UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

OR

☐ **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 001-38626

MESA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada	**85-0302351**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
410 North 44th Street, Suite 700 Phoenix, Arizona 85008	**85008**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (602) 685-4000

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	MESA	Nasdaq Global Select Market

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

As of August 3, 2022, the registrant had 36,295,201 shares of common stock, no par value per share, issued and outstanding.

TABLE OF CONTENTS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, business strategy and plans, and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "*future,*" "*anticipates,*" "*believes,*" "*estimates,*" "*expects,*" "*intends,*" "*plans,*" "*predicts,*" "*will,*" "*would,*" "*should,*" "*could,*" "*can,*" "*may,*" and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 filed with the Securities and Exchange Commission on December 10, 2021. Unless otherwise stated, references to particular years, quarters, months, or periods refer to our fiscal years ended September 30 and the associated quarters, months, and periods of those fiscal years. Each of the terms "*the Company,*" "*Mesa Airlines,*" "*Mesa,*" "*we,*" "*us*" and "*our*" as used herein refers collectively to Mesa Air Group, Inc. and its wholly owned subsidiaries, unless otherwise stated. We do not assume any obligation to revise or update any forward-looking statements.

The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

- public health epidemics or pandemics such as COVID-19;
- the severity, magnitude, and duration of the COVID-19 pandemic, including impacts of the pandemic and of business' and governments' responses to the pandemic on our operations and personnel, and on demand for air travel;
- the supply and retention of qualified airline pilots and mechanics and associated costs;
- ability to secure adequate pilot training equipment and resources to meet increased demand;
- the volatility of pilot and mechanic attrition;
- dependence on, and changes to, or non-renewal of, our capacity purchase and flight services agreements;
- failure to meet certain operational performance targets in our capacity purchase and flight services agreements, which could result in termination of those agreements;
- increases in our labor costs;
- reduced utilization - the percentage derived from dividing (i) the number of block hours actually flown during a given month by (ii) the maximum number of block hours that could be flown during such month under our capacity purchase agreements;
- the direct operation of regional jets by our major partners;
- the financial strength of our major partners and their ability to successfully manage their businesses through the unprecedented decline in air travel attributable to the COVID-19 pandemic or any other public health epidemic;
- limitations on our ability to expand regional flying within the flight systems of our major partners and those of other major airlines;
- our significant amount of debt and other contractual obligations;
- our compliance with ongoing financial covenants under our credit facilities; and
- our ability to keep costs low and execute our growth strategies.

Additionally, the risks, uncertainties and other factors set forth above or otherwise referred to in the reports we have filed with the SEC may be further amplified by the global impact of the COVID-19 pandemic. While we may elect to update these forward-looking statements at some point in the future, whether as a result of any new information, future events, or otherwise, we have no current intention of doing so except to the extent required by applicable law.

Part I – Financial Information

Item 1. Financial Statements

MESA AIR GROUP, INC.
Condensed Consolidated Balance Sheets

(In thousands, except share amounts) (Unaudited)

	June 30, 2022	September 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,448	$ 120,517
Restricted cash	3,348	3,350
Receivables, net	4,050	3,167
Expendable parts and supplies, net	26,341	24,467
Prepaid expenses and other current assets	7,234	6,885
Total current assets	95,421	158,386
Property and equipment, net	1,072,826	1,151,891
Intangible assets, net	6,026	6,792
Lease and equipment deposits	6,972	6,808
Operating lease right-of-use assets	65,878	93,100
Deferred heavy maintenance, net	6,848	3,499
Assets held for sale	36,528	—
Other assets	29,686	36,121
Total assets	$ 1,320,185	$ 1,456,597
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance leases	$ 112,776	$ 111,710
Current portion of deferred revenue	726	6,298
Current maturities of operating leases	16,854	32,652
Accounts payable	66,811	61,476
Accrued compensation	10,781	12,399
Other accrued expenses	32,322	33,657
Total current liabilities	240,270	258,192
Noncurrent liabilities:		
Long-term debt and finance leases, excluding current portion	523,231	539,700
Noncurrent operating lease liabilities	20,585	33,991
Deferred credits	3,295	3,934
Deferred income taxes	50,803	69,940
Deferred revenue, net of current portion	21,994	28,202
Other noncurrent liabilities	36,971	34,591
Total noncurrent liabilities	656,879	710,358
Total liabilities	897,149	968,550
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock of no par value, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 125,000,000 shares authorized; 36,292,401 (2022) and 35,958,759 (2021) shares issued and outstanding, 4,899,497 (2022) and 4,899,497 (2021) warrants issued and outstanding	258,403	256,372
Retained earnings	164,633	231,675
Total stockholders' equity	423,036	488,047
Total liabilities and stockholders' equity	$ 1,320,185	$ 1,456,597

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share amounts) (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues:				
Contract revenue	$ 118,899	$ 109,654	$ 367,781	$ 318,524
Pass-through and other revenue	15,498	15,503	37,586	54,284
Total operating revenues	134,397	125,157	405,367	372,808
Operating expenses:				
Flight operations	43,254	41,314	133,262	115,681
Maintenance	49,694	51,986	156,032	156,623
Aircraft rent	9,299	9,648	28,319	29,688
General and administrative	11,112	12,087	31,550	36,324
Depreciation and amortization	20,103	20,933	61,878	62,108
Lease termination	—	—	—	4,508
Impairment of assets held for sale	—	—	39,475	—
Other operating expenses	722	916	3,379	3,148
Government grant recognition	—	(26,101)	—	(93,379)
Total operating expenses	134,184	110,783	453,895	314,701
Operating income (loss)	213	14,374	(48,528)	58,107
Other income (expense), net:				
Interest expense	(8,716)	(8,627)	(24,766)	(26,464)
Interest income	24	82	117	287
Loss on investments, net	(3,926)	—	(12,649)	—
Other income (expense), net	(73)	(28)	(203)	389
Total other expense, net	(12,691)	(8,573)	(37,501)	(25,788)
Income (loss) before taxes	(12,478)	5,801	(86,029)	32,319
Income tax expense (benefit)	(2,493)	1,525	(18,987)	8,236
Net income (loss) and comprehensive income (loss)	$ (9,985)	$ 4,276	$ (67,042)	$ 24,083
Net income (loss) per share attributable to common shareholders				
Basic	$ (0.28)	$ 0.12	$ (1.86)	$ 0.68
Diluted	$ (0.28)	$ 0.11	$ (1.86)	$ 0.62
Weighted-average common shares outstanding				
Basic	36,183	35,769	36,064	35,642
Diluted	36,183	39,513	36,064	38,811

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts) (Unaudited)

	Nine Months Ended June 30, 2021				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2020	35,526,918	—	$ 242,772	$ 215,087	$ 457,859
Stock compensation expense	—	—	850	—	850
Repurchased shares	(2,256)	—	(19)	—	(19)
Restricted shares issued	7,500	—	—	—	—
Issuance of warrants, net of issuance costs	—	4,899,497	11,489	—	11,489
Net income	—	—	—	14,118	14,118
Balance at December 31, 2020	35,532,162	4,899,497	$ 255,092	$ 229,205	$ 484,297
Stock compensation expense	—	—	808	—	808
Repurchased shares	(14,680)	—	(157)	—	(157)
Restricted shares issued	124,609	—	—	—	—
Employee share purchases	58,070	—	207	—	207
Net income	—	—	—	5,689	5,689
Balance at March 31, 2021	35,700,161	4,899,497	$ 255,950	$ 234,894	$ 490,844
Stock compensation expense	—	—	756	—	756
Repurchased shares	(122,960)	—	(1,209)	—	(1,209)
Restricted shares issued	313,828	—	—	—	—
Net income	—	—	—	4,276	4,276
Balance at June 30, 2021	35,891,029	4,899,497	$ 255,497	$ 239,170	$ 494,667

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts) (Unaudited)

	Nine Months Ended June 30, 2022				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2021	35,958,759	4,899,497	$ 256,372	$ 231,675	$ 488,047
Stock compensation expense	—	—	716	—	716
Repurchased shares	(2,275)	—	(15)	—	(15)
Restricted shares issued	7,500	—	—	—	—
Net loss	—	—	—	(14,274)	(14,274)
Balance at December 31, 2021	35,963,984	4,899,497	$ 257,073	$ 217,401	$ 474,474
Stock compensation expense	—	—	671	—	671
Repurchased shares	(13,421)	—	(60)	—	(60)
Restricted shares issued	122,594	—	—	—	—
Employee share purchases	53,567	—	239	—	239
Net loss	—	—	—	(42,783)	(42,783)
Balance at March 31, 2022	36,126,724	4,899,497	$ 257,923	$ 174,618	$ 432,541
Stock compensation expense	—	—	719	—	719
Repurchased shares	(116,455)	—	(339)	—	(339)
Restricted shares issued	282,132	—	100	—	100
Net loss	—	—	—	(9,985)	(9,985)
Balance at June 30, 2022	36,292,401	4,899,497	$ 258,403	$ 164,633	$ 423,036

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Cash Flows

(In thousands) (Unaudited)

