 1, 2009. The Company does not anticipate the adoption of this SFSA will have a material effect on its financial statements.

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 161 ( SFAS No. 161 ), Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 gives financial statement users better information about the reporting entity's hedges by providing for qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged, but not required. The Company does not anticipate the adoption of SFAS No. 161 will have a material effect on its financial statements.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No FAS 142-3, Determination of the Useful Life of Intangible Assets to improve the consistency between the useful life of a recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations, and other guidance under accounting principles generally accepted in the United States of America. The Company does not anticipate the adoption of this FSP will have a material effect on its financial statements. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is prohibited.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS No. 162 ). SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in the preparation of financial statements that are presented in conformity with GAAP. The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of SFAS No. 162 is not expected to have a material impact on the Company's financial statements.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. Accordingly, on January 1, 2009 the Company may be required to reclassify a warrant of 191,000 from equity as a liability at its fair value. The applicable warrants expire on September 19, 2011.

In October 2008 the FASB issued FSP FAS 157 3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157 3). FSP FAS 157 3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The Company maintains its excess cash in cash type instruments such as certificates of deposits or money market funds, which are defined as cash, and as such would not be covered by FASB 157.

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



### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Form 10-K, including the sections entitled "The Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. These statements relate to, among other things:

- .  
our business strategy;
- .  
our value proposition;
- .  
the market opportunity for our services, including expected demand for our services;

information regarding the replacement, deployment, acquisition and financing of certain numbers and types of aircraft, and projected expenses associated therewith;

.  
costs of compliance with FAA regulations, Department of Homeland Security regulations and other rules and acts of Congress;

.  
the ability to pass taxes, fuel costs, inflation, and various expense to our customers;

.  
certain projected financial obligations;

.  
our estimates regarding our capital requirements; and

.  
any of our other plans, objectives, expectations and intentions contained in this prospectus that are not historical facts.

These statements, in addition to statements made in conjunction with the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions, are forward-looking statements. These statements relate to future events or our future financial performance and only reflect management's expectations and estimates. The following is

a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements:

.

changing external competitive, business, budgeting, fuel supply, weather or economic conditions;

.

changes in our relationships with employees or code share partners;

.

availability and cost of funds for financing new aircraft and our ability to profitably manage our existing fleet;

.

adverse reaction and publicity that might result from any accidents;

.

the impact of current or future laws and government investigations and regulations affecting the airline industry and our operations;

.

additional terrorist attacks; and

.

consumer unwillingness to incur greater costs for flights.

**You should read this Form 10-K completely and with the understanding that our results may be materially different from what we expect. We undertake no duty to update these forward-looking statements after the date of this Form 10-K, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.**

## **Item 7A.**

### **Quantitative and Qualitative Disclosures about Market Risk**

Our market risks relate primarily to changes in aircraft fuel costs and in interest rates.

***Aircraft Fuel.*** In the past, we have not experienced difficulties with fuel availability and we currently expect to be able to obtain fuel at prevailing market prices in quantities sufficient to meet our future needs. Pursuant to our contract flying arrangements with our code share partners, we will bear the economic risk of fuel price fluctuations.

We are a party to derivative instruments for the purpose of hedging the risks of increases in jet fuel prices through February 2009 covering approximately 20% of its estimated fuel usage. These fuel hedge contracts were established effective September 1, 2008 as a requirement by the lender pursuant to the Securities Purchase Agreement for the issuance of the Senior Debentures. (See Note 11 to the consolidated financial statements).





These derivative contracts qualify as cash flow hedging instruments and are reported on the balance sheet at their fair value. The gain or loss on the effective portion of the hedge is reported as a component of Other Comprehensive Income. Amounts included in Accumulated Other Comprehensive Loss are reclassified into net earnings in the same period in which the hedged fuel is purchased.

We recognized a loss on settled hedges of \$340,000 for 2008. At December 31, 2008, we recognized unrealized losses of \$314,000 on outstanding fuel hedge contracts and included such amount in Accumulated Other Comprehensive Loss. At December 31, 2008, we had outstanding fuel hedge contracts encompassing 168,000 gallons of jet fuel through February 2009 at a fixed price of \$3.37 per gallon. The realized loss as of February 28, 2009 on contracts open as of December 31, 2008 amounted to \$332,000. Since February 28, 2009, we are not a party to any derivative or other arrangement designed to hedge against or manage the risk of an increase in fuel prices. Accordingly, our statements of income and cash flows after that date will continue to be affected by changes in the price and availability of fuel.

**Interest Rates.** The rate of interest of our senior debentures is based on the higher of 11%, or prime plus 4%, which currently equates to 7.25%. Therefore, our statement of operations and our cash flows are not exposed to moderate changes in interest rates, or unless the prime rate increases to more than twice its present rate.

## **Item 8.**

### **Financial Statements and Supplementary Data**

The information set forth below should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing elsewhere herein.

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Gulfstream International Group, Inc.

We have audited the accompanying consolidated balance sheet of Gulfstream International Group, Inc. as of December 31, 2008 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the year ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the

financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting.

Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and the results of operations and cash flows for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ McKean, Paul, Chrycy, Fletcher & Co.

McKean, Paul, Chrycy, Fletcher & Co

Miami, FL

March 24, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Gulfstream International Group Inc.

We have audited the accompanying consolidated balance sheet of Gulfstream International Group Inc. (the "Company") as of December 31, 2007 and the related consolidated statements of operations, changes in stockholders equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and the results of their operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Saddle Brook, NJ

April 11, 2008



**GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(In thousands)

	As of December 31,	
	2007	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 3,938	\$ 3,215
Accounts receivable, net	2,910	4,205
Due from related entity	640	
Expendable parts	1,951	1,194
Prepaid expenses	539	648
Total Current Assets	9,978	9,262
 <b>Property and Equipment</b>		
Flight equipment	23,855	3,366
Other property and equipment	1,533	1,373
Less - accumulated depreciation	(5,390 )	(1,946 )
Property and Equipment, net	19,998	2,793
Intangible assets, net	4,053	3,778
Goodwill	2,703	
Deferred tax assets	1,509	2,032
Other assets	1,180	1,505
Total Assets	\$ 39,421	\$ 19,370
 <b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 15,869	\$ 9,566
Accounts payable - restructured, current portion		2,432
Long-term debt, current portion	2,268	529
Engine return liability, current portion	3,300	2,263
Air traffic liability	1,270	1,491
Deferred tuition revenue	408	728
Total Current Liabilities	23,115	17,009
 <b>Long-term Liabilities</b>		
Accounts payable - restructured, net of current portion		1,486

Long-term debt, net of current portion	6,415	2,849
Engine return liability, net of current portion	490	461
Warrant liability		2,229
Total Liabilities	30,020	24,035

**Commitments and Contingencies**

**Stockholders' Equity (Deficit)**

Common stock	28	30
Additional paid-in capital	12,234	13,088
Common stock warrants	61	252
Accumulated deficit	(2,922 )	(17,721 )
Accumulated other comprehensive loss		(314 )
Total Stockholders' Equity (Deficit)	9,401	(4,665 )
Total Liabilities & Stockholders' Equity (Deficit)	\$ 39,421	\$ 19,370

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

**GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2008</b>
<b>Operating Revenues</b>		
Passenger revenue	\$ 104,230	\$ 88,526
Academy, charter and other revenue	8,066	16,730
Total Operating Revenues	112,296	105,256
<b>Operating Expenses</b>		
Flight operations	13,794	13,177
Aircraft fuel	25,774	30,350
Maintenance	24,574	24,478
Passenger and traffic service	23,312	21,759
Aircraft rent	6,430	5,593
Promotion and sales	7,782	6,623
General and administrative	7,325	7,110
Depreciation and amortization	3,761	2,754
Goodwill impairment	2,391	2,703
Loss on sale of equipment		4,754
Total Operating Expenses	115,143	119,301
Operating loss	(2,847 )	(14,045 )
<b>Non-operating (Expense) Income</b>		
Interest expense	(1,146 )	(1,306 )
Interest Income	141	38
Loss on extinguishment of debt	(174 )	
Other income	86	5
Total non-operating expense	(1,093 )	(1,263 )
<b>Loss before provision for income taxes</b>	<b>(3,940 )</b>	<b>(15,308 )</b>
Income tax provision (benefit)	(834 )	(509 )



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<b>Net Loss</b>	\$	(3,106 )	\$	(14,799 )
Net loss per share:				
Basic	\$	(1.50 )	\$	(5.00 )
Diluted	\$	(1.52 )	\$	(5.00 )
Shares used in calculating net loss per share:				
Basic		2,075		2,957
Diluted		2,075		2,957

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

## GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2008

	Years Ended December 31,	
	2007	2008
	(In thousands)	
<b>Cash Flows From Operating Activities:</b>		
<b>Net income (loss)</b>	\$ (3,106 )	\$ (14,799 )
<b>Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Loss on disposal of equipment		4,754
Depreciation and amortization	3,762	2,754
Goodwill impairment	2,391	2,703
Deferred income tax provision	(1,037 )	(524 )
Amortization of deferred finance costs	134	713
Share-based compensation	279	50
Write-off of unamortized overhaul costs		573
Amortization of warrant discount		69
Minority interest	(5 )	
Provision for Bad Debts		6
Loss on extinguishment of debt	174	
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in receivables	474	(1,301 )
Decrease (increase) in expendable parts	(403 )	(303 )
Decrease (increase) in prepaid expense	(22 )	(109 )
Decrease (increase) in due from affiliates	(33 )	640
Decrease (increase) in other assets	329	(763 )
Increase (decrease) in accounts payable and accrued expenses	4,892	(6,303 )
Increase (decrease) in accounts payable - restructured		3,918
Increase (decrease) in deferred revenue	47	541
Increase (decrease) in engine return liability	(1,760 )	(1,066 )
Net cash provided by (used in) operating activities	6,116	(8,447 )
<b>Cash Flows From Investing Activities:</b>		

Acquisition of property and equipment	(6,219 )		(1,427 )
Net Proceeds from sale of equipment			11,911
Net cash provided by (used in) investing activities	(6,219 )		10,484
<b>Cash Flows From Financing Activities:</b>			
Proceeds from borrowings	1,350		6,100
Unrealized loss on fuel hedge contracts			(314 )
Proceeds from issuance of common stock	4,208		806
Repayments of debt	(4,660 )		(9,352 )
Net cash provided by (used in) financing activities	898		(2,760 )
<b>Net increase (decrease) in cash and cash equivalents</b>	795		(723 )
<b>Cash, beginning of period</b>	3,143		3,938
<b>Cash, end of period</b>	\$ 3,938	\$	3,215