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Cash flows from operating activities:		
Net income (loss)	$ (67,042)	$ 24,083
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	61,878	62,108
Stock compensation expense	2,106	2,414
Loss on investments, net	12,649	—
Deferred income taxes	(19,137)	8,030
Amortization of deferred credits	(639)	(2,471)
Amortization of debt discount and issuance costs and accretion of interest into long-term debt	8,151	8,185
Lease termination	—	4,508
Impairment of assets held for sale	39,475	—
Other	764	(732)
Changes in assets and liabilities:		
Receivables	(883)	8,765
Expendable parts and supplies	(2,418)	(1,894)
Prepaid expenses and other operating assets and liabilities	(1,519)	226
Accounts payable	4,367	(398)
Deferred heavy maintenance, net	(4,536)	—
Deferred revenue	(11,780)	11,993
Accrued expenses and other liabilities	(10,949)	15,436
Operating lease right-of-use assets and liabilities	3,097	(9,041)
Net cash provided by operating activities	13,584	131,212
Cash flows from investing activities:		
Capital expenditures	(33,230)	(10,717)
Investments in equity securities	(200)	—
Payments of equipment and other deposits	(6,954)	(6,954)
Returns of equipment and other deposits	—	632
Net cash used in investing activities	(40,384)	(17,039)
Cash flows from financing activities:		
Proceeds from long-term debt	35,311	195,000
Proceeds from issuance of common stock under ESPP	239	207
Principal payments on long-term debt and finance leases	(71,993)	(225,760)
Payments of debt and warrant issuance costs	(2,414)	(1,326)
Repurchase of stock	(414)	(1,385)
Net cash used in financing activities	(39,271)	(33,264)
Net change in cash, cash equivalents and restricted cash	(66,071)	80,909
Cash, cash equivalents and restricted cash at beginning of period	123,867	102,841
Cash, cash equivalents and restricted cash at end of period	$ 57,796	$ 183,750
Supplemental cash flow information		
Cash paid for interest	$ 14,695	$ 22,905
Cash paid for income taxes, net	$ 442	$ 398
Operating lease payments in operating cash flows	$ 31,069	$ 37,640
Supplemental non-cash operating activities		
Right-of-use assets obtained in exchange for lease liabilities	$ 5,481	$ 454
Supplemental non-cash financing activities		
Investments in warrants to purchase common stock	$ 3,260	$ 16,374
Debt issuance cost related to loan agreement with US Department of the Treasury	$ —	$ (1,887)
Debt discount on warrants issued with debt	$ —	$ 11,678
Accrued capital expenditures	$ 1,407	$ 59

See accompanying notes to these condensed consolidated financial statements.

1. Organization and Operations

About Mesa Air Group, Inc.

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa" or the "Company") is the holding company of Mesa Airlines, Inc. ("Mesa Airlines"), a regional air carrier providing scheduled flight service to 121 cities in 41 states, the District of Columbia, the Bahamas, and Mexico as well as cargo flight services out of Cincinnati/Northern Kentucky International Airport. As of June 30, 2022, Mesa's fleet consisted of 168 aircraft which were operated under the Company's Capacity Purchase Agreements ("CPAs") and Flight Services Agreement ("FSA"), leased to a third party, held for sale or maintained as operational spares, with approximately 360 daily departures and 2,600 employees. Mesa operates all of its flights as either American Eagle, United Express, or DHL Express flights pursuant to the terms of CPAs entered into with American Airlines, Inc. ("American") and United Airlines, Inc. ("United") and FSA with DHL Network Operations (USA), Inc. ("DHL") (each, our "major partner").

The CPAs between us and our major partners involve a revenue-guarantee arrangement whereby the major partners pay fixed-fees for each aircraft under contract, departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time), and reimbursement of certain direct operating expenses in exchange for providing flight services. The major partners also pay certain expenses directly to suppliers, such as fuel, ground operations and landing fees. Under the terms of these CPAs, the major partners control route selection, pricing, and seat inventories, reducing our exposure to fluctuations in passenger traffic, fare levels, and fuel prices. Under our FSA with DHL, we receive a fee per block hour with a minimum block hour guarantee in exchange for providing cargo flight services. Ground support expenses including fueling and airport fees are paid directly by DHL.

Impact of Pilot Shortage

The length and severity of the pilot shortage, which has impacted the US passenger and cargo carriers, remains uncertain. One of the primary factors contributing to the pilot shortage is the demand for pilots at major carriers, which are hiring at an accelerated rate to backfill the thousands of pilots whom they offered early retirements to at the beginning of the pandemic. These airlines now seek to increase their capacity to meet the growing demand for air travel as the global pandemic has moderated. A primary source of pilots for the major US passenger and cargo carriers are the US regional airlines.

While there is strong demand for air travel now in the United States, the exact timing and pace of a full recovery in demand remains uncertain given the significant impact of the pandemic on the overall U.S. and global economy. Air travel demand may continue to fluctuate as a result of the pandemic either moderating or becoming more extreme.

Our forecasted expenses and liquidity measures may be modified as we clarify the pilot shortage recovery timing and its impact upon our block hour production. The variable revenue based on the number of block hours has been significantly impacted by pilot attrition and our corresponding shortage of trained pilots. We may experience further reductions in subsequent quarters.

As a result of the pilot shortage, elevated pilot attrition and its negative impact on our financial results, we have taken, and are continuing to take, certain actions to increase liquidity and strengthen our financial position which include:

- Working collaboratively with our major partners, we have and continue to address financial and operational impacts of pilot attrition, hiring and overall associated costs.
- We have added flight training simulators and flight training instructors to expand our training capacity to more rapidly backfill pilots lost to attrition.
- We have implemented a bonus program to attract new pilots and put in other incentives to attract and retain simulator instructors and line check airmen.
- We have expanded the United Aviate program participation to include all pilots flying for Mesa allowing Mesa to attract and retain more qualified pilots. Previously, pilots had to fly under the United Express contract for a minimum of two (2) years to qualify for the flow through to United Airlines. Now, all pilots regardless of contract, are eligible to flow through to United.
- We continue to evaluate other initiatives to increase pilot recruitment and accelerate training throughput.

- We have formally listed 12 excess aircraft for sale to raise capital and retire debt
- We have a plan to sell 18 CRJ-700 aircraft that are currently leased to a third party.
- We have initiated discussions to refinance and defer repayment of our outstanding and drawn balance on our revolving credit facility with CIT Bank, N.A which is currently due in December 2022.
- We have delayed and/or deferred major spending on aircraft and engine maintenance to match the current and projected level of flight activity.

While there is no guarantee that these initiatives will come to fruition or otherwise achieve their desired objective, we believe it is probable that the initiatives outlined above, along with the cash flow from operating activities and cash on hand will provide us with adequate cash resources to maintain our operations and comply with our various debt and other contractual agreements, through at least the next 12 months.

As of June 30, 2022, the Company has $112.8 million of principal maturity payments on long-term debt due within the next twelve months. We plan to meet these obligations with our cash on hand, ongoing cashflows from our operations, as well as the liquidity created from our plans to monetize 18 CRJ-700 aircraft, refinance our revolving credit facility, and further amend our CPAs. If our plans are not realized, this will necessitate exploring additional opportunities to create liquidity by refinancing and deferring repayment of our principal maturity payments that are due within the next twelve months. The Company continues to monitor covenant compliance with its lenders as any noncompliance could have a material impact on the Company's financial position, cash flows and results of operations. See *Sources and Uses of Cash* in our Management's Discussion and Analysis of Financial Condition and Results of Operations section for additional disclosure.

American Capacity Purchase Agreement

As of June 30, 2022, we operated 40 CRJ-900 aircraft under an Amended and Restated Capacity Purchase Agreement with American dated November 19, 2020 (as amended, the "American CPA"). In exchange for providing passenger flight services, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown during each month. In addition, we may also receive incentives or incur penalties based upon our operational performance, including controllable on-time departure ("CD0") and controllable flight completion ("CCF") percentages. American also reimburses us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by American. In addition, American also provides, at no cost to us, certain ground handling and customer service functions as well as airport-related facilities and gates at American hubs and cities where we operate. The American CPA expires on December 31, 2025.

Our American CPA is subject to termination prior to its expiration in various circumstances including:

- If either American or we become insolvent, file for bankruptcy, or fail to pay the debts as they become due, the non-defaulting party may terminate the agreement;
- If either we or American fail to perform the covenants, conditions, or provisions of the American CPA, subject to certain notice and cure rights, the non-defaulting party may terminate the agreement;
- If, at any time during the term of the American CPA, the number of covered aircraft is less than twenty (20);
- If we are required by the United States Federal Aviation Administration ("FAA") or the United States Department of Transportation ("DOT") to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft;
- If either our CCF or CD0 falls below certain levels for a specified period of time;
- Upon the occurrence of a force majeure event (as defined in the American CPA) that lasts for a specified period of consecutive days and affects our ability to operate scheduled flights, including a future epidemic or pandemic;
- If a labor dispute affects our ability to operate over a specified number of days or we operate in violation of any existing American collective bargaining agreement; or
- Upon a change in our ownership or control without the written approval of American.

Under the American CPA, American had the option in its sole discretion to withdraw up to: (i) ten (10) aircraft during calendar year 2021, (ii) five (5) aircraft during each of calendar years 2022 and 2023, and (iii) during the period from January 1, 2024 to July 31, 2024, American can remove the first 20 aircraft to the extent not otherwise removed in 2021 – 2023, and thereafter American has the right to remove the remaining 20 aircraft. American also has the right and option to withdraw a specified number of aircraft upon each occurrence of the following:

- If our CCF falls below certain levels for a specified period of time, American may withdraw one aircraft;
- If our CD0 falls below certain levels for a specified period of time, American may withdraw one aircraft;
- If we fail to satisfactorily complete established cabin interior program requirements by certain deadlines, American may withdraw one aircraft; or
- If our block hour utilization falls below certain levels for a specified period of time, American may withdraw a specified number of aircraft.

On June 10, 2022, we amended our American CPA, pursuant to Amendment No. 8 thereto, to modify certain commercial terms thereunder. On June 20, 2022, we amended our American CPA, pursuant to Amendment No. 9 thereto, which amended and restated Schedule 1 (Covered Aircraft) to the American CPA and set forth certain equipment modification requirements with respect to Covered Aircraft added to such Schedule.