**Supplemental disclosure of cash flow information:**

Cash paid during the period for interest	\$ 1,010	\$	500
Cash paid during the period for income taxes	\$ 298	\$	

**Supplemental disclosure of non-cash investing and financing activities:**

- 1) On March 22, 2007, the Company issued a promissory note for \$1,150 for the acquisition of an EMB-120 aircraft
- 2) In connection with the issuance of the debentures in September 2008, the Company issued warrants with a discounted net present value of \$2,351

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

## GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2007 and 2008

(In thousands)

	Common Stock		Accumulated				Total
	Number of Shares	Amount	Additional Paid-in Capital	Common Stock Warrants	Other Comprehensive Loss	Retained Earnings (Deficit)	
Balance December 31, 2006	2,029	\$ 20	\$ 7,755	\$ 61	\$	\$ 184	\$ 8,020
Net Income						(3,106)	(3,106)
Issuance of common stock to Company Director	10		50				50
Issuance of common stock in public offering, net of offering costs and underwriting discount	800	8	4,150				4,158
Share based compensation			279				279
Balance December 31, 2007	2,839	\$ 28	\$ 12,234	\$ 61	\$	\$ (2,922)	\$ 9,401
Net loss						(14,799)	(14,799)
Change in fair value of fuel hedge contracts					(314)		(314)
Issuance of common stock	120	2	804				806

upon exercise by underwriter of overallotment option, net of costs								
Share based compensation			50					50
Issuance of warrants to debenture holders				191				191
Balance December 31, 2008	2,959	\$ 30	\$ 13,088	\$ 252	\$ (314 )	\$ (17,721 )	\$ (4,665 )	

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

## GULFSTREAM INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Nature of Operations and Summary of Significant Accounting Policies

##### *Basis of Presentation*

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

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

Pursuant to a services agreement between Gulfstream and GAC dated August 8, 2003 and amended on March 14, 2006, Gulfstream provides use of its aircraft, flight crews, the Gulfstream name, insurance, and service personnel, including passenger, ground handling, security, and administrative. Gulfstream also maintains the financial records for GAC. Pursuant to the March 14, 2006 amended agreement, Gulfstream receives 75% of the operating profit generated by GAC 's Cuban charter operation. Prior to March 14, 2006, Gulfstream received all of the operating profit generated up to a cumulative total of \$1 million, and then 75% thereafter.

As a result of the increasing significance of the Cuba charter business to our overall performance, we have consolidated the results of the Cuba charter business as a variable interest entity for the year ended December 31, 2008 pursuant to the requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. For the year ended December 31, 2008, gross revenue and operating expenses are included in the Consolidated Statement of Operations, and the operating profit of the Cuba charter business is included in consolidated net income. For the year ended December 31, 2007, the 75% of the operating profit of the Cuba charter business was included as a component of Revenue, and gross revenue and operating expenses were excluded from the Statement of Operations.

All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Certain amounts in the 2007 period have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

##### *Company Operations*

Gulfstream is a regional air carrier providing scheduled passenger service to numerous destinations in Florida and the Bahamas. Gulfstream also provides scheduled passenger service between Continental 's Cleveland hub and five smaller cities in Pennsylvania, West Virginia and New York in conjunction with Essential Air Service Routes awarded by the Department of Transportation. As of December 31, 2008, Gulfstream operated a fleet of twenty-three

19-seat Beechcraft 1900 Turboprop passenger aircraft. Gulfstream was incorporated in the state of Florida in November of 1988, and operated initially as an on-demand charter airline serving the South Florida area, Cuba and the Bahamas. Following the Department of Transportation's ( DOT ) approval, Gulfstream began scheduled flight service in December of 1990.

In January of 1997, Gulfstream signed a comprehensive five-year Alliance Agreement with Continental Airlines ( Continental ) to act as their Continental Connection in Florida and the Bahamas effective April 6, 1997. Under the terms of this agreement, Continental handles all reservations, ticketing and collections for Gulfstream and all flights appear as Continental flight numbers. Gulfstream receives passengers connecting from Continental hubs in Newark, Cleveland and Houston. The agreement with Continental was amended and extended in December 1999, August 2003 and March 2006. The March 2006 amendment provides that the term will expire no sooner than November 3, 2011. After such date, the Company or Continental may terminate the agreement, with or without cause, upon one hundred eighty (180) days written notice. Gulfstream also has alliance agreements with Northwest Airlines, United Airlines and Copa Airlines.

The Academy was incorporated in March 1997, under the laws of the State of Florida and operates as a flight training academy in Fort Lauderdale, Florida. The Academy provides flight training services to licensed commercial pilots. The Academy's principal program is its First Officer Program, which allows participants to qualify as a FAA Regulations Part 121 airline pilot in four months. Following qualification, students spend 250 hours flying as a FAA Regulations Part 121 first officer at Gulfstream. By attending the Academy, students are able to enhance their ability to secure a permanent position with a commercial airline. The Academy's graduates are typically hired by various regional airlines, including Gulfstream.

### *Liquidity*

The year ended December 31, 2008 was very much a transition year for the Company. Late 2007 and early 2008 were characterized by an unprecedented rise in fuel prices, extraordinary and abnormal engine maintenance expenses on our fleet of Embraer Brasilia aircraft and a weakening economy. In January 2008, the Company adopted a revised business plan to avoid an anticipated liquidity shortfall, and achieved the following major objectives during 2008; (a) sold our fleet of eight Embraer Brasilia aircraft for net proceeds of \$5.1 million; (b) redeployed aircraft to profitable routes; (c) secured \$6.1 million of additional debt capital during the third quarter; (d) restructured creditor obligations exceeding \$7 million in December 2008; (e) increased average fares and excess baggage fees to counter the rising price of jet fuel; (f) reduced the complexity of the operations by moving to a single aircraft fleet; and (g) implemented substantial capacity-related and structural cost reductions throughout the organization.

Throughout 2008, we faced substantial internal and external operating and liquidity challenges. We responded by selling assets, raising additional capital, and restructuring creditor obligations. The Company believes it is now positioned to benefit from the fundamental improvements that were implemented or occurred during 2008, which include; higher average fares and increased fees for excess baggage; substantially reduced lift capacity to equate to declining demand; structural cost reductions throughout the organization; and the cost efficiency of a single aircraft fleet. Based on these factors, and lower and more stable jet fuel prices, the Company expects to be able to fund operations and obligations for the foreseeable future from cash flow generated through operations. However, given the current evidence of a rapidly weakening global and domestic economy and the potential for continued volatility in the price of jet fuel, the Company can make no assurance that it will be able to fund its operations and obligations from internal cash flow generation in the long term.

### *Earnings Per Share*

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

	<b>Year ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
Net loss	\$ (3,106,000 )	\$ (14,799,000 )
Effect of GIA warrants	(39,000 )	
Net loss - diluted	\$ (3,145,000 )	\$ (14,799,000 )



Weighted average of shares outstanding - basic and diluted	2,075,000		2,957,000
Loss per common share:			
Basic	\$	(1.50 )	\$ (5.00 )
Diluted	\$	(1.52 )	\$ (5.00 )

In 2007 and 2008 there were 321,000 and 1,577,000 shares respectively, attributable to stock options and warrants that have been excluded from the weighted average shares outstanding because the effect on loss per share would have been anti-dilutive.

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist of a money market account.

At various times during the year, the Company may maintain cash balances in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Effective October 2008 through December 2009, banks are able to elect to participate in the FDIC Transaction Account Guarantee Program. For participating banks certain accounts are fully guaranteed by the FDIC. The exposure to the Company is solely dependent upon daily bank balances, the respective strength of the financial institutions and the level of the FDIC insurance. At December 31, 2007 and December 31, 2008, amounts in excess of the then current FDIC limits totaled approximately \$5.0 million and \$0, respectively.

The Company's policy is to deduct outstanding check balances from its cash and cash equivalents balance in its financial statements. In determining exposure to FDIC limits, the Company believes it is appropriate to include outstanding check balances. As a result, the 2007 exposure cited exceeded the cash and cash equivalent balances included in the balance sheet.

### ***Accounts Receivable***

Trade receivables and other receivables are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest. Trade accounts receivable are periodically evaluated for collectibility based on past credit history with customers and their current financial position.

### ***Expendable Parts and Fuel***

Flight equipment expendable parts and aircraft fuel are carried at cost and recorded in a current asset account. Expendable parts and fuel are charged to expense as they are used.

### ***Property and Equipment***

Flight equipment and other property and equipment are stated at cost. Depreciation is being provided on the straight-line or accelerated methods over the estimated useful lives of the related assets as follows: Airframes - seven years; aircraft rotatable parts - five years; flight simulators - five to seven years; baggage handling, ground support, etc. - five to seven years; office equipment, fixtures and equipment - five years; computer equipment and software - three years; leasehold improvements - five years; and vehicles - three to five years.

Residual values estimated for airframes and aircraft rotatable parts are 20 percent of cost.

### ***Long-Lived and Intangible Assets***

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit, unless they were determined to have indefinite lives.

Long-lived assets and intangible assets subject to amortization to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. Under the provisions of SFAS no. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value.

Long-lived and intangible assets that are to be disposed of which are subject to amortization are reported at the lower of carrying amount or fair value less cost to sell. There has been no impairment for the years 2007 or 2008.

Under the provisions of SFAS no. 142, *Goodwill and Other Intangible Assets*, intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

### ***Goodwill***

Goodwill consists of the excess of cost of an acquired entity over the fair value of the net assets acquired. Under the provisions of SFAS no. 142, *Goodwill and Other Intangible Assets*, Goodwill is not amortized, but is tested at least annually for impairment, or if circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount. As more fully described in Note 4, during the years ended December 31, 2007 and December 31, 2008, the Company recorded impairment charges of \$2.391 and \$2.703 million, respectively, related to goodwill.

### ***Fair Value of Financial Instruments***

The carrying amounts of financial instruments including cash, accounts receivable, accounts payable and accrued expenses approximate fair value as of December 31, 2007 and 2008, as a result of the relatively short maturity. The Company believes its carrying amount of its long-term senior and subordinated debt approximate fair value based upon the interest rates for these instruments being near current market rates.