For the months of May and June 2022, we did not meet the CCF or CD0 minimum performance levels under the American CPA. The failure to meet the CCF or CD0 minimum performance levels for two (2) consecutive months under the terms of the American CPA gives American the right to remove two (2) additional aircraft from the CPA, one (1) aircraft for not meeting the CCF minimum performance level for two (2) consecutive months and one (1) aircraft for not meeting the CD0 minimum performance level for two (2) consecutive months. The Company's failure to meet the CCF or CD0 minimum performance levels for three (3) consecutive months gives American the right to terminate the CPA upon 90 days' notice and to provide a wind-down schedule. Subsequent to June 30, 2022, we entered into Amendment No. 10 to our American CPA which, among other things, reset the CCF and CD0 3-month measurement periods for purposes of American's termination rights to commence August 2022. See Note 17 - Subsequent Events for a discussion of Amendment No. 10. In addition to the foregoing, our block hour utilization has fallen below required levels in prior months, which also gives American the right to withdraw certain aircraft, subject to complying with applicable notice requirements under the American CPA. As of the date of this Quarterly Report on Form 10-Q, American has not exercised such withdrawal rights.

United Capacity Purchase Agreement

As of June 30, 2022, we operated 60 E-175 and 20 E-175LL aircraft under a Second Amended and Restated Capacity Purchase Agreement with United dated November 4, 2020 (as amended, the “United CPA”). In exchange for providing passenger flight services, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown and the results of passenger satisfaction surveys. United reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. United also reimburses us on a pass-through basis for all costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("APUs"), and component maintenance for the E-175 aircraft owned by United. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United.

Under our United CPA, United owns 42 of the 60 E-175 aircraft and all of the E-175LL aircraft and leases them to us at nominal amounts. The E-175 aircraft owned by United and leased to us have terms expiring between 2024 and 2028, and the 18 E-175 aircraft owned by us have terms expiring in 2028. The E-175LL aircraft have terms expiring between 2032 and 2033.

Pursuant to the United CPA, we agreed to lease our CRJ-700 aircraft to another United Express service provider for a term of nine (9) years. We ceased operating our CRJ-700 fleet in February 2021 in connection with the transfer of those aircraft into a lease agreement, and as of June 30, 2022, have entered into agreements to lease 20 of our 20 CRJ-700 aircraft.

Our United CPA is subject to termination rights prior to its expiration in various circumstances including:

- If certain operational performance factors fall below a specified percentage for a specified time, subject to notice under certain circumstances;
- If we fail to perform the material covenants, agreements, terms or conditions of our United CPA or similar agreements with United, subject to thirty (30) days' notice and cure rights;

- If either United or we become insolvent, file bankruptcy, or fail to pay debts when due, the non-defaulting party may terminate the agreement;
- If we merge with, or if control of us is acquired by another air carrier or a corporation directly or indirectly owning or controlling another air carrier;
- United, subject to certain conditions, including the payment of certain costs tied to aircraft type, may terminate the agreement in its discretion, or remove E-175 aircraft from service, by giving us notice of 90 days or more;
- If United elects to terminate our United CPA in its entirety or permanently remove certain aircraft from service, we are permitted to return any of the affected E-175 aircraft leased from United at no cost to us; and
- Commencing five (5) years after the actual in-service date, United has the right to remove the E-175 aircraft from service by giving us notice of 90 days or more, subject to certain conditions, including the payment of certain wind-down expenses plus, if removed prior to the ten (10) year anniversary of the in-service date, certain accelerated margin payments.

DHL Flight Services Agreement

On December 20, 2019, we entered into a Flight Services Agreement with DHL (the “DHL FSA”). Under the terms of the DHL FSA, we operate three (3) Boeing 737-400F aircraft to provide cargo air transportation services. In exchange for providing cargo flight services, we receive a fee per block hour with a minimum block hour guarantee. We are eligible for a monthly performance bonus or subject to a monthly penalty based on timeliness and completion performance. Ground support expenses including fueling and airport fees are paid directly by DHL.

Under our DHL FSA, DHL leases two (2) Boeing 737-400F aircraft and subleases them to us at nominal amounts. DHL reimburses us on a pass-through basis for all costs related to heavy maintenance including C-checks, off-wing engine maintenance and overhauls including life limited parts (“LLPs”), landing gear overhauls and LLPs, thrust reverser overhauls, and APU overhauls and LLPs. Certain items such as fuel, de-icing fluids, landing fees, aircraft ground handling fees, en-route navigation fees, and custom fees are paid directly to suppliers by DHL or otherwise reimbursed if incurred by us.

Our DHL FSA expires five (5) years from the commencement date of the first aircraft placed into service, which was in October 2020. DHL has the option to extend the agreement with respect to one or more aircraft for a period of one year with 90 days’ advance written notice.

Our DHL FSA is subject to termination rights prior to its expiration in various circumstances including:

- If either party fails to comply with the obligations, warranties, representations, or undertakings under the DHL FSA, subject to certain notice and cure rights;
- If either party is declared bankrupt or insolvent;
- If we are unable to legally operate the aircraft under the DHL FSA for a specified number of days;
- At any time after the first anniversary of the commencement date of the first aircraft placed in service with 90 days’ written notice;
- If we fail to comply with performance standards for three consecutive measurement periods;
- If we are subject to a labor incident that materially and adversely affects our ability to perform services under the DHL FSA for a specified number of days;
- Upon a change in our control or ownership; and
- DHL may terminate the agreement for a specific aircraft if it is subject to a total loss and we do not provide alternate services at our expense, or if the aircraft becomes unavailable for more than 30 days due to unscheduled maintenance.

For the months of April, May, and June 2022, we did not meet the CCF and CA minimum performance levels under the DHL FSA. The failure to meet the minimum performance levels for three (3) consecutive months under the terms of the DHL FSA gives DHL the right to terminate the FSA. Management has received a waiver arising out of the failure to meet the aforementioned CCF and CA performance levels.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its wholly owned operating subsidiaries. Any reference in these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB"). All intercompany accounts and transactions have been eliminated in consolidation. Reclassifications of certain immaterial prior period amounts have been made to conform to the current period presentation.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended September 30, 2021 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2021 on file with the U.S. Securities and Exchange Commission (the "SEC"). Information and footnote disclosures normally included in financial statements have been condensed or omitted in these condensed consolidated financial statements pursuant to the rules and regulations of the SEC and GAAP. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented.

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") and may remain an emerging growth company until the last day of its fiscal year following the fifth anniversary of the Company's initial public offering ("IPO"), subject to specified conditions. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. The Company has elected to "opt out" of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Segment Reporting

As of June 30, 2022, our chief operating decision maker was the Chief Executive Officer. While we operate under two separate capacity purchase agreements and a flight services agreement, we do not manage our business based on any performance measure at the individual contract level. Our chief operating decision maker uses consolidated financial information to evaluate our performance and allocate resources, which is the same basis on which he communicates our results and performance to our Board of Directors. Accordingly, we have a single operating and reportable segment.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements. Actual results could differ from those estimates.

Contract Revenue and Pass-through and Other Revenue

We recognize contract revenue when the service is provided under our CPAs and FSA. Under the CPAs and FSA, our major partners generally pay for each departure, flight hour or block hour incurred, and an amount per aircraft in service each month with additional incentives or penalties based on flight completion, on-time performance, and other operating metrics. Our performance obligation is met as each flight is completed, and revenue is recognized and reflected in contract revenue.

We recognize pass-through revenue when the service is provided under our CPAs and FSA. Pass-through revenue represents reimbursements for certain direct expenses incurred including passenger liability and hull insurance, property taxes, other direct costs defined within the agreements, and major maintenance on aircraft leased from our major partners at nominal rates. Our performance obligation is met when each flight is completed or as the maintenance services are performed, and revenue is recognized and reflected in pass-through and other revenue.

We record deferred revenue when cash payments are received or are due from our major partners in advance of our performance. During the three and nine months ended June 30, 2022, we recognized $6.8 million and $11.8 million of previously deferred revenue, respectively. Deferred revenue is recognized as flights are completed over the remaining terms of the respective contracts.

The deferred revenue balance as of June 30, 2022 represents our aggregate remaining performance obligations that will be recognized as revenue over the period in which the performance obligations are satisfied, and is expected to be recognized as revenue as follows (in thousands):

Periods Ending June 30,	Total Revenue
2022 (remainder of)	$ 106
2023	759
2024	4,860
2025	8,282
2026	3,984
Thereafter	4,729
Total	$ 22,720

A portion of our compensation under our CPAs with American and United is designed to reimburse the Company for certain aircraft ownership costs. Such costs include aircraft principal and interest debt service costs, aircraft depreciation, and interest expense or aircraft lease expense costs while the aircraft is under contract. We have concluded this component of the compensation under these agreements is lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period of time. We account for the non-lease component under ASC 606 and account for the lease component under ASC 842. We allocate the consideration in the contract between the lease and non-lease components based on their stated contract prices, which is based on a cost basis approach representing our estimate of the stand-alone selling prices.

The lease revenue associated with our CPAs is accounted for as an operating lease and is reflected as contract revenue in the condensed consolidated statements of operations and comprehensive income (loss). We recognized $38.7 million and $41.2 million of lease revenue for the three months ended June 30, 2022 and 2021, respectively, and $118.5 million and $131.8 million during the nine months ended June 30, 2022 and 2021, respectively. We have not separately stated aircraft rental income in the condensed consolidated statements of operations and comprehensive income (loss) because the use of the aircraft is not a separate activity from the total service provided under our CPAs.

We have entered into lease agreements with GoJet Airlines LLC (“GoJet”) to lease 20 CRJ-700 aircraft as of June 30, 2022. The lease agreements are accounted for as operating leases and have a term of nine (9) years beginning on the delivery date of each aircraft. Under the lease agreements, GoJet pays fixed monthly rent per aircraft and variable lease payments for supplemental rent based on monthly aircraft utilization at fixed rates. Supplemental rent payments are subject to reimbursement following GoJet’s completion of qualifying maintenance events defined in the agreements. Lease revenue for fixed monthly rent payments is recognized ratably within contract revenue. Lease revenue for supplemental rent is deferred and recognized within contract revenue when it is probable that amounts received will not be reimbursed for future qualifying maintenance events over the lease term.

We mitigate the residual asset risks through supplemental rent payments and by leasing aircraft and engine types that we can operate in the event of a default. Additionally, the leases have specified lease return condition requirements and we maintain inspection rights under the leases. As of June 30, 2022, we recognized $15.0 million of lease incentive assets, net of amortization, and $11.6 million of related lease incentive obligations for reimbursement of certain aircraft maintenance costs defined within the lease agreements. Lease incentive assets are amortized on a straight-line basis and recognized as a reduction to lease revenue over the lease term.

Lease revenue recognized under the GoJet agreements, net of amortization of the lease incentive assets, was $7.1 million and $20.3 million for the three and nine months ended June 30, 2022, respectively, and $3.4 million and $4.0 million for the three and nine months ended June 30, 2021, respectively. Amounts deferred for supplemental rent payments totaled $2.6 million as of June 30, 2022.

The following table summarizes future minimum rental income under operating leases related to leased aircraft that had remaining non-cancelable lease terms as of June 30, 2022 (in thousands):

Periods Ending June 30,	Total Payments
2022 (remainder of)	$ 5,460
2023	21,840
2024	21,840
2025	21,840
2026	21,840
Thereafter	82,733
Total	$ 175,553

Leases

We determine if an arrangement is a lease at inception. As a lessee, we have lease agreements with lease and non-lease components and have elected to account for such components as a single lease component. Our operating lease activities are recorded in operating lease right-of-use assets, current maturities of operating leases, and noncurrent operating lease liabilities in the condensed consolidated balance sheets. Finance leases are reflected in property and equipment, net, current portion of long-term debt and finance leases, and long-term debt and finance leases, excluding current portion in the condensed consolidated balance sheets.

Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Certain variable lease payments are not included in the calculation of the right-of-use assets and lease liability due to uncertainty of the payment amount and are recorded as lease expense in the period incurred. In determining the present value of lease payments, we use either the implicit rate in the lease when it is readily determinable or our estimated incremental borrowing rate, based on information available at the lease commencement. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease costs are recognized on a straight-line basis over the lease term, while finance leases result in a front-loaded expense pattern.

As a lessee, we have elected a short-term lease practical expedient on all classes of underlying assets, permitting us to not apply the recognition requirements of ASC 842 to leases with terms of 12 months or less.

We lease, at nominal rates, certain aircraft from United and DHL under our United CPA and DHL FSA, which are excluded from operating lease assets and liabilities as they do not represent embedded leases under ASC 842. Other than such leases at nominal amounts, approximately 11% of our aircraft are leased from third parties. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the term of the related leases. In the event that we or one of our major partners decide to exit an activity involving leased aircraft, losses may be incurred. In the event that we exit an activity that results in exit losses, these losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. Additionally, any remaining ROU assets and lease liabilities are written off.

The majority of our leased aircraft are leased through trusts that have a sole purpose to purchase, finance, and lease these aircraft to us; therefore, they meet the criteria of a variable interest entity. However, since these are single-owner trusts in which we do not participate, we are not at risk for losses and are not considered the primary beneficiary. Management believes that our maximum exposure under these leases is the remaining lease payments.

Contract Liabilities

Contract liabilities consist of deferred credits for cost reimbursements from major partners related to aircraft modifications and pilot training associated with capacity purchase agreements. The deferred credits are recognized over time depicting the pattern of the transfer of control of services resulting in ratable recognition of revenue over the remaining term of the capacity purchase agreements.

Current and non-current deferred credits are recorded in other accrued expenses and non-current deferred credits in the condensed consolidated balance sheets. Our total current and non-current deferred credit balances at June 30, 2022 and September 30, 2021 were $4.1 million and $4.8 million, respectively. We recognized $0.2 million and $0.2 million of the deferred credits within contract revenue during the three months ended June 30, 2022 and 2021, respectively, and $0.6 million and $2.1 million during the nine months ended June 30, 2022 and 2021, respectively.

Maintenance Expense

We operate under an FAA approved continuous inspection and maintenance program. The cost of non-major scheduled inspections and repairs and routine maintenance costs for all aircraft and engines are charged to maintenance expense as incurred.

We account for heavy maintenance and major overhaul costs on our owned E-175 fleet under the deferral method whereby the cost of heavy maintenance and major overhaul is deferred and amortized until the earlier of the end of the useful life of the related asset or the next scheduled heavy maintenance event. Amortization of heavy maintenance and major overhaul costs charged to depreciation and amortization expense was $0.5 million and $0.1 million for the three months ended June 30, 2022 and 2021, respectively, and $1.2 million and $0.1 million for the nine months ended June 30, 2022 and 2021, respectively. As of June 30, 2022 and September 30, 2021, our deferred heavy maintenance balance, net of accumulated amortization, was $6.8 million and $3.5 million, respectively.

We account for heavy maintenance and major overhaul costs for all other fleets under the direct expense method whereby costs are expensed to maintenance expense as incurred, except for certain maintenance contracts where labor and materials price risks have been transferred to the service provider and require payment on a utilization basis, such as flight hours. Costs incurred for maintenance and repair for utilization maintenance contracts where labor and materials price risks have been transferred to the service provider are charged to maintenance expense based on contractual payment terms.

Engine overhaul expense totaled $8.1 million and $4.0 million for the three months ended June 30, 2022 and 2021, respectively, of which $6.0 million and $2.7 million, respectively, was pass-through expense. Engine overhaul expense totaled $18.2 million and $25.3 million for the nine months ended June 30, 2022 and 2021, respectively, of which $14.5 million and $14.5 million, respectively, was pass-through expense. Airframe C-check expense totaled $5.0 million and $14.1 million for the three months ended June 30, 2022 and 2021, respectively, of which $1.3 million and $5.6 million, respectively, was pass-through expense. Airframe C-check expense totaled $18.8 million and $38.3 million for the nine months ended June 30, 2022 and 2021, respectively, of which $1.7 million and $18.3 million, respectively, was pass-through expense.

Assets Held for Sale

We classify assets as held for sale when our management approves and commits to a formal plan of sale that is probable of being completed within one year. Assets designated as held for sale are recorded at the lower of their current carrying value or their fair market value, less costs to sell, beginning in the period in which the assets meet the criteria to be classified as held for sale. See Note 6 for further discussion of our assets classified as held for sale as of June 30, 2022.

3. Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”) to simplify the accounting for income taxes by eliminating certain exceptions allowable under the existing guidance related to the approach for intraperiod tax allocations, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. Our adoption of this guidance on October 1, 2021 did not have a material impact.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) (“ASU 2020-04”). This ASU provides optional expedients and exceptions for a limited period of time for accounting for contracts, hedging relationships, and other transactions affected by the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued. Optional expedients can be applied through December 31, 2022. We continue to evaluate our contracts that reference LIBOR.

4. Concentrations of Credit Risk

Financial instruments that potentially expose the Company to a concentration of credit risk consist principally of cash and cash equivalents that are primarily held by financial institutions in the United States and accounts receivable. Amounts on deposit with a financial institution may at times exceed federally insured limits. We maintain our cash accounts with high credit quality financial institutions and, accordingly, minimal credit risk exists with respect to the financial institutions.

As of June 30, 2022, we had $3.3 million in restricted cash. We have an agreement with a financial institution for a letter of credit facility and to issue letters of credit for particular airport authorities, worker's compensation insurance, property and casualty insurance and other business needs as required in certain lease agreements. Pursuant to the terms of this agreement, $3.3 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Significant customers are those which represent more than 10% of our total revenue or net accounts receivable balance at each respective balance sheet date. All of our revenue for the three and nine months ended June 30, 2022 and 2021 was derived from the American and United CPAs, DHL FSA, and from leases of our CRJ-700 aircraft to GoJet. Substantially all of our accounts receivable at June 30, 2022 and September 30, 2021 was derived from these agreements.

American accounted for approximately 46% and 45% of our total revenue for the three months ended June 30, 2022 and 2021, respectively, and 46% and 46% of our total revenue for the nine months ended June 30, 2022 and 2021, respectively. United accounted for approximately 47% and 51% of our total revenue for the three months ended June 30, 2022 and 2021, respectively, and 48% and 52% of our total revenue for the nine months ended June 30, 2022 and 2021, respectively. A termination of either the American or United CPA would have a material adverse effect on our business prospects, financial condition, results of operations, and cash flows.

Amounts billed under our agreements are subject to our interpretation of the applicable agreement and are subject to audit by our major partners. Periodically, our major partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon the Company prevailing under the applicable audit, but also upon the financial well-being of the major partner. As such, we review amounts due based on historical collection trends, the financial condition of the major partners, and current external market factors and record a reserve for amounts estimated to be uncollectible in accordance with the applicable guidance for expected credit losses. Our allowance for doubtful accounts was not material as of June 30, 2022 or September 30, 2021. If our ability to collect these receivables and the financial viability of our major partners is materially different than estimated, our estimate of the allowance for credit losses could be materially impacted.

5. Intangible Assets

Information about our intangible assets as of June 30, 2022 and September 30, 2021, is as follows (in thousands):

	June 30, 2022	September 30, 2021
Customer relationship	$ 43,800	$ 43,800
Accumulated amortization	(37,774)	(37,008)
Net carrying value	$ 6,026	$ 6,792

Total amortization expense recognized was $0.3 million and $0.3 million for the three months ended June 30, 2022 and 2021, respectively, and $0.8 million and $0.9 million for the nine months ended June 30, 2022 and 2021, respectively. We expect to record amortization expense of $0.3 million for the remainder of 2022, and $0.9 million, $0.8 million, $0.7 million, and $0.6 million for fiscal years 2023, 2024, 2025 and 2026, respectively, and $2.8 million of amortization expense thereafter.