### ***Capitalized Interest***

Interest is capitalized on long term aircraft refurbishment projects as a portion of the cost of the asset and is depreciated over the estimated useful life of the asset. Interest of \$70,000 and \$0 was capitalized during the years ended December 31, 2007 and December 31, 2008, respectively.

### ***Maintenance and Repair Costs***

The Company accounts for major overhaul costs using the direct expense method for leased aircraft and the built-in overhaul method for aircraft it owned.

Gulfstream operates under an FAA-approved continuous inspection and maintenance program. Routine maintenance and repairs are charged to operations as incurred. We account for major engine maintenance activities for our Beechcraft 1900D leased aircraft on the direct expense method. Under this method, major engine maintenance is performed under a long-term contract with a third party vendor, whereby monthly payments are made on the basis of hours flown and are charged to expense as incurred.

Major engine maintenance for our Embraer 120 Brasilia owned aircraft was based on the built-in overhaul method. The built-in overhaul method is based on segregation of the aircraft costs into those that should be depreciated over the useful life of the aircraft and those that require overhaul at periodic intervals. Thus, the estimated cost of the overhaul component included in the purchase price was allocated separately from the cost of the airframe. The initial overhaul component was determined based on estimated flying hours remaining to overhaul. These capitalized overhaul components are amortized based on the ratio of monthly hours flown to estimated hours remaining to overhaul. When major overhaul expenses are incurred, any unamortized balances are charged to current operating expense and the cost of the new overhaul is capitalized and amortized in the same manner. During 2008, the Embraer 120 Brasilia were sold. (see Note 3)

***Stock Split***

In May 2007, the Company amended its certificate of incorporation to change its name and to increase the authorized number of shares of its common stock to 15,000,000. In May 2007, the Company's board of directors authorized a 2-for-1 split of the issued and outstanding shares of the Company's common stock. All common and per share amounts of the Company have been restated to reflect the 2-for-1 stock split.

***Revenue Recognition***

Passenger revenue is recognized when transportation service is provided. Approximately 96% of the passenger tickets for travel on the Company's airline are off-line ticket sales (sold by another airline and used on Gulfstream) and are settled through interline clearing-houses. The majority of these tickets are sold by Continental as a result of the Company's alliance agreement with them. The Company receives the sales proceeds from these ticket sales by monthly settlements with selling carriers through interline clearing-houses when travel has been completed.

Approximately 4% of the passenger ticket sales for travel on the Company's airline are on-line tickets (sold by an airline and used on that airline) sold directly by the Company. Passenger revenue associated with these tickets is recognized when transportation is provided or when the ticket expires, rather than when a ticket is sold. These tickets expire one year from the date of issue. The Company is required to charge certain taxes and fees on these tickets.

These taxes and fees include U.S. federal transportation taxes, federal security charges, airport passenger facility charges and foreign arrival and departure taxes. These taxes and fees are legal assessments on the customer. As we have a legal obligation to act as a collection agent with respect to these taxes and fees, these amounts are not included in passenger revenue. These taxes and fees are recorded as a liability when the amounts are collected and the liability is relieved when payments are made to the applicable government agency or operating carrier.

The amounts associated with passenger tickets sold by the Company are included in the consolidated balance sheet as air traffic liability. Those passenger tickets used during each period are specifically identified and included in the results of operations for the periods in which travel is completed.

Charter revenue, excess baggage fees, and miscellaneous revenue are recognized when transportation service is provided. Enrollment fee revenue is based upon actual training hours used by the students of our pilot training academy. The remaining unused hours represent deferred tuition revenue.

#### ***Frequent Flyer Awards***

In connection with its several code share agreements, Gulfstream participates in the respective frequent flyer programs of its code share partners. However, our code share partners are responsible for the overall administration and costs of the program.

Passengers on our airline, who are also participants in the frequent flyer programs of our code share partners, can earn mileage credits in those programs for travel on our airline. Gulfstream incurs costs from its code share partners for mileage credit earned by these passengers in accordance with rates specified in the respective code share agreements.

In addition, participants in these frequent flyer programs may use mileage accumulated in those programs to obtain free trips on one of Gulfstream's flights. Gulfstream receives revenue from its code share partners for travel awards redeemed by its participants on the Airline's flight segments in accordance with rates specified in the respective code share agreements.

#### ***Debt Issue Expenses and Discounts***

Debt issue expenses and discounts are amortized using the effective interest method over the term of the respective financial instrument.

#### ***Income Taxes***

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Federal, state and local income taxes are calculated and recorded on the current period's activity in accordance with the tax laws and regulations that are in effect. In addition, SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax return. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. The differences relate

primarily to reserve or provisional accounts, depreciation and amortization, and deferred revenues.

The Company also recognizes a deferred tax asset for the expected value of the future tax benefit recognized as a result of its net operating losses.

A deferred tax asset valuation allowance is established when it is more likely than not that all or some portion of the deferred tax assets will not be realized. The net deferred income tax assets, after reducing the deferred tax assets by the valuation allowance, represent the income tax benefits that are expected to be realized.

***Stock-Based Compensation***

Effective January 1, 2006, the Company adopted the accounting and disclosure provisions of SFAS No. 123(R), "Share-Based Payment", which requires that new, modified and unvested share based payment transactions with employees, such as stock options and restricted stock, be measured at fair value on the grant date

and recognized as compensation expense over the vesting period.

Our Stock Incentive Plan was adopted by the board of directors and it was approved by our stockholders in 2006. Prior to 2006, there were no stock options outstanding. See *Note (13) Stock Options* for a description of the Company's Stock Incentive Plan, and information regarding stock options granted during 2007 and 2008.

### ***Recently Issued Accounting Standards***

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 requires that ownership interests in subsidiaries held by parties other than the parent, and the amount of consolidated net income, be clearly identified, labeled, and presented in the consolidated financial statements within equity, but separate from the parent's equity. It also requires once a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value. Sufficient disclosures are required to clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 will be effective for the Company beginning January 1, 2009. The Company does not anticipate the adoption of this SFAS will have a material effect on its financial statements.

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 161 ( SFAS No. 161 ), *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. SFAS No. 161 gives financial statement users better information about the reporting entity's hedges by providing for qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged, but not required. The Company does not anticipate the adoption of SFAS No. 161 will have a material effect on its financial statements.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No FAS 142-3, *Determination of the Useful Life of Intangible Assets* to improve the consistency between the useful life of a recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), *Business Combinations*, and other guidance under accounting principles generally accepted in the United States of America. The Company does not anticipate the adoption of this FSP will have a material effect on its financial statements. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is prohibited.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 162 ). SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in the preparation of financial statements that are presented in conformity with GAAP. The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of SFAS No. 162 is not expected to have a material impact on the Company's financial statements.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF Issue No. 07-05



is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. Accordingly, on January 1, 2009 the Company may be required to reclassify a warrant of 191,000 from equity as a liability at its fair value. The applicable warrants expire on September 19, 2011.

In October 2008 the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The Company maintains its

excess cash in cash type instruments such as certificates of deposits or money market funds, which are defined as cash, and as such would not be covered by FASB 157.

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

## (2) Accounts Receivable

At December 31, 2007 and 2008, receivables consisted primarily of ticket sales. These amounts are reflected on the balance sheet, net of an allowance for doubtful accounts of \$22,000 and \$28,000 at December 31, 2007 and 2008, respectively.

As a result of the code sharing agreements disclosed in Note 1, Gulfstream has a significant concentration of its revenue and receivables with Continental. Accounts receivable from Continental as of December 31, 2007 and 2008 amounted to \$1,237,000 and \$1,850,000, or 43% and or 41% of our total accounts receivable, respectively. Revenue attributable to Continental connecting passengers was 16% and 20% of our passenger revenue in 2007 and 2008, respectively

During 2008, Essential Air Service (EAS) routes were awarded to Gulfstream by the U.S Department of Transportation. The two-year award is to service Continental's Cleveland hub with five smaller cities in Pennsylvania, New York and West Virginia. The program calls for payments to be received by the company within 30 days after each month end. At December 31, 2008 the U.S Department of Transportation owed the Company \$710,000 for these services.

## (3) Property and Equipment

Property and equipment consisted of the following at December 31, 2007 and 2008 (in thousands):

	<b>2007</b>	<b>2008</b>
Aircraft	\$ 11,743	\$ 300
Engine overhauls	7,734	
Aircraft rotatable parts	2,537	1,787
Flight equipment	1,893	1,280
Ground equipment	752	783
Computer equipment and software	196	123
Office equipment	145	71
Leasehold improvements	242	244
Vehicles	146	151
	25,388	4,739
Less: accumulated depreciation	5,390	1,946
Property and equipment, net	\$ 19,998	\$ 2,793

On June 26, 2008, Gulfstream entered into an Aircraft Purchase and Sale Agreement (the Agreement) to sell seven of

Gulfstream's total of eight Embraer EMB-120ER aircraft, including the two Pratt & Whitney PW118 engines currently installed on each aircraft, for a total gross purchase price of \$12,250,000. The eighth aircraft was sold to a separate party, including the two Pratt & Whitney PW118 engines currently installed on the aircraft, for a total gross purchase price for \$565,000. As a result of these transactions, the Company recognized a loss of \$4.8 million during the year ended December 31, 2008.

During the year ended December 31, 2007, the Company retired fully-depreciated engine overhaul assets by reducing both flight equipment and accumulated depreciation by \$1.6 million.

Depreciation and amortization of property and equipment amounted to \$3,478,000 and \$2,454,000 for 2007 and 2008, respectively.

#### **(4) Goodwill**

Goodwill of \$5.1 million was recorded in connection with the acquisition of the Academy and consisted of the excess of cost over the fair value of net assets acquired (*See Note 1*). Operating profits and cash flows of the Academy in 2007 were lower than expected due to the impact of competitive interference by the Academy's former president and the negative impact on enrollment caused by the industry-wide pilot shortage and the resulting

lowered hiring minimums required by many regional airlines. Given these circumstances the fair value of the Academy's goodwill at December 31, 2007 was estimated based on the present value of expected future cash flows, and the carrying amount of the Academy goodwill was determined to exceed its fair value. Therefore, an impairment charge of \$2.4 million was recognized in the Consolidated Statement of Operations for the year ended December 31, 2007.