As of June 30, 2022, our intangible assets' remaining amortization term is 13.3 years.

6. Assets Held for Sale

During 2022, our management committed to a formal plan to sell certain of our CRJ-900 and CRJ-200 aircraft. The aircraft are expected to be disposed of via sale within the next 12 months. Accordingly, we determined the aircraft met the criteria to be classified as assets held for sale and have separately presented them in our condensed consolidated balance sheet at the lower of their current carrying value or their fair market value less costs to sell. The fair values are based upon observable and unobservable inputs, including recent purchase offers and market trends and conditions. The assumptions used to determine the fair value of our assets held for sale are subject to inherent uncertainty and could produce a wide range of outcomes which we will continue to monitor in future periods as new information becomes available. Prior to the ultimate sale of the assets, subsequent changes in our estimate of the fair value of our assets held for sale will be recorded as a gain or loss with a corresponding adjustment to the assets' carrying value. In connection with the classification of these assets as held for sale, we recorded impairment losses of $39.5 million, which are reflected within impairment of assets held for sale in our condensed consolidated statements of operations and comprehensive income (loss).

7. Balance Sheet Information

Certain significant amounts included in the condensed consolidated balance sheets consisted of the following (in thousands):

	June 30, 2022	September 30, 2021
Expendable parts and supplies, net:		
Expendable parts and supplies	$ 31,437	$ 29,297
Less: obsolescence and other	(5,096)	(4,830)
	$ 26,341	$ 24,467
Prepaid expenses and other current assets:		
Prepaid aviation insurance	$ 2,355	$ 2,171
Lease incentives	1,875	1,445
Other	3,004	3,269
	$ 7,234	$ 6,885
Property and equipment, net:		
Aircraft and other flight equipment	$ 1,533,992	$ 1,611,544
Other equipment	5,399	4,934
Leasehold improvements	2,776	2,776
Vehicles	993	1,184
Building	699	699
Furniture and fixtures	298	300
Total property and equipment	1,544,157	1,621,437
Less: accumulated depreciation	(471,331)	(469,546)
	$ 1,072,826	$ 1,151,891
Other assets:		
Investments in equity securities	$ 16,586	$ 25,149
Lease incentives	13,085	10,957
Other	15	15
	$ 29,686	$ 36,121
Other accrued expenses:		
Accrued property taxes	$ 4,751	$ 8,783
Accrued interest	4,485	2,565
Accrued vacation	5,109	5,936
Other	17,977	16,373
	$ 32,322	$ 33,657
Other noncurrent liabilities:		
Warrant liabilities	$ 25,225	$ 21,964
Lease incentive obligations	6,492	6,358
Other	5,254	6,269
	$ 36,971	$ 34,591

We record impairment charges on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired, the undiscounted net cash flows estimated to be generated by those assets are less than the carrying amount of those assets, and the net book value of the assets exceeds their estimated fair value. We have assessed whether any impairment of our long-lived assets held and used existed and have determined that no charges were deemed necessary under applicable accounting standards as of June 30, 2022. Our assumptions about future conditions relevant to the assessment of potential impairment of our long-lived assets held and used are subjects to uncertainty, and we will continue to monitor these conditions in future periods as new information becomes available, and will update our analyses accordingly.

Property and equipment, net:

Depreciation of property and equipment totaled $19.3 million and $20.6 million for the three months ended June 30, 2022 and 2021, respectively, and $59.9 million and $61.2 million for the nine months ended June 30, 2022 and 2021, respectively.

Investments in Equity Securities

In connection with a negotiated forward purchase contract for electrically-powered vertical takeoff and landing aircraft ("eVTOL aircraft") executed in February 2021, we obtained warrants giving us the right to acquire a number shares of common stock in Archer Aviation, Inc. ("Archer"). We estimated the initial equity warrant asset value to be $16.4 million based on publicly available information as of the grant date. In September 2021, the merger between Archer and a special purpose acquisition company ("SPAC") was completed, resulting in a readily determinable fair value of our investments in Archer. Accordingly, gains and losses associated with changes in the fair value of our investments in Archer are measured in earnings, in accordance with ASC 321, *Investments – Equity Securities*. In connection with the closing of the merger between Archer and the SPAC, we purchased 500,000 Class A common shares in Archer for $5.0 million, and obtained an additional warrant to purchase shares of Archer with a total grant date value of $5.6 million. All of our vested warrants have been exercised into shares of Archer common stock.

The initial grant date values of the warrants were recognized as a vendor credit liability within other noncurrent liabilities. The liability related to the warrant assets will be settled in the future, as a reduction of the acquisition date value of the eVTOL aircraft contemplated in the related aircraft purchase agreement.

Our investments in Archer are classified as Level 1 within the fair value hierarchy as the values are determined using quoted prices for the equity securities.

In connection with a negotiated forward purchase contract for fully electric aircraft executed in July 2021, we obtained $5.0 million of preferred stock in Heart Aerospace Incorporated ("Heart"), a privately held company. Our investment in Heart does not have a readily determinable fair value, so we account for the investment using the measurement alternative under ASC 321 and measure the investment at initial cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. We consider a range of factors when adjusting the fair value of these investments, including, but not limited to, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment, or other features that indicate a change to fair value is warranted. Any changes in fair value from the initial cost of the investment in preferred stock are recognized as increases or decreases on our balance sheet and as net gains or losses on investments in equity securities. The initial investment in preferred stock was measured at cost of $5.0 million.

In connection with a negotiated forward purchase contract for hybrid-electric vertical takeoff and landing ("VTOL") aircraft executed in February 2022, we obtained a warrant giving us the right to acquire a number of shares of common stock in the privately-held manufacturer of the VTOL aircraft. These investments do not have a readily determinable fair value, so we account for them using the measurement alternative under ASC 321 and measure the investments at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments from the same issuer. We consider a range of factors when adjusting the fair value of these investments, including, but not limited to, the term and nature of the investment, local market conditions, values for comparable securities, current and projected operating performance, financing transactions subsequent to the acquisition of the investment or other features that indicate a discount to fair value is warranted. Any changes in fair value from the grant date value of the warrant assets will be recognized as increases or decreases to the investment on our balance sheet and as net gains or losses on investments equity securities. We estimated the initial warrant asset value to be $3.2 million based on prices of similar investments in the same issuer. The grant date value of the warrants, $3.2 million, was recognized as a vendor credit liability within other noncurrent liabilities. The liability related to the warrant assets will be settled in the future, as a reduction of the acquisition date value of the VTOL aircraft contemplated in the related forward purchase agreement.

Total net losses on our investments in equity securities totaled $3.9 million and $12.6 million during the three and nine months ended June 30, 2022, respectively, and are reflected in loss on investments, net in our condensed consolidated statements of operations and comprehensive income (loss). As of June 30, 2022, the aggregate carrying amount of our investments in equity securities was $16.0 million, and the carrying amount of our investments without readily determinable fair values was $9.6 million.

8. Fair Value Measurements

Fair value is an exit price representing the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Accounting standards include disclosure requirements relating to the fair values used for certain financial instruments and establish a fair value hierarchy. The hierarchy prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of three levels:

Level 1	—	Observable inputs such as quoted prices in active markets for identical assets or liabilities;
Level 2	—	Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
Level 3	—	Unobservable inputs in which there is little or no market data, requiring an entity to develop its own assumptions.

Other than our assets held for sale and investments in equity securities described in Notes 6 and 7, respectively, we did not measure any of our assets or liabilities at fair value on a recurring or nonrecurring basis as of June 30, 2022 and September 30, 2021.

The carrying values reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments.

Our debt agreements are not traded on an active market. We have determined the estimated fair value of our debt to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable and, therefore, could be sensitive to changes in inputs. We utilize the discounted cash flow method to estimate the fair value of Level 3 debt.

The carrying value and estimated fair value of our total long-term debt, including current maturities, were as follows (in millions):

	June 30, 2022		September 30, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and finance leases, including current maturities(1)	$ 653.4	$ 585.9	$ 670.3	$ 676.8

(1) Current and prior period long-term debts' carrying and fair values exclude net debt issuance costs.

9. Long-Term Debt, Finance Leases, and Other Borrowings

Long-term debt as of June 30, 2022 and September 30, 2021, consisted of the following (in thousands):

	June 30, 2022	September 30, 2021
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027(1)	$ 77,058	$ 86,551
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028(2)	141,690	152,100
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028(3)	110,892	122,762
Other obligations due to financial institutions, collateralized by the underlying equipment, due 2023 and 2024(4)	18,481	4,581
Notes payable to financial institution, collateralized by the underlying equipment, due 2024(5)	31,557	45,559
Notes payable to financial institution, collateralized by the underlying aircraft, due 2023(6)	17,500	30,625
Notes payable to financial institution due 2023(7)	2,500	4,000
Revolving credit facility(8)	15,630	22,930
Notes payable to U.S. Treasury due 2025(9)	204,947	201,227
Notes payable to financial institution, collateralized by the underlying equipment, due 2027(10)	33,141	—
Gross long-term debt, including current maturities	653,396	670,335
Less unamortized debt issuance costs	(9,522)	(9,295)
Less notes payable warrants	(7,867)	(9,630)
Net long-term debt, including current maturities	636,007	651,410
Less current portion, net of unamortized debt issuance costs	(112,776)	(111,710)
Net long-term debt	$ 523,231	$ 539,700

(1) In fiscal 2015, we financed seven CRJ-900 aircraft with $170.2 million in debt. The senior notes payable of $154.7 million bear interest at monthly LIBOR plus 2.71% and require monthly principal and interest payments. The subordinated notes payable are noninterest-bearing and become payable in full on the last day of the term of the notes. We imputed an interest rate of 6.25% on the subordinated notes payable and recorded a related discount of $8.1 million, which is being accreted to interest expense over the term of the notes.

(2) In fiscal 2016, we financed ten E-175 aircraft with $246.0 million in debt under an EETC financing arrangement (see discussion below). The debt bears interest ranging from 4.75% to 6.25% and requires semi-annual principal and interest payments.

(3) In fiscal 2016, we financed eight E-175 aircraft with $195.3 million in debt. The senior notes payable of $172.0 million bear interest at the three-month LIBOR plus a spread ranging from 2.20% to 2.32% and require quarterly principal and interest payments. The subordinated notes payable bear interest at 4.50% and require quarterly principal and interest payments.

(4) In February 2018, we leased two spare engines. The leases were determined to be finance leases as the leases contain a bargain purchase option at the end of the term. Imputed interest is 9.13% and the leases require monthly payments. In April 2022, we leased a spare engine which was determined to be a finance lease. The lease requires monthly payments. In July 2022, we extended our existing two aircraft under operating leases, which were determined to be finance leases upon classification assessment.

(5) In January 2019, we financed certain flight equipment with $91.2 million in debt. The debt bears interest at the monthly LIBOR plus 3.10% and requires monthly principal and interest payments.

(6) In June 2019, we financed ten CRJ-700 aircraft with $70.0 million in debt, which were previously leased. The debt bears interest at the monthly LIBOR plus 5.00% and requires monthly principal and interest payments.

(7) In September 2019, we financed certain flight equipment for $8.0 million. The debt bears interest at the monthly LIBOR plus 5.00% and requires monthly principal and interest payments.

(8) In September 2019, we extended the term on our $35.0 million working capital draw loan by three years, which now terminates in December 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%.

(9) In October 2020, we entered into a loan and guarantee agreement with the U.S. Department of the Treasury for a secured loan facility of up to $200.0 million that matures on October 30, 2025. On October 30, 2020, we borrowed $43.0 million and on November 13, 2020, we borrowed an additional $152.0 million. These amounts bear interest at the three-month LIBOR plus 3.50%. No further borrowings are available under the loan and guarantee agreement.

(10) In December 2021 and June 2022, we financed the purchase of spare engines with $35.3 million in debt. The debt bears interest at monthly LIBOR plus 4.25% and requires monthly principal and interest payments over a term of six years. The financing arrangement allows for additional borrowings to finance future engine purchases.

Principal maturities of long-term debt as of June 30, 2022, and for each of the next five years are as follows (in thousands):

Periods Ending September 30,	Total Principal
2022 (remainder of)	$ 29,822
2023	111,432
2024	72,400
2025	63,751
2026	271,065
Thereafter	104,926
	$ 653,396

The carrying value of collateralized aircraft and equipment as of June 30, 2022 was approximately $1,014.2 million.

Enhanced Equipment Trust Certificate ("EETC")

In December 2015, an Enhanced Equipment Trust Certificate ("EETC") pass-through trust was created to issue pass-through certificates to obtain financing for new E-175 aircraft. As of June 30, 2022, we had $141.7 million of equipment notes outstanding issued under the EETC financing included in long-term debt in the condensed consolidated balance sheets. The structure of the EETC financing consists of a pass-through trust created by Mesa to issue pass-through certificates, which represent fractional undivided interests in the pass-through trust and are not obligations of Mesa.

The proceeds of the issuance of the pass-through certificates were used to purchase equipment notes which were issued by Mesa and secured by its aircraft. The payment obligations under the equipment notes are those of Mesa. Proceeds received from the sale of pass-through certificates were initially held by a depositary in escrow for the benefit of the certificate holders until Mesa issued equipment notes to the trust, which purchased such notes with a portion of the escrowed funds.

We evaluated whether the pass-through trust formed for the EETC financing is a Variable Interest Entity ("VIE") and required to be consolidated. We have determined we do not have a variable interest in the pass-through trust, and therefore, we have not consolidated the pass-through trust with our financial statements.

CIT Revolving Credit Facility

On September 25, 2019, we extended the term on our $35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. As of June 30, 2022, the amount outstanding on the working capital draw loan was $15.6 million.

Our CIT revolving credit facility includes a minimum interest and rental coverage ratio covenant. In March and April 2022, we entered into amendments to the CIT revolving credit facility which lowered the minimum interest and rental coverage ratio covenant for the December 2021, March 2022, and June 2022 quarters. As a result, we are in compliance with this covenant.

On June 30, 2022, we entered into the Second Amended and Restated Credit and Guaranty Agreement by and among Mesa Airlines and Mesa Air Group Airline Inventory Management, L.L.C., as borrowers, Mesa Air Group, as a Guarantor, the other guarantors party thereto from time to time, CIT Bank, as Administrative Agent, and the other lenders party thereto, which was effective as of June 30, 2022 and extended the maturity date of the facility by three (3) months to December 31, 2022

Loan Agreement with the United States Department of the Treasury

On October 30, 2020, we entered into a loan and guarantee agreement with the U.S. Department of the Treasury (the "U.S. Treasury") for a secured loan facility of up to $200.0 million that matures in October 2025 ("the Treasury Loan"). During the first quarter of fiscal 2021, we borrowed an aggregate of $195.0 million. No further borrowings are available under the Treasury Loan.

The Treasury Loan bears interest at a variable rate equal to (a)(i) the LIBOR rate divided by (ii) one minus the Eurodollar Reserve Percentage plus (b) 3.50%. Accrued interest on the loans is payable in arrears, or paid-in-kind by increasing the principal balance of the loan by such interest payment, on the first business day following the 14th day of each March, June, September, and December.

All principal amounts outstanding under the Treasury Loan are due and payable in a single installment on October 30, 2025. Through June 30, 2022, interest on the Treasury Loan has been paid-in-kind by increasing the principal amount of the loan by the amount of such interest due on the interest payment date. Commencing in June 2022, we initiated the payment of interest in lieu of increasing the principal amount of the loan. Our obligations under the Treasury Loan are secured by certain aircraft, aircraft engines, accounts receivable, ground service equipment, flight simulators, and tooling (collectively, the "Collateral"). The obligations under the Treasury Loan are guaranteed by the Company and Mesa Air Group Inventory Management. The proceeds were used for general corporate purposes and operating expenses, to the extent permitted by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Voluntary prepayments of the Treasury Loan may be made, in whole or in part, without premium or penalty, at any time and from time to time. Amounts prepaid may not be reborrowed. Mandatory prepayments of the Treasury Loan are required, without premium or penalty, to the extent necessary to comply with the covenants discussed below, certain dispositions of the Collateral, certain debt issuances secured by liens on the Collateral, and certain insurance payments related to the Collateral. In addition, if a "change of control" (as defined in the Treasury Loan) occurs with respect to Mesa Airlines, we will be required to repay the loans outstanding under the Treasury Loan.

The Treasury Loan requires us, under certain circumstances, including within ten (10) business days prior to the last business day of March and September of each year beginning March 2021, to appraise the value of the Collateral and recalculate the collateral coverage ratio. If the calculated collateral coverage ratio is less than 1.6 to 1.0, we are required either to provide additional Collateral (which may include cash collateral) to secure the obligations under the Treasury Loan or repay the term loans under the Treasury Loan, in such amounts that the recalculated collateral coverage ratio, after giving effect to any such additional Collateral or repayment, is at least 1.6 to 1.0.

The Treasury Loan contains two financial covenants, a minimum collateral coverage ratio and a minimum liquidity level. The Treasury Loan also contains customary negative and affirmative covenants for credit facilities of this type, including, among others: (a) limitations on dividends and distributions; (b) limitations on the creation of certain liens; (c) restrictions on certain dispositions, investments, and acquisitions; (d) limitations on transactions with affiliates; (e) restrictions on fundamental changes to the business, and (f) restrictions on lobbying activities. Additionally, we are required to comply with the relevant provisions of the CARES Act, including limits on employment level reductions after September 30, 2020, restrictions on dividends and stock buybacks, limitations on executive compensation, and requirements to maintain certain levels of scheduled service.

In connection with the Treasury Loan and as partial compensation to the U.S. Treasury for the provision of financial assistance under the Treasury Loan, we issued to the U.S. Treasury warrants to purchase an aggregate of 4,899,497 shares of our common stock at an exercise price of $3.98 per share, which was the closing price of the common stock on April 9, 2020. The exercise price and number of shares of common stock issuable under the warrants are subject to adjustment as a result of anti-dilution provisions contained in the warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at our option. The fair value of the warrants was estimated using a Black-Scholes option pricing model and recorded in stockholders' equity with an offsetting debt discount to the Treasury Loan in the condensed consolidated balance sheets.

In April 2022, we entered into an agreement with the U.S. Treasury to lower the minimum collateral coverage ratio covenant to 1.5 to 1.0 through September 30, 2022. As a result, we are in compliance with this covenant as of June 30, 2022.

Spare Engine Financing

In December 2021, we entered into a loan agreement with a financing institution to finance certain purchases of spare engines via a newly formed limited liability company ("LLC"). The loan agreement provides for aggregate borrowings of up to $54.0 million through November 2022. In December 2021, we borrowed an aggregate of $35.3 million under the loan agreement, which matures in December 2027. The borrowed amounts are collateralized by the underlying engines and require monthly principal and interest payments until maturity. Borrowings under the loan agreement bear interest at the monthly LIBOR plus 4.25%. The borrowings are the obligation of the newly formed LLC and are guaranteed by Mesa Airlines, Inc.

The newly formed LLC, which is wholly owned by Mesa, was determined to be a VIE for which we are the primary beneficiary because we have the power to direct the activities of the LLC that most significantly impact the LLC's economic performance and the obligation to absorb losses and right to receive benefits from the LLC in our capacity as sole member of the LLC and guarantor of the borrowings. Therefore, the LLC is consolidated in our financial statements and the borrowings are reflected as long-term debt in our condensed consolidated balance sheets.