In 2008, an unprecedented rise in jet fuel prices and declining economic conditions caused a negative impact on airline travel. The contraction of the airline industry and the furlough of some commercial airline pilots caused a significant reduction in the demand for services provided by the Academy. As a result, the fair value of the Academy's goodwill at December 31, 2008 was estimated based on the present value of expected future cash flows, and the carrying amount of the Academy goodwill was determined to exceed its fair value. Therefore, an impairment charge of \$2.7 million for the remainder of the Academy goodwill was recognized in the Consolidated Statement of Operations for the year ended December 31, 2008.

### (5) Intangible Assets

Identifiable intangible assets are amortized using the straight-line method over the period of expected benefit, unless they were determined to have indefinite lives.

The Company has deemed the operating certificate to have an indefinite useful life. An airline must have an operating certificate to provide air service of any kind. Gulfstream's certificate was issued under Part 121 of Federal Air Regulations (FARs) as written and enforced by the FAA. Once a certificate is issued, it is retained indefinitely as long as Gulfstream complies with various FAA standards including crew training and rest requirements, maintenance and inspection programs, safety equipment, security procedures, etc. It is Gulfstream's intent to maintain such FAA standards in order to retain its certificate indefinitely.

The Company has also deemed the trademark to have an indefinite useful life. The Academy has been in business since 1997 and it is the Company's intent to continue in this business and to protect its tradename, if necessary. The Academy's operations have historically been profitable and management believes that this will continue indefinitely.

The following table sets forth the components of intangible assets as of December 31, 2007 and 2008 (in thousands):

		January 1,				
	Useful	2007	Amortization	2007	Amortization	2008
	life					
GIA						
Affiliation						
Agreement						
with	74					
Continental	months	\$ 1,391	\$ (248 )	\$ 1,143	\$ (275 )	\$ 868
GIA FAR						
121						
Operating						
Certificate	Indefinite	2,230		\$ 2,230		2,230

Gulfstream  
Training  
Academy

Tradename	Indefinite	680		\$ 680		680
		\$ 4,301	\$ (248 )	\$ 4,053	\$ (275 )	\$ 3,778

Accumulated amortization was \$742,000 as of December 31, 2008. Estimated amortization expense for the years ending December 31, is as follows (in thousands):

2009	261
2010	261
2011	261
2012	85
	\$ 868

**(6) Other Assets**

Other assets at December 31, 2007 and 2008 are comprised of the following (in thousands):

	<b>2007</b>	<b>2008</b>
Prepaid loan fees, net	\$ 336	\$ 628
Deposits	511	575
Licenses and operating rights	307	283
Other assets	26	19
Total other assets	\$ 1,180	\$ 1,505

**(7) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at December 31, 2007 and 2008 are comprised of the following (in thousands):

	<b>2007</b>	<b>2008</b>
Accounts payable	\$ 10,378	\$ 5,134
Accrued payroll and payroll burden	830	453
Accrued vacation	851	781
Accrued taxes	846	623
Accrued fuel	1,162	621
Accrued leases	341	386
Accrued workers compensation	113	21
Accrued interest	40	40
Accrued audit and legal fees	82	60
Accrued regulatory expenses	267	56
Accrued customer reservation system fees	295	188
Accrued Directors Fees		28
Other current liabilities	664	1,175
Total accounts payable and accrued liabilities	\$ 15,869	\$ 9,566

**(8)****Fuel Hedge**

The Company is a party to derivative instruments for the purpose of hedging the risks of increases in jet fuel prices through February 2009 covering approximately 20% of its estimated fuel usage. These fuel hedge contracts were established effective September 1, 2008 as a requirement by the lender pursuant to the Securities Purchase Agreement for the issuance of the Senior Debentures. (See Note 11).

These derivative contracts qualify as cash flow hedging instruments and are reported on the balance sheet at their fair value. The unrealized gain or loss on the effective portion of the hedge is reported as a component of Accumulated

Other Comprehensive Loss. As the hedged fuel is purchased, the realized gain or loss is recorded in operating expenses.

The Company recognized a loss on settled hedges of \$340,000 for 2008. At December 31, 2008, the Company recognized unrealized losses of \$314,000 on outstanding fuel hedge contracts and included such amount in Accumulated Other Comprehensive Loss. At December 31, 2008, the Company had outstanding fuel hedge contracts encompassing 168,000 gallons of jet fuel through February 2009 at a fixed price of \$3.37 per gallon. The realized loss as of February 28, 2009 on contracts open as of December 31, 2008 amounted to \$332,000.

**(9) Restructuring of Engine Return Liability and Other Obligations**

In June 2003, Gulfstream entered into a tri-party Pooling and Engine Services Agreement with Raytheon Aircraft Credit Corporation ( RACC ), its aircraft vendor, and Standard Aero, its engine maintenance contractor at the time, that allowed Gulfstream to exchange sixteen (16) of its engines requiring overhaul for mid-life engines owned by and borrowed from RACC that had time remaining before overhaul ( Loaner Engines ). The future overhaul costs of the Loaner Engines were to be shared proportionately between Gulfstream and RACC, with Gulfstream's portion based on engine hours flown until the next overhaul. Accordingly, Gulfstream recognized a liability of \$5.6 million representing its contractual obligation for its share of the overhaul costs. The Loaner Engines were expected to be returned to RACC prior to December 31, 2009.

Two Loaner Engines were returned to RACC in early 2007. In March 2007, the Company signed a new engine services agreement with Pratt & Whitney Canada ( P&W ) providing for a fixed rate per hour for engine overhaul services for its fleet engines and the Loaner Engines. Included in that agreement, and in conjunction with this engine return requirement, P&W committed to perform engine overhaul services beginning March 1, 2007 at a pace that would allow the remaining fourteen Loaner Engines to be returned to RACC in accordance with contractual specifications. In return, Gulfstream agreed to make fixed monthly payments of \$167,000 to P&W beginning March 31, 2007 and continuing for twenty four months through February 2009. During 2008, the number of Loaner Engines returned to RACC fell behind schedule, since Gulfstream was unable to make certain payments to P&W to fund the work required to return the Loaner Engines to RACC and to maintain Gulfstream's fleet engines.

On December 19, 2008, Gulfstream entered into a restructuring agreement (the Agreement ) with RACC, as well as an amended engine maintenance agreement with P&W (the P&W Agreement ). Pursuant to the Agreement, Gulfstream agreed to (a) make payments totaling \$535,469 by June 2009 to RACC for costs and expenses to bring Loaner Engines that Gulfstream had previously returned to RACC into compliance with return conditions, (b) return the final seven Loaner Engines to RACC and make payments totaling \$2.1 million by June 2010 to RACC toward the cost of repairing and overhauling such engines, (c) make quarterly payments to RACC in an amount equal to 25% of Gulfstream's excess cash balance, as defined below, (d) enter into an amended engine maintenance agreement with P&W that covers past-due obligations and all future work on the fleet engines and the seven remaining Loaner Engines, and (e) establish terms of repayment of indebtedness owing to two other creditors of Gulfstream, which are required by RACC to be on terms that are no more favorable than the repayment amounts to RACC set forth in documentation supporting the Agreement.

### ***RACC Payments***

The payments for costs and expenses associated with engines previously returned to RACC total \$535,469, \$100,000 of which was paid on November 21, 2008, \$150,000 of which was paid on the date of the Agreement, \$150,000 of which is due on or prior to March 31, 2009, and \$135,469 of which is due on or prior to June 30, 2009.

Seven of the Loaner Engines were returned to RACC, with the remaining to be returned no later than August 6, 2010. The payments for the cost of repairing and overhauling such engines total \$2,100,000, and will be made in six installments beginning with a payment of \$400,000 on April 30, 2009 and ending with a payment of \$100,000 on June 30, 2010.

The Quarterly payments of excess cash will be applied to \$700,000 of costs and expenses associated with bringing into compliance with return conditions four leased aircraft and eight engines previously returned. Following satisfaction of such costs and expenses, the excess cash payments will be applied, in an amount not to exceed \$5,000,000, as a credit to reduce Gulfstream's obligations to satisfy end-of-lease return conditions and then to all other obligations and indebtedness owed to RACC, including past-due aircraft lease obligations totaling \$1,113,000. Excess cash is defined in the Agreement to mean Gulfstream's cash and cash equivalents in excess of (a) for the fiscal quarter ended March 31, 2009, \$1,150,000, (b) for the fiscal quarter ended June 30, 2009, \$1,300,000, and (c) for the fiscal quarter ended September 30, 2009 and each fiscal quarter thereafter, \$1,000,000. Upon satisfaction of all of the foregoing amounts, payments of excess cash will be returned to Gulfstream.

The Agreement provides for certain events of default, including failure by Gulfstream to maintain specified minimum monthly cash balances and other customary events. The specified minimum monthly cash balances are as of the end of each month from December 2008, with which the company was in compliance, to December 2010, and range from \$450,000 to \$1,000,000.



***Pratt & Whitney Canada Payments***

The amended P&W Agreement dated December 1, 2008 is effective from September 1, 2008 through August 31, 2011. The Agreement requires Gulfstream to pay \$1,000,000 for past-due obligations. \$250,000 of this amount was paid in December 2008; \$250,000 is due February 27, 2009; and \$500,000 is due March 31, 2009. The company is in compliance as of December 31, 2008. In addition, Gulfstream will pay a rate per engine flight hour of \$80.93 for engine overhaul services throughout the three years of the contract, of which \$6.78 per engine flight hour will be applied to the repayment of past-due obligations totaling \$1,583,000.

***Payment Arrangements with Other Creditors.***

The Agreement requires that the terms of repayment of indebtedness owing to two other creditors of Gulfstream shall be on terms that are no more favorable than the repayment terms applicable to RACC. As such, Gulfstream will repay \$376,000 and \$326,000, respectively, to two other creditors in equal monthly installments over 36 months beginning February 2009.

The restructuring agreements described above have been accounted for pursuant to FAS 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*. In accordance with FAS 15, the Company did not recognize a gain or loss on restructuring of these agreements. The difference between the future payments specified by the new terms and the carrying amount of the obligations at the date of the restructuring will be treated as interest expense. This interest expense amounted to \$474,889 and will be recognized ratably over the period between restructuring and maturity. For the period ended December 31, 2008, \$60,000 of interest expense was recognized. A portion of the obligation, \$1,113,000 owed to RACC for past-due aircraft rent, is payable under a free-cash flow formula as described in the Agreement. However, the Agreement provides that the lessor has the right to call this balance at its sole discretion and accordingly, this liability has been classified as current in the accompanying balance sheet.

**(10) Capital Transactions**

***Continental Warrant***

On August 8, 2003, Gulfstream issued a warrant to Continental to acquire 20% of Gulfstream's common stock at a cost of \$.001 per share. The warrant expires on December 31, 2015. Simultaneous with the acquisition of the stock of G-Air and the Academy on March 14, 2006, Gulfstream paid \$2 million to Continental in return for a reduction from 20% to 10% in the percentage of Gulfstream common stock it could purchase based on exercise of the warrant.

The warrant contains certain anti-dilution and cash dividend provisions that would be effected as if the warrant had been previously exercised by Continental. The warrant also provides for net issue exercise by Continental in lieu of cash payment, as well as providing a call option to Gulfstream to repurchase the warrant prior to expiration at aggregate purchase prices ranging between \$5.5 million and \$7.5 million. We accounted for the Gulfstream warrants in accordance with the guidance in EITF Issue 00-19. The Gulfstream warrants meet the requirements of EITF Issue 00-19 to be accounted for as equity instruments. Accordingly, the fair value of the warrants at the date of issue are included in additional paid-in capital in the accompanying consolidated balance sheets.

***Acquisition***

Gulfstream International Group, Inc. was formed in December 2005 for the purpose of acquiring Gulfstream, a wholly-owned subsidiary of G-Air, and the Academy. Gulfstream was initially capitalized by the issuance of an aggregate of 350,000 shares of Common Stock at a purchase price of \$0.20 per share to a group of outside investors, including an individual who is a director and executive officer of the Company.

As a part of the financing for the acquisition of G-Air and the Academy on March 14, 2006, Gulfstream sold 1,640,000 shares of its common stock and 3,320 Units. Each Unit was comprised of (1) a subordinated debenture in the principal amount of \$1,000, bearing interest payable quarterly at 12% per annum, due March 14, 2009 and (2) a warrant to purchase 14 shares of the Company's common stock at \$5.00 per share, exercisable at the option of the holder for a period of five years. As described in Note 11, the debentures were redeemed in December 2007 with proceeds from the initial public offering of common shares in December 2007. The warrants remain outstanding.

In April 2007, Gulfstream sold 10,000 shares of its common stock to the Company's Chairman of the Board of Directors at the same purchase price of \$5.00 per share. The Company did not obtain an independent valuation of the purchase price of these shares. As these purchases occurred within six to twelve months after the Company's private placement, the Company determined that the value of the shares purchased by the executive would approximate the value of the shares sold through its private placement.

### ***Initial Public Offering of Common Stock***

On December 13, 2007, the Company's Registration Statement on Form S-1 was declared effective for its initial public offering, pursuant to which the Company sold 800,000 shares of common stock at \$8.00 per share. The Company's common stock commenced trading on the NYSE Amex Exchange (formerly, the American Stock Exchange) under the symbol GIA on December 14, 2007. The offering closed on December 19, 2007, and the Company received net proceeds of approximately \$4.2 million (after payments to underwriters of \$500,000 and estimated offering expenses of \$1,700,000). On January 9, 2008, the Company received additional proceeds of \$0.9 million from the sale of 120,000 shares of common stock when the underwriter exercised their option to purchase additional shares to cover overallotments. At December 31, 2007 and 2008, 15 million shares of Gulfstream common stock, par value \$.01, were authorized, and 2,839,460 and 2,959,460 shares were issued and outstanding, respectively.

In connection with the initial public offering, warrants to purchase 64,000 shares of the Company's common stock were issued to designees of the managing underwriter. These warrants are exercisable during the four year period beginning one year after the offering date at an exercise price of \$9.60, or 120% of the initial public offering price per share.

### ***Warrants issued in conjunction with Senior Debentures and Junior Debentures***

In September 2008, we sold to Shelter Island Opportunity Fund, LLC ( Shelter Island ), \$5.1 million in aggregate face amount of secured original issue discount debentures (the senior debentures ) and a warrant to purchase 579,000 shares of our common stock (the Senior Warrant ). The Senior Warrant is exercisable for 579,000 shares of our common stock at any time following the closing and on or prior to the six-year anniversary of the closing, at a nominal exercise price. The Senior Warrant expires in September 2014. The Senior Warrant is subject to an anti-dilution adjustment for certain future issuances or deemed issuances of common stock at an equity valuation of Gulfstream less than \$5.0 million. If the anti-dilution adjustment is triggered, the shares of Gulfstream common stock issuable under the senior warrant would increase so as to maintain the percentage interest in Gulfstream represented by those shares. From the earlier of the repayment of the senior debentures and August 31, 2011 and until August 31, 2014, Shelter Island will have the right to require Gulfstream to repurchase, in whole or in part, the warrant shares for an aggregate price of \$3 million or \$5.18 per share.

Pursuant to SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, the Company classified these warrants as a liability and recorded an initial value of \$2,160,000. The warrant liability is revalued at the end of each reporting period with the change in value reported on the Consolidated Statement of Operations. As of December 31, 2008, the value is \$2,229,000. The fair value of the Senior Warrants at the time of issuance was determined based on the present value of the Company's guaranteed repurchase price of \$3,000,000 for the shares of stock underlying the Senior Warrants.

In addition, the Company issued a warrant to the placement agent for the Senior Debenture transaction (the Agent Warrant ) to purchase 119,000 shares of the Company's common stock at an exercise price of \$3.20 per share. The Agent Warrant expires on the third anniversary of the transaction closing date. The Agent Warrant is subject to anti-dilution adjustment to the exercise price for future issuances of common stock at a price that is less than the \$3.20 exercise price of this warrant. The fair value of the Agent Warrant of \$41,000 was determined using the Black-Scholes option pricing model.

In September 2008, Gulfstream sold to Gulfstream Funding, LLC (the Holder), \$1.0 million in aggregate principal amount of junior subordinated debentures (the Junior Debentures ) and a warrant to purchase 225,000 shares of

Gulfstream's common stock (the Junior Warrant). The Junior Warrant is exercisable for 225,000 shares of Gulfstream common stock, at an exercise price of \$3.20 per share. The Junior Warrant is exercisable through September 16, 2014. The warrant will be subject to an anti-dilution adjustment for certain future issuances or deemed issuances of common stock at a price per share of less than \$3.20.

For financial reporting purposes, the Company recorded a discount of \$150,000 to reflect the fair value of the Junior Warrant issued. The fair value was determined using the Black-Scholes option pricing model. Transaction related fees and expenses totaling \$35,000 have been deferred. The discount and deferred debt costs are being amortized over the 38 month term of the Junior Debenture.

At the option of the Holder, the Junior Debentures may be converted into Gulfstream common stock at a conversion price of \$3.00 per share. Upon conversion of the Junior Debentures, the number of shares issuable under the Junior Warrant will decrease by 58,333.

The following table summarizes information concerning warrants outstanding:

	Warrants Issued with		Warrants Issued with 2008		
	2006 Subordinated Debt	Initial Public Offering	Senior Subordinated Debt Shelter Island	Agent	Jr. Subordinated Debt Gulfstream Funding, LLC
Outstanding at January 1, 2007					
Granted	46,000	64,000			
Exercised					
Forfeited					
Outstanding at December 31, 2007	46,000	64,000			
Granted			578,870	118,750	225,000
Exercised					
Forfeited					
Outstanding at December 31, 2008	46,000	64,000	578,870	118,750	225,000
Average Exercise Price	\$ 5.00	\$ 9.60	\$	\$ 3.20	\$ 3.20
Exercisable at December 31, 2007	46,000				
Exercisable at December 31, 2008	46,000	64,000	578,870	118,750	225,000

(11)

### Long-Term Debt

At December 31, 2007 and 2008, long-term debt consisted of the following:

	2007		2008
	(in thousands)		
Secured Senior Debentures; net of debt and discount costs associated with the loan of \$2,258 and secured by all the company's assets and guaranteed by its subsidiaries. The Debentures bear interest at an annual rate of the higher of (i) the sum of the pri	\$		\$ 2,516
Junior Subordinated Debenture; net of debt and discount costs associated with the loan of \$141. Interest is 12.00% per annum and the company will pay \$50 on the 1st anniversary of the issuance. The remaining accrued but unpaid interest is payable 24 and			859
Note payable to institution; secured by aircraft; interest at 6.95% per annum; 59 monthly principal and interest payments of \$145,000 in arrears, plus a balloon payment due in December 2010		6,236	
Revolving line of credit for working capital; \$750,000 at December 31, 2006 and 2007; secured by personal property of the Company; interest per annum based on one-month LIBOR plus 2.75%; interest-only payments due monthly		750	
Notes payable to bank; secured by aircraft; interest payable monthly at LIBOR plus 2.75%; principal payable in monthly installments of \$13,000 and a final balloon payment of \$1,045,000 due in March 2012		1,679	
Various other notes payable secured by vehicles		18	3
		8,683	\$ 3,378
Less current portion, net of discount and deferred costs		2,268	529
Total Long-term Debt	\$	6,415	\$ 2,849

### ***Senior Debentures***

In September 2008, the Company raised gross proceeds of \$5.1 million from the issuance of a secured original issue discount debenture (the Senior Debenture ) and warrants to purchase shares of the Company s common stock (the Senior Warrants ) (See Note 10) The transaction was effected pursuant to a Securities Purchase Agreement (the "Agreement") between the Company and the lender. The Company received proceeds of \$4.1 net of debt discount and transaction costs. The net proceeds were used for general corporate purposes and payment of principal and interest outstanding under the Company s revolving credit line.

Other significant terms under the Agreement include the following:

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The Company may prepay all or any portion of the balance due together with a payment equal to 5% of the amount being prepaid.

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Gulfstream is subject to certain covenants, including covenants that it have (i) consolidated minimum quarterly EBITDA starting in the quarter ending December 31, 2008, (ii) six month EBITDA averages starting in the six months ending June 30, 2011, (iii) minimum monthly accounts receivable balances of \$3.5 million, and (iv) minimum monthly cash balances of \$750,000. The Company was not in compliance with the minimum quarterly EBITDA covenant for the quarter ending December 31, 2008. The Company obtained a waiver on March 19, 2009 from the lender relating to violation of the covenant for consolidated minimum quarterly EBITDA for the quarter ended December 31, 2008.

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The Company was required to provide a minimum fuel hedge for a time period of no less than six months equivalent to the product of 20% of the forecasted monthly fuel usage (in gallons) times the number of months utilized in the contract. (See Note 8)

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The Senior Debenture contains Events of Default, which if not waived by the lender, would entitle the lender to accelerate the due date of the Senior Debenture.