The loan agreement contains a loan-to-value ("LTV") financial covenant pursuant to which we are required to prepay certain amounts of the loan if the aggregate outstanding principal balance of the loan exceeds a specified percentage of the appraised value of the engines beginning in the 12th full month after closing and each June 1 and December 1 thereafter.

As of June 30, 2022, we were in compliance with all debt covenants.

10. Earnings Per Share

Calculations of net income (loss) per common share attributable to Mesa Air Group were as follows (in thousands, except per share data):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Net income (loss) attributable to Mesa Air Group	$ (9,985)	$ 4,276	$ (67,042)	$ 24,083
Basic weighted average common shares outstanding	36,183	35,769	36,064	35,642
Add: Incremental shares for:				
Dilutive effect of warrants	—	3,084	—	2,536
Dilutive effect of restricted stock	—	660	—	633
Diluted weighted average common shares outstanding	36,183	39,513	36,064	38,811
Net income (loss) per common share attributable to Mesa Air Group:				
Basic	$ (0.28)	$ 0.12	$ (1.86)	$ 0.68
Diluted	$ (0.28)	$ 0.11	$ (1.86)	$ 0.62

Basic income or loss per common share is computed by dividing net income or loss attributable to Mesa Air Group by the weighted average number of common shares outstanding during the period.

The number of incremental shares from the assumed issuance of shares relating to restricted stock and exercise of warrants is calculated by applying the treasury stock method. Share-based awards and warrants whose impact is anti-dilutive under the treasury stock method are excluded from the diluted net income or loss per share calculation. In loss periods, these incremental shares are excluded from the calculation of diluted loss per share, as the inclusion of unvested restricted stock and warrants would have an anti-dilutive effect.

The following number of weighted-average potentially dilutive shares were excluded from the calculation of diluted net income (loss) per share because the effect of including such potentially dilutive shares would have been anti-dilutive:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Warrants	—	—	1,011	—
Restricted stock	—	—	142	—
	—	—	1,153	—

11. Common Stock

As discussed in Note 9, we issued warrants to the U.S. Treasury to purchase shares of our common stock, no par value, at an exercise price of $3.98 per share. The exercise price and number of shares issuable under the warrants are subject to adjustment as a result of anti-dilution provisions contained in the warrants for certain stock issuances, dividends, and other corporate actions. The warrants expire on the fifth anniversary of the date of issuance and are exercisable either through net share settlement or net cash settlement, at our option. The warrants were accounted for within equity at a grant date fair value determined under the Black-Scholes option pricing model. As of June 30, 2022, 4,899,497 warrants were issued and outstanding.

We have not historically paid dividends on shares of our common stock. Additionally, the Treasury Loan and our aircraft lease facility with RASPRO Trust 2005, a pass-through trust, contain restrictions that limit our ability to or prohibit us from paying dividends to holders of our common stock.

12. Income Taxes

Our effective tax rate (ETR) from continuing operations was 19.9% and 22.1% for the three and nine months ended June 30, 2022, respectively, and 26.3% and 25.5% for the three and nine months ended June 30, 2021, respectively. The Company's ETR during the three and nine months ended June 30, 2022 was different from the prior year tax rates primarily as a result of the vesting of stock compensation where the tax deduction state taxes differed from the book expense, changes in the valuation allowance against state net operating losses, and changes in state statutory rates.

We continue to maintain a valuation allowance on a portion of our state net operating losses in jurisdictions with shortened carryforward periods or in jurisdictions where our operations have significantly decreased as compared to prior years in which the net operating losses were generated.

As of September 30, 2021, we had aggregate federal and state net operating loss carryforwards of approximately $541.3 million and $235.7 million, respectively, which expire in fiscal years 2027-2038 and 2022-2041, respectively. Approximately $1.2 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

13. Share-Based Compensation and Stock Repurchases

Restricted Stock

We grant restricted stock units ("RSUs") as part of our long-term incentive compensation to employees and non-employee members of the Board of Directors. RSUs generally vest over a period of 3 to 5 years for employees and one year for members of the Board of Directors. The restricted common stock underlying RSUs are not deemed issued or outstanding upon grant, and do not carry any voting rights.

The restricted share activity for the nine months ended June 30, 2022 is summarized as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested at September 30, 2021	1,006,206	$ 6.22
Granted	664,414	$ 3.46
Vested	(412,226)	$ 6.28
Forfeited	(28,695)	$ 10.08
Restricted shares unvested at June 30, 2022	1,229,699	$ 4.62

As of June 30, 2022, there was $3.8 million of total unrecognized compensation cost related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.6 years.

Compensation cost for share-based awards is recognized on a straight-line basis over the vesting period. Share-based compensation expense for the three months ended June 30, 2022 and 2021 was $0.7 million and $0.7 million, respectively, and for the nine months ended June 30, 2022 and 2021 was $2.1 million and $2.4 million, respectively.

We repurchased 132,151 shares of our common stock for $0.4 million to cover the income tax obligation on vested employee equity awards during the nine months ended June 30, 2022.

14. Employee Stock Purchase Plan

2019 ESPP

The Mesa Air Group, Inc. 2019 Employee Stock Purchase Plan (the *"2019 ESPP"*) is a nonqualified plan that provides eligible employees of Mesa Air Group, Inc. with an opportunity to purchase Mesa Air Group, Inc. ordinary shares through payroll deductions. Under the 2019 ESPP, eligible employees may elect to contribute 1% to 15% of their eligible compensation during each semi-annual offering period to purchase Mesa Air Group, Inc. ordinary shares at a 10% discount.

A maximum of 500,000 Mesa Air Group, Inc. ordinary shares may be issued under the 2019 ESPP. As of June 30, 2022, eligible employees purchased and we issued an aggregate of 247,761 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP, 53,567 of which were purchased and issued during the nine months ended June 30, 2022.

15. Leases

As of June 30, 2022, we leased 20 aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases. The leases generally require us to pay all taxes, maintenance, insurance, and other operating expenses. Rental expense is recognized on a straight-line basis over the lease term, net of lessor rebates and other incentives. We expect that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased.

Aggregate rental expense under all operating aircraft, equipment and facility leases totaled approximately $10.8 million and $11.3 million for the three months ended June 30, 2022 and 2021, respectively, and $33.1 million and $34.0 million for the nine months ended June 30, 2022 and 2021, respectively.

The components of our operating lease costs were as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Operating lease costs	$ 9,534	$ 9,194	$ 28,678	$ 28,599
Variable and short-term lease costs	1,311	2,099	4,392	5,434
Total lease costs	$ 10,845	$ 11,293	$ 33,070	$ 34,033

As of June 30, 2022, our operating leases have a remaining weighted average lease term of 3.8 years and our operating lease liabilities were measured using a weighted average discount rate of 4.5%.

During the nine months ended June 30, 2022, we recorded a $0.2 million impairment of certain operating lease ROU assets associated with the abandonment of a leased facility.

16. Commitments and Contingencies

Engine Purchase Commitments

On February 26, 2021, the Company and General Electric Company (“GE”), acting through its GE-Aviation business unit, entered into an Amended and Restated Letter Agreement No. 13-3. We agreed to purchase and take delivery of ten (10) new CF34-8C5 or CF34-8E5 engines with delivery dates starting from July 1, 2021 through November 1, 2022. The total purchase commitment related to these ten (10) engines is approximately $52.2 million. We also have options to purchase an additional ten (10) similar engines beyond 2022. As of June 30, 2022, we have purchased seven (7) of the engines pursuant to the Amended and Restated Letter Agreement No. 13-3 with delivery of the remaining three (3) engines expected to take place during calendar year 2022.

If we fail to accept delivery of the spare engines when duly tendered, we may be assessed a minimum cancellation charge based on the engine price determined as of the date of scheduled engine delivery.

Litigation

We are subject to two putative class action lawsuits alleging federal securities law violations in connection with our IPO, one in the Superior Court of the State of Arizona and one in U.S. District Court of Arizona. These purported class actions were filed in March and April 2020 against the Company, certain current and former officers and directors, and certain underwriters of the Company’s IPO. The state and federal lawsuits each make the same or similar allegations of violations of the Securities Act of 1933, as amended, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement.

On March 2, 2022, the parties in the federal lawsuit attended a mediation and reached an agreement in principle to settle all claims asserted in that action for the sum of $5 million, which will be paid by the Company's directors' and officers' insurance carriers. The settlement is subject to preliminary and final approval by the federal court. The motion for preliminary approval was filed on May 6, 2022, and no objections to the settlement were filed by the deadline for such objections. The parties are waiting for the Court to schedule a date for the preliminary approval hearing. If preliminary and final approval is obtained, the claims of all putative class members, whether asserted in the federal or state actions, will be extinguished, unless and only to the extent that a particular class member takes affirmative steps to have its claims excluded.

In addition, we are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2022, our management believed the ultimate outcomes of other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity or results of operations.

We are involved in various legal proceedings (including, but not limited to, insured claims) and FAA civil action proceedings that we do not believe will have a material adverse effect upon our business, financial condition, or results of operations, although no assurance can be given to the ultimate outcome of any such proceedings.

Electric Aircraft Forward Purchase Commitments

As described in Note 7, in February 2021, we entered into a forward purchase contract with Archer for a number of eVTOL aircraft. The aggregate base commitment for the eVTOL aircraft is $200.0 million, with an option to purchase additional aircraft. Our obligation to purchase the eVTOL aircraft is subject to the Company and Archer first agreeing in the future to a number of terms and conditions, which may or may not be met.

As described in Note 7, in July 2021, we entered into a forward purchase contract with Heart for a number of fully electric aircraft. The maximum aggregate base commitment for the aircraft is $1,200.0 million, with an option to purchase additional aircraft. Our obligation to purchase the aircraft is subject to the Company and Heart first agreeing in the future to a number of terms and conditions, which may or may not be met.