For financial reporting purposes, the Company recorded a discount of \$2.2 million to reflect the value of the warrants issued and \$350,000 to reflect the original issue discount. In addition, the Company incurred finder s fees and other related fees and expenses in connection with this transaction totaling \$664,000.

### ***Junior Debenture***

On September 16, 2008, the Company issued a \$1,000,000 12% junior subordinated debenture (the Junior Debenture ) and a warrant to purchase up to 225,000 shares of the Company s common stock (the Junior Warrant ) to an entity in which members of the Board of Directors of the Company own a minority interest. The Junior Debenture is payable in a lump sum payment due at maturity on November 16, 2011. Interest is payable at \$50,000 annually plus excess



interest accrued but unpaid is due at the end of the 24<sup>th</sup> and 36<sup>th</sup> month and at maturity. The timing of payment of interest on the junior debentures in accordance with the above schedule is subject to restrictions contained in the restructuring agreement with RACC, whereby interest payments on the junior debentures cannot be made until all payment obligations to RACC are completed.

At the option of the holder, the Junior Debenture may be converted into shares of the Company's common stock at a conversion price of \$3.00 per share.

### ***2006 Subordinated Debentures***

In December 2007, the Company redeemed \$3,320,000 in principal together with accrued interest of \$188,000 outstanding on the 2006 Subordinated Debentures. These debentures were redeemed from proceeds generated from the initial public offering of shares of common stock, which was completed on December 14, 2007.

For financial reporting purposes, the Company recorded a discount of \$61,000 to reflect the value of warrants issued with the 2006 Subordinated Debentures (See Note 10). In 2007, \$48,000 was charged to interest expense which included \$28,000 in unamortized discount upon redemption of the debentures. The fair value of the warrants was determined on the date of issuance using the Black-Scholes option pricing model.

The principal maturities on long-term debt for the next five years are as follows (in thousands):

2009	\$ 529
2010	642
2011	2,208
	\$ 3,379

## (12) Lease Obligations

### *Aircraft Leases*

Gulfstream leases twenty-three (23) aircraft. Two aircraft are leased pursuant to a contract to provide charter services that is renewable every two years, and requires monthly lease payments of \$17,000 each. Twenty-one (21) aircraft are leased under various non-cancelable operating lease agreements that require monthly payments of \$21,000 each. The lease agreements expire in August 2010. Gulfstream has the option to extend each of these individual lease agreements for an additional term of at least six (6) months, but no more than twenty-four (24) months. Gulfstream is limited to extending no more than fifteen (15) leases for a duration of more than twelve (12) months. It is required to make contingent payments to the lessor beginning August 1, 2006, and ending on the earlier of the end of the lease terms or at a time when the cumulative contingent payments equal \$315,000. The contingent payments are computed based upon fuel costs per gallon being below specified amounts. In December 2008, Gulfstream recognized its initial contingent payment of \$35,000.

### *Facility Leases*

Gulfstream leases office and hangar space for its headquarters, airport facilities and certain other equipment under non-cancelable operating leases expiring at various dates through December 31, 2025.

During August 2005, Gulfstream and the Academy entered into building facility lease agreements with a related corporation controlled by the major stockholders of G-Air. The agreements called for both companies to occupy their facilities beginning January 1, 2006 and ending December 31, 2025. Rental payments made by Gulfstream and the Academy, respectively, in 2007 were \$204,000 and \$195,000 and in 2008 were \$220,000 and \$202,000.

### *Equipment Leases*

The Academy was party to a flight simulator operating lease agreement with monthly rental payments of \$16,000 per month. The lease expired in December 2007.

At December 31, 2008, the total future minimum rental commitments under all the above operating leases are as follows (in thousands):

2009	\$ 6,789
2010	4,237
2011	458
2012	355
2013	234

Thereafter	4,387
	\$ 16,460

For 2007 and 2008, lease expense under these operating leases was \$7,894,000 and \$8,057,000, respectively.

**(13) Stock Options**

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

combined voting power of all classes of stock. The plan authorizes 350,000 shares of our common stock to be issued under the plan. The Committee will administer the plan.

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

On May 31, 2006, the Company granted options to purchase 104,364 shares of our common stock to David Hackett, our Chief Executive Officer, at an exercise price of \$5 per share. The options vest 20% at grant date and 20% annually thereafter. The option grant was also subject to accelerated vesting of all unvested options in the event that the Company successfully completed an initial public offering of its common shares. The options expire on May 31, 2016.

During 2007, the Company granted additional options to purchase 106,000 shares of its common stock to various employees and two independent directors. The employee options vest 20% at grant date and 20% annually thereafter. The independent directors' options vest immediately on the date of grant. During 2008, the Company did not grant any options.

The following table shows the assumptions used and weighted average fair value for grants in the year ended December 31, 2007.

	<b>2007</b>
Expected annual dividend rate	0.0 %
Risk-free interest rate	4.66-4.76 %
Average expected life (years)	6
Expected volatility of common stock	41.80 %
Forfeiture rate	0.0 %
Weighted average fair value of option grants	\$ 2.38

The following table summarizes information about stock option transactions for the years ended December 31, 2007 and 2008:

<b>2007</b>		<b>2008</b>			
<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value as of December</b>

					(Years)	31, 2008
Outstanding at beginning of year	104,324	\$ 5.00	210,324	\$ 5.00	8.8	\$
Granted	106,000	\$ 5.00				
Exercised						
Forfeited						
Outstanding at end of year	210,324	\$ 5.00	210,324	\$ 5.00	7.8	\$
Exercisable at December 31, 2008			149,124	\$ 5.00	7.6	\$
Exercisable at December 31, 2007			128,724	\$ 5.00	8.5	\$

The following table summarizes the status of non-vested stock options as of December 31, 2007 and 2008:

	<b>Number</b>	<b>Weighted</b>
	<b>of Shares</b>	<b>Average</b>
		<b>Grant-Date</b>
		<b>Fair Value</b>
Non-vested shares as of January 1, 2007	83,460	\$ 2.51
Granted	106,000	\$ 2.38
Vested	(107,860 )	\$ 2.44
Cancelled		\$
Non-vested shares as of December 31, 2007	81,600	\$ 2.44
Granted		\$
Vested	20,400	\$ 2.28
Cancelled		\$
Non-vested shares as of December 31, 2008	61,200	\$ 2.49

The following table summarizes information about stock options outstanding at December 31, 2008:

	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number</b>	<b>Contractual</b>	<b>Weighted- Average Remaining</b>	<b>Number</b>	<b>Weighted- Average</b>
<b>Range of Exercise Prices</b>	<b>Outstanding</b>	<b>Life (Years)</b>	<b>Exercise Price</b>	<b>Exercisable</b>	<b>Exercise Price</b>
\$0.01 to 10.00	210,324	7.8	\$ 5.00	149,124	\$ 5.00

The Company recorded \$278,000 and \$49,000 of compensation expense for stock options during the years ended December 31, 2007 and 2008 respectively. At December 31, 2008 there was a total of \$103,000 of unrecognized compensation costs related to non-vested stock-based compensation arrangements under the Plan. The cost is expected to be recognized over a weighted average period of 2 years.

As of December 31, 2008, an aggregate of 350,000 shares of common stock are reserved for issuance under the Plan. Stock option grants were outstanding for an aggregate of 210,324 shares of stock, and 139,676 shares remained available for grant. Shares issued pursuant to the Plan will be newly-issued and authorized shares of common stock, or treasury shares.

**(14) Defined Contribution Plan**

Gulfstream sponsors a tax deferred savings plan with a discretionary profit sharing component which qualifies under Section 401(k) of the Internal Revenue Code. The plan covers all employees with the completion of a ¼ year of service. The eligible participants will always be 100% vested in their contributions to the plan, and will vest in Company contributions 25% with less than one year of total service, 50% after two years, 75% after three years, and 100% after four years of total service. The plan allows for 25% matching by the Company of up to 4% of the eligible participants compensation.

During 2007 and 2008, the Company made matching contributions totaling \$47,000 and \$49,000 respectively.

**(15) Income Taxes**

Loss before taxes and the current and deferred tax provisions are as follows (in thousands):

	<b>December 31, 2007</b>	<b>December 31, 2008</b>
Loss before taxes	\$ (3,940 )	\$ (15,308 )
Current tax provision (benefit):		
Federal	\$ (165 )	\$
Federal - 2006	367	
State	202	
Deferred tax benefit:		
Federal	(941 )	(460 )
State	(95 )	(49 )
	(1,036 )	(509 )
Tax benefit	\$ (834 )	\$ (509 )

The following is a reconciliation between the federal statutory rate of 34% and the effective rate (in thousands):

	<b>December 31, 2007</b>		<b>December 31, 2008</b>	
Computed expected benefit at the statutory rates	\$ (1,340 )	34 %	\$ (5,205 )	34 %
Increases (decrease) in income taxes resulting from:				
Non-deductible items	50	-1 %	1,275	-8 %
State income tax, net of federal effect	(143 )	4 %	(460 )	3 %
Underaccrual of 2006	367	-10 %		0 %
Effect of NOL and Sec 338 election	232	-6 %	(77 )	0 %
Deferred Tax Valuation Allowance		0 %	3,958	-26 %
	\$ (834 )	21 %	\$ (509 )	3 %

The tax effects of temporary differences that give rise to significant elements of deferred tax assets and liabilities are as follows (in thousands):

	<b>December 31, 2007</b>	<b>December 31, 2008</b>
Deferred tax assets:		
Net operating loss carry forward	\$ 1,062	\$ 4,772
Amortization of intangible assets	104	166



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Goodwill impairment	640		1,513	
Allowance for doubtful accounts	8		11	
Accrued reserves	157		136	
Compensation differences	134		152	
Valuation allowance			(3,958 )	
Non-current deferred tax assets	2,105		2,792	
Deferred tax liabilities:				
Accelerated depreciation and amortization	484		593	
Amortization of Operating Certificate	112		167	
Non-current deferred tax liabilities	596		760	
Net non-current deferred tax assets	\$	1,509	\$	2,032

A valuation allowance offsets the net deferred tax assets for which recovery is not considered more likely than not. A valuation allowance is evaluated considering positive and negative evidence about whether the deferred tax assets will be realized. At the time of evaluation, the allowance can be either increased or reduced. A reduction could result in the complete elimination of the allowance, if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required. The Company's net operating loss carryforward as of December 31, 2008 was \$12.7 million that expires in years up to 2028. A valuation allowance of \$4.0 million was provided for the net operating loss carryforward and other deferred tax assets as of December 31, 2008. We determined that the rapidly declining economy, especially since the beginning of the fourth quarter of 2008, had diminished our visibility regarding future long-term profitability. As a result, we concluded that we would more likely than not fail to realize the full benefit of such assets.

In September 2007, prior to filing our tax return for the taxable year ended December 31, 2006, we made an election under Section 338 of the Internal Revenue Code by filing for an Automatic Extension of Time to File Form 8023, pursuant to Rev. Proc. 2033-33. The Section 338 election allowed the tax bases of the assets acquired in the March 14, 2006 acquisition to be stepped up to reflect the purchase price of the stock. Primarily as a result of the Section 338 election, the Company's tax liability for 2006 was under-accrued as of December 31, 2006 and the under-accrual was charged to operations for the year ended December 31, 2007.

As of December 31, 2008, we have not recorded any provisions for accrued interest and penalties related to uncertain tax positions. When applicable, we recognize interest and penalties related to uncertain tax positions in general and administrative expense.

At December 31, 2008, tax years 2004 through 2007 remain open to examination, and possible adjustment, by the major taxing jurisdictions to which we are subject through September 2011.

## **(16) Contingencies**

The Company is involved in various legal proceedings arising in the ordinary course of business. While it is not feasible to predict or determine the outcome of these proceedings, in the opinion of management, the amount of ultimate liability with respect to legal proceedings and claims will not materially affect the results of operations or the financial position of the Company.

## **(17) Related-Party Transactions**

**Management Services Agreement.** On March 14, 2006, the Company entered into a management services agreement with the Weatherly Group and Taglich Brothers. Under this agreement, these parties agreed to provide advisory and management services to the Company in consideration of an annual management fee of \$200,000, payable monthly, and financial advisory fees based on a formula if the Company merges with or acquires another company. Expenses incurred pursuant to the management services agreement were \$200,000 in 2007. The management services agreement was terminated effective January 1, 2008. The amount of management fees owed as of December 31, 2007 was \$17,000.

**Building lease.** The Company leases its facilities for Gulfstream and the Academy from EYW Holdings, Inc., an entity controlled in part by Thomas L. Cooper and Thomas P. Cooper, an officer of Gulfstream. The total amount of rent expense incurred for these facilities during 2007 and 2008 was \$398,000 and \$414,000, respectively. The amount of rent payable to EYW Holdings, Inc. at December 31, 2007 and 2008 was \$67,000 and \$33,000 respectively.

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

Pursuant to a services agreement between Gulfstream and GAC dated August 8, 2003 and amended on March 14, 2006, Gulfstream provides use of its aircraft, flight crews, the Gulfstream name, insurance, and service personnel, including passenger, ground handling, security, and administrative. Gulfstream also maintains the financial records for GAC. Pursuant to the March 14, 2006 amended agreement, GAC receives 75% of the operating profit generated by GAC's Cuban charter operation. Prior to March 14, 2006, GAC received all of the operating profit generated up to a cumulative total of \$1 million, and then 75% thereafter.

As a result of the increasing significance of the Cuba charter business to our overall performance, we have consolidated the results of the Cuba charter business as a variable interest entity for the year ended December 31, 2008 pursuant to the requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. For the year ended December 31, 2008, gross revenue and operating expenses are included in the Consolidated Statement of Operations, and the operating profit of \$425,000 related to the Cuba charter business is included in consolidated net income. Conversely, for the year ended December 31, 2007, the operating profit of \$836,000 related to the Cuba charter business was included as a component of Revenue, and gross revenue and operating expenses were excluded from the Statement of Operations.

As of December 31, 2007 and 2008, GAC owed Gulfstream \$640,000 and \$-0- respectively, pursuant to the services agreement.

**Transactions with related parties and affiliates.** The Company rents equipment and obtains consulting services from entities controlled by Thomas L. Cooper and Thomas P. Cooper. The amounts paid for 2007 and 2008, were approximately \$114,000 and \$41,000, respectively.

### (18) Segment Information

In accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Company discloses financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company has two reportable segments: the airline and charter operation (the Airline) and the flight academy (the Academy). The accounting policies of the business segments are the same as those described in Note (1). Although the reportable segments are business units that offer different services and are managed separately, their activities are highly integrated.

Virtually all of the Company's consolidated capital expenditures, depreciation and amortization, and interest expense are attributable to Airline and Charter business segment.

Financial information for 2007 and 2008 by business segment is as follows (in thousands):

2008	Airline and Charter	Flight Academy	Parent	Intercompany Eliminations	Total
Operating revenues	\$ 104,144	\$ 2,712	\$ 97	\$ (1,697)	\$ 105,256
Operating expenses:					
Goodwill impairment		2,703			2,703
Loss on sale of equipment	4,754				4,754
All other operating expenses	110,014	3,084	443	(1,697)	111,844
Total Operating Expenses	114,768	5,787	443	(1,697)	119,301
Loss from operations	\$ (10,624)	\$ (3,075)	\$ (346)	\$	\$ (14,045)
Net loss	\$ (11,322)	\$ (3,000)	\$ (477)	\$	\$ (14,799)
	\$ 2,742	\$ 12	\$	\$	\$ 2,754

Depreciation and amortization					
Interest expense	737		569		1,306
Interest income	38				38
Income tax benefit			509		509
Capital expenditures	1,417	9			1,426
Total assets	15,325	2,918	16,827	(15,700 )	19,370

<b>2007</b>	<b>Airline and Charter</b>	<b>Flight Academy</b>	<b>Parent</b>	<b>Intercompany Eliminations</b>	<b>Total</b>
Operating revenues	\$ 110,412	\$ 3,767	\$ 360	\$ (2,243 )	\$ 112,296
Operating expenses:					
Goodwill impairment		2,391			2,391
All other operating expenses	110,534	3,810	651	(2,243 )	112,752
Total Operating Expenses	110,534	6,201	651	(2,243 )	115,143
Loss from operations	\$ (122 )	\$ (2,434 )	\$ (291 )	\$	\$ (2,847 )
Net loss	\$ (625 )	\$ (2,346 )	\$ (135 )	\$	\$ (3,106 )
Depreciation and amortization	3,749	12	\$	\$	3,761
Interest expense	642		504		1,146
Interest income	141				141
Income tax benefit			834		834
Capital expenditures	7,334	35			7,369
Total assets	33,790	8,508	13,097	(15,974 )	39,421

**(19) Selected Quarterly Financial Data (Unaudited)**

The following table presents selected quarterly unaudited financial data for each of the years ended December 31, 2007 and 2008 (in thousands):

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total Year</b>
<b>2008</b>					
Revenue	\$ 31,255	\$ 31,052	\$ 21,066	\$ 21,883	\$ 105,256
Operating expenses	33,187	36,560	25,484	24,070	119,301
Operating income (loss)	(1,932 )	(5,508 )	(4,418 )	(2,187 )	(14,045 )
Non-operating expenses	(138 )	(156 )	(101 )	(868 )	(1,263 )
Pre-tax income (loss)	(2,070 )	(5,664 )	(4,519 )	(3,055 )	(15,308 )
Income tax provision (benefit)	(784 )	(2,119 )	(441 )	2,835	(509 )
Net income (loss)	\$ (1,286 )	\$ (3,545 )	\$ (4,078 )	\$ (5,890 )	\$ (14,799 )
<b>2007</b>					
Revenue	\$ 29,226	\$ 31,979	\$ 25,470	\$ 25,621	\$ 112,296

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Operating expenses	26,297	29,005	27,939	31,902	115,143
Operating income (loss)	2,929	2,974	(2,469 )	(6,281 )	(2,847 )
Non-operating expenses	(274 )	(205 )	(249 )	(365 )	(1,093 )
Pre-tax income (loss)	2,655	2,769	(2,718 )	(6,646 )	(3,940 )
Income tax provision (benefit)	1,002	1,044	(1,020 )	(1,860 )	(834 )
Income (loss) before minority interest	1,653	1,725	(1,698 )	(4,786 )	(3,106 )
Minority interest	5	(5 )			
Net income (loss)	\$ 1,658	\$ 1,720	\$ (1,698 )	\$ (4,786 )	\$ (3,106 )

**Item 9.**

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A.**

**Controls and Procedures**

*(a)*

***Evaluation of Disclosure Controls and Procedures:***

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is collected and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that no matter how well conceived and operated, disclosure controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed, and management believes that they meet, reasonable assurance standards. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Chief Executive Officer and the Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were effective.

*(b)*

***Management's Report on Internal Control Over Financial Reporting***

The management of Gulfstream International Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2008, the company's internal control over financial reporting was effective based on those criteria.



This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

(c)

***Changes in Internal Control Over Financial Reporting***

As of the quarter ended December 31, 2008, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

**Item 9B.**

**Other Information**

None.

## PART III

### Item 10.

#### Directors, Executive Officers and Corporate Governance

Information concerning directors of the registrant is contained in our Proxy Statement under the caption ELECTION OF DIRECTORS, which information is incorporated herein by reference.

Information concerning executive officers of the registrant is contained in this report under Item 1, BUSINESS-Executive Officers, which information is incorporated herein by reference.

The information required by Item 405 of Regulation S-K is contained in our Proxy Statement to be issued in connection with its Annual Meeting of Stockholders under the caption Section 16(a) Beneficial Ownership Reporting Compliance.

Our Board of Directors adopted a Code of Ethics and Business Conduct Policy for all of our directors, officers and employees effective July 3, 2007. We have posted our Code of Ethics and Business Conduct Policy on our website ([www.gulfstreamair.com](http://www.gulfstreamair.com)). In addition, stockholders may request a free copy from our Chief Financial Officer as follows:

Gulfstream International Group, Inc.  
Robert M. Brown  
3201 Griffin Road, 4<sup>th</sup> Floor  
Fort Lauderdale, Florida  
(954) 985-1500

To the extent required by law or the rules of the NYSE Amex, any amendments to, or waivers from, any provision of the Code of Ethics and Business Conduct Policy will be promptly disclosed publicly. To the extent permitted by such requirements, we intend to make such public disclosure by posting the relevant material on our website in accordance with SEC rules.

### Item 11.

#### Executive Compensation

Information concerning executive compensation is contained in our Proxy Statement under the caption EXECUTIVE COMPENSATION, which information is incorporated herein by reference.

### Item 12.

#### Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management is contained in our Proxy Statement to be issued in connection with its Annual Meeting of Stockholders under the caption ELECTION OF DIRECTORS Information Relating to Directors, Nominees and Executive Officers and SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, which information is incorporated herein by reference.

**Item 13.**

**Certain Relationships and Related Transactions, and Director Independence**

Information concerning certain relationships and related transactions required by Item 404 of Regulation S-K is contained in our Proxy Statement to be issued in connection with its Annual Meeting of Stockholders under the caption CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, which information is incorporated herein by reference.

Information concerning director independence required by Item 407(a) of Regulation S-K is contained in our Proxy Statement to be issued in connection with its Annual Meeting of Stockholders under the caption ELECTION OF DIRECTORS, which information is incorporated herein by reference.

**Item 14.**

**Principal Accounting Fees and Services**

Information concerning accountant fees and services is contained in our Proxy Statement to be issued in connection with its Annual Meeting of Stockholders under the caption FEES PAID TO INDEPENDENT AUDITORS, which information is incorporated herein by reference.

**PART IV**

**Item 15.**

**Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements

The information required by this Item is included in Item 8 of Part II of this Form 10-K.

(a)(2) Financial Statement Schedules

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GULFSTREAM INTERNATIONAL GROUP, INC.**

By: /s/ DAVID F. HACKETT  
David F. Hackett  
Chief Executive Officer and President,  
Director

Date: March 31, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 31, 2009, by the following persons on behalf of the registrant and in the capacities indicated.

<b>Signature</b>	<b>Title</b>
/s/ THOMAS A. MCFALL Thomas A. McFall	Chairman of the Board and Senior Executive Officer
/s/ DAVID F. HACKETT David F. Hackett	Chief Executive Officer and President, Director
/s/ GARY P. ARNOLD Gary P. Arnold	Director
/s/ BARRY S. LUTIN Barry S. Lutin	Director
/s/ RICHARD R. SCHREIBER Richard R. Schreiber	Director
/s/ GARY L. FISHMAN	Director

Gary L. Fishman

/s/ ROBERT M. BROWN

Robert M. Brown

Chief Financial Officer

## INDEX TO EXHIBITS

Exhibits are listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K.

<b>Exhibit No.</b>	<b>Exhibit</b>
3.1	Certificate of Incorporation of the Registrant, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 9, 2007, exhibit 3.1
3.2	Bylaws of the Registrant, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 9, 2007, exhibit 3.3
4.1	Specimen Stock Certificate, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 16, 2007, exhibit 4.1
4.2	Form of Subordinated Debenture, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 4.2
10.1	Management Services Agreement, dated March 14, 2006, between Weatherly Group, LLC, and the Registrant, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.1
10.2	Lease Agreement dated August 1, 2005, by and between Gulfstream Training Academy, Inc. and EYW Holdings, Inc., as amended by First Amendment thereto dated as of April 17, 2006, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.2
10.3	Lease Agreement dated August 1, 2005, by and between Gulfstream International Airlines, Inc. and EYW Holdings, Inc., as amended by First Amendment thereto dated as of March 22, 2006, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.3
10.4	Code Share And Regulatory Cooperation Agreement dated as of April 21, 2003 and as thereafter amended, by and between United Air Lines, Inc. and Gulfstream International Airlines, Inc. , incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.4
10.5	Passenger Prorate Agreement dated as of October 1, 2006 and as thereafter amended, by and between United Air Lines, Inc. and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.5
10.6	Codeshare Agreement dated as of February 11, 2000 and as thereafter amended, by and between Northwest Airlines, Inc. and Gulfstream International Airlines, Inc. , incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.6
10.7	Codeshare Agreement dated as of July 1, 2005, by and between Compania Panamenia De Aviacion, S.A. and Gulfstream International Airlines, Inc. , incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.7
10.8	Amended and Restated Alliance Agreement dated December 30, 1999 and as thereafter amended, by and between Continental Airlines, Inc. and Gulfstream International Airlines, Inc. , incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.8

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- 10.9 Form of Lease Agreement dated August 3, 2003 between Raytheon Aircraft Credit Corporation and Gulfstream International Airlines, Inc., as amended by Amendment Number One dated May 23, 2005 and Amendment dated August 2, 2005, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.9
- 10.10 Subcontract Agreement effective as of April 1, 2006 and as thereafter amended, by and between Gulfstream International Airlines, Inc. and Computer Sciences Corporation, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.10
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Exhibit No.	Exhibit
10.11	Business Lease Agreement dated May 14, 1999 between Richard Bulow and Gulfstream International Airlines, Inc., as amended by Amendment dated June 21, 2004, incorporated by reference to Gulfstream International Group, Inc. Form 10-K (File No. 001-33884) dated April 14, 2008, exhibit 10.11
10.12	Form of Used Beechcraft 1900D Airliner Operating Lease Agreement dated June 8, 2006 between CSC Applied Technologies LLC and Gulfstream International Airlines, Inc., as amended by Consultant Agreement Modification dated July 20, 2006, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.12
10.13	Lease Agreement dated as of July 20, 2000 between Miami-Dade County, Florida and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated October 30, 2007, exhibit 10.13
10.14	Building Lease dated June 1, 2004 between Broward County and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated October 30, 2007, exhibit 10.14
10.15	Lease Agreement dated as of June 18, 2002, by and between Blount Realty Partners, Ltd. and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated October 30, 2007, exhibit 10.15
10.16	Form of Aircraft Lease Agreement dated as of October 28, 2004 between Gulfstream International Airlines, Inc. and Mesa Airlines Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.16
10.17	Lease dated August 1, 2006 between CSC Applied Technologies, LLC and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 7, 2007, exhibit 10.17
10.18	Agreement dated March 1, 2007 between Pratt & Whitney Canada Corp. and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated December 4, 2007, exhibit 10.18
10.19	Services Agreement dated August 8, 2003 and amended March 14, 2006 between Gulfstream International Airlines, Inc. and Gulfstream Air Charter, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated October 30, 2007, exhibit 10.19
10.20	Agreement dated June 13, 2006 between Gulfstream International Airlines, Inc. and the Airline Division of The International Brotherhood of Teamsters Representing the Pilots of Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated October 30, 2007, exhibit 10.20
10.21	Loan Agreement dated August 15, 2006 between Wachovia Bank, National Association and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.21
10.22	Loan Agreement dated as of December 29, 2005 between Gulfstream International Airlines, Inc., and Irwin Union Bank and Trust Company, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.22
10.23#	

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Gulfstream Acquisition Group, Inc. (predecessor to Gulfstream International Group, Inc.) Stock Incentive Plan, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.23

10.24#

Form of Stock Option Agreement under Gulfstream Acquisition Group, Inc. (predecessor to Gulfstream International Group, Inc.) Stock Incentive Plan, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.24

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Exhibit No.	Exhibit
10.25#	Employment Agreement dated March 14, 2006 between Thomas L. Cooper and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.25
10.26#	Employment Agreement dated March 14, 2006 between David F. Hackett and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.26
10.27#	Employment Agreement dated August 7, 2003 between Thomas P. Cooper and Gulfstream International Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.27
10.28#	Employment Agreement dated April 6, 2006 between Paul Stagias and Gulfstream Training Academy, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.28
10.29#	Form of Indemnification Agreement between the Registrant and each of its Directors and Officers, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 16, 2007, exhibit 10.29
10.30	Form of Warrant issued in connection with the acquisition of Gulfstream International Airlines and Gulfstream Flight Academy, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated July 5, 2007, exhibit 10.30
10.31	Amended and Restated Common Stock Purchase Warrant dated March 14, 2006 issued by Gulfstream International Airlines, Inc. to Continental Airlines, Inc., incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 7, 2007, exhibit 10.31
10.32	Form of Warrant issued to the Underwriters, incorporated by reference to Gulfstream International Group, Inc. Form S-1 (File No. 333-144363) dated November 16, 2007, exhibit 10.32
10.33	Aircraft Purchase and Sale Agreement dated June 26, 2008 between the Company and Pimegal Consultants Ltd., incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated August 14, 2008, exhibit 10.1
10.34	Securities Purchase Agreement entered into on September 12, 2008, and effective on August 31, 2008, by and between Gulfstream International Group, Inc. and Shelter Island Opportunity Fund, LLC, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.1
10.35	\$5,100,000 Secured Original Issue Discount Debenture entered into on September 19, 2008, and effective on August 31, 2008, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.2
10.36	Common Stock Purchase Warrant issued to Shelter Island Opportunity Fund, LLC, entered into on September 19, 2008, and effective on August 31, 2008, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.3
10.37	Security Agreement entered into on September 19, 2008, and effective on August 31, 2008, by and between Gulfstream International Group, Inc. and Shelter Island Opportunity Fund, LLC, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.4

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- 10.38 Put Option Agreement entered into on September 19, 2008, and effective on August 31, 2008, by and between Gulfstream International Group, Inc. and Shelter Island Opportunity Fund, LLC, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.5
- 10.39 Securities Purchase Agreement dated September 15, 2008, by and between Gulfstream International Group, Inc. and Gulfstream Funding, LLC, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.6
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<b>Exhibit No.</b>	<b>Exhibit</b>
10.40	\$1,000,000 Junior Subordinated Debenture dated September 16, 2008, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.7
10.41	Common Stock Purchase Warrant issued to Gulfstream Funding, LLC, dated September 16, 2008, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.8
10.42	Letter Agreement Regarding Conversion of Debenture dated September 16, 2008, by and between Gulfstream International Group, Inc. and Gulfstream Funding, LLC, incorporated by reference to Gulfstream International Group, Inc. Form 10-Q (File No. 001-33884) dated November 14, 2008, exhibit 10.9
10.43	Agreement, dated December 19, 2008 by and between Gulfstream International Airlines, Inc. and Raytheon Aircraft Credit Corporation, incorporated by reference to Gulfstream International Group, Inc. Form 8-K (File No. 001-33884) dated December 23, 2008, exhibit 10.1
11.1*	Statement re computation of per share earnings
16.1	Letter of Rotenberg Meril Solomon Bertiger & Guttilla, P.C. dated January 6, 2009, incorporated by reference to Gulfstream International Group, Inc. Form 8-K (File No. 001-33884) dated January 8, 2009, exhibit 16.1
21.1 *	List of Subsidiaries of the Registrant
31.1 *	Certification Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2 *	Certification Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1 *	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 *	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

# Indicates management contract or compensatory plan.