Other Commitments

We have certain contracts for goods and services that require us to pay a penalty, acquire inventory specific to us or purchase contract-specific equipment, as defined by each respective contract, if we terminate the contract without cause prior to its expiration date. Because these obligations are contingent on our termination of the contract without cause prior to its expiration date, no obligation would exist unless such a termination occurs.

17. Subsequent Events

On July 22, 2022, we amended our United CPA, pursuant to Amendment No. 3 thereto, to among other things, (a) temporarily modify an operational performance metric and related incentives, and (b) amend certain commercial terms set forth in specified schedules to the CPA.

On July 28, 2022, we amended our American CPA, pursuant to Amendment No. 10 thereto, to, among other things, (a) modified certain commercial terms, (b) provide that, commencing with calendar months after January 1, 2022, during any calendar month in which a Notification Shortfall (as defined in the CPA) occurs, bonuses and rebates will not be assessed, (c) reset the CCF and CD0 3-month measurement periods for purposes of American's termination rights under the CPA to commence August 2022, and (d) amended certain other amounts payable to us thereunder.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements, the accompanying notes, and the other financial information included elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements that involve risks and uncertainties such as our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the sections titled "Cautionary Notes Regarding Forward-Looking Statements" above and "Risk Factors" below.

Overview

Mesa Airlines is a regional air carrier providing scheduled passenger service to 121 cities in 41 states, the District of Columbia, the Bahamas, and Mexico as well as cargo services out of Cincinnati/Northern Kentucky International Airport. All of our flights are operated as either American Eagle, United Express, or DHL Express flights pursuant to the terms of capacity purchase agreements ("*CPAs*") entered into with American Airlines, Inc. ("*American*") and United Airlines, Inc. ("*United*"), and a Flight Services Agreement ("*FSA*") with DHL Network Operations (USA), Inc. ("*DHL*") (each, our "*major partner*"). We have a significant presence in several of our major partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of June 30, 2022, our fleet consisted of 168 aircraft which we operated under our CPAs and FSA, leased to a third party, held for sale or maintained as spares, with approximately 360 daily departures. We operate 40 CRJ-900 aircraft under our American CPA and 60 E-175 and 20 E-175LL aircraft under our United CPA. We operate 3 Boeing 737-400F aircraft under our DHL FSA. As of June 30, 2022, approximately 65% of our aircraft in scheduled service were operated for United, approximately 33% were operated for American and 2% were operated for DHL. All of our operating revenue in our three and nine months ended June 30, 2022 was derived from operations associated with our American and United CPAs, DHL FSA, and from leases of aircraft to a third party.

Our long-term CPAs provide us guaranteed monthly revenue for each aircraft under contract, a fixed fee for each block hour (the number of hours during which the aircraft is in revenue service, measured from the time of gate departure before take-off until the time of gate arrival at the destination) and flights actually flown, and reimbursement of certain direct operating expenses in exchange for providing regional flying on behalf of our major partners. Our CPAs also shelter us from many of the elements that cause volatility in airline financial performance, including fuel prices, variations in ticket prices, and fluctuations in number of passengers. In providing regional flying under our CPAs, we use the logos, service marks, flight crew uniforms and aircraft paint schemes of our major partners. Our major partners control route selection, pricing, seat inventories, marketing and scheduling, and provide us with ground support services, airport landing slots and gate access.

Under our DHL FSA, we receive a fee per block hour with a minimum monthly block hour guarantee in exchange for providing cargo flight services. Ground support including fueling and airport fees are paid directly by DHL.

Impact of the COVID-19 Pandemic

The rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world significantly reduced demand for air travel beginning in the quarter ended March 31, 2020. This reduction in demand had an unprecedented and materially adverse impact on our revenues and financial position in both fiscal 2020 and 2021 that has continued into fiscal 2022. While there was a moderate increase in demand for air travel beginning in fiscal 2021, we continue to be impacted by the direct and indirect effects of the virus, including increased employee attrition and employee absence rates, and a decrease in the supply of qualified pilots. The exact timing and pace of the recovery is uncertain given the significant impact of the pandemic on the overall U.S. and global economy, as well as the uncertainty of certain factors outside of our control including current or future travel restrictions, vaccination effectiveness, vaccine mandates, and future variants of the virus. Since a portion of our revenue is fixed due to the structure of our CPAs, the impact to Mesa from the COVID-19 pandemic has been partially mitigated. In addition, our exposure to fluctuations in passenger traffic, ticket and fuel prices is limited.

Components of Results of Operations

The following discussion summarizes the key components of our condensed consolidated statements of operations and comprehensive income (loss).

Operating Revenues

Our operating revenues consist primarily of contract revenue as well as pass-through and other revenues.

Contract Revenue. Contract revenue consists of the fixed monthly amounts per aircraft received pursuant to our CPAs and FSA with our major partners, along with the additional amounts received based on the number of flights and block hours flown, and rental revenue for aircraft leased to GoJet Airlines LLC. Contract revenues we receive from our major partners are paid and recognized over time consistent with the delivery of service under our CPAs and FSA.

Pass-Through and Other Revenue. Pass-through and other revenue consists of passenger and hull insurance, aircraft property taxes, landing fees, and other aircraft and traffic servicing costs received pursuant to our agreements with our major partners, as well as certain maintenance costs related to our E-175 aircraft.

Operating Expenses

Our operating expenses consist of the following items:

Flight Operations. Flight operations expense includes costs related to salaries, bonuses and benefits earned by our pilots, flight attendants, and dispatch personnel, as well as costs related to technical publications, lodging of our flight crews and pilot training expenses.

Maintenance. Maintenance expense includes costs related to engine overhauls, airframe, landing gear and normal recurring maintenance, which includes pass-through maintenance costs related to our E-175 aircraft. Heavy maintenance and major overhaul costs on our owned E-175 fleet are deferred and amortized until the earlier of the end of the useful life of the related asset or the next scheduled heavy maintenance event. All other maintenance costs are expensed as incurred, except for certain maintenance contracts where labor and materials price risks have been transferred to the service provider and require payment on a utilization basis, such as flight hours. Costs incurred for maintenance and repair for utilization maintenance contracts where labor and materials price risks have been transferred to the service provider are charged to maintenance expense based on contractual payment terms. As a result of using the direct expense method for heavy maintenance on the majority of our fleets, the timing of maintenance expense reflected in the financial statements may vary significantly from period to period.

Aircraft Rent. Aircraft rent expense includes costs related to leased engines and aircraft.

General and Administrative. General and administrative expense includes insurance and taxes, the majority of which are pass-through costs, non-operational administrative employee wages and related expenses, building rents, real property leases, utilities, legal, audit and other administrative expenses.

Depreciation and Amortization. Depreciation expense is a periodic non-cash charge primarily related to aircraft, engine, and equipment depreciation. Amortization expense is a periodic non-cash charge related to our customer relationship intangible asset.

Impairment of Assets Held for Sale. Impairment of assets held for sale includes charges for impairments of our assets held for sale, including changes in the fair value of assets held for sale.

Other Operating Expenses. Other operating expenses primarily consists of fuel costs for flying we undertake outside of our CPAs and FSA (including aircraft re-positioning and maintenance) as well as costs for aircraft and traffic servicing, such as aircraft cleaning, passenger disruption reimbursements, international navigation fees and wages of airport operations personnel, a portion of which are reimbursable by our major partners. All aircraft fuel and related fueling costs for flying under our CPAs and FSA are directly paid and supplied by our major partners. Accordingly, we do not record an expense or pass-through revenue for fuel supplied by American and United for flying under our CPAs or DHL under our FSA.

Other Income (Expense), Net

Interest Expense. Interest expense is interest on our debt incurred to finance purchases of aircraft, engines, and equipment, including amortization of debt financing costs and discounts.

Interest Income. Interest income includes interest income on our cash and cash equivalent balances.

Loss on Investments, Net. Loss on investments consists of net losses on our investments in equity securities resulting from changes in the fair value of the equity securities.

Other Expense. Other expense includes expense derived from activities not classified in any other area of the condensed consolidated statements of operations and comprehensive income (loss).

Segment Reporting

Operating segments are defined as components of an enterprise about which discrete financial information is available that is evaluated regularly by the chief operating decision maker ("*CODM*") in deciding how to allocate resources and in assessing operating performance. In consideration of ASC 280, *Segment Reporting*, we are not organized around specific services or geographic regions. We currently operate in one service line providing scheduled flight services in accordance with our capacity purchase agreements and flight services agreement.

While we operate under two separate capacity purchase agreements and one flight services agreement, we do not manage our business based on any performance measure at the individual contract level. Additionally, our CODM uses consolidated financial information to evaluate our performance, which is the same basis on which he communicates our results and performance to our Board of Directors. The CODM bases all significant decisions regarding the allocation of our resources on a consolidated basis. Based on the information described above and in accordance with the applicable literature, management has concluded that we are organized and operated as one operating and reportable segment.

Results of Operations

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

We had operating income of $0.2 million in our three months ended June 30, 2022 compared to operating income of $14.4 million in our three months ended June 30, 2021. In our three months ended June 30, 2022, we had net loss of $10.0 million compared to net income of $4.3 million in our three months ended June 30, 2021.

Our operating results for the three months ended June 30, 2022 reflect an increase in flight operations expense resulting from increased pilot training as well as a decrease in maintenance expense mainly as a result of fewer C-checks. Additionally, there were no government grant funds utilized as an offset to operating expenses during the three months ended June 30, 2022, compared to $26.1 million during the three months ended June 30, 2021.

Operating Revenues

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Change	
Operating revenues ($ in thousands):				
Contract	$ 118,899	$ 109,654	$ 9,245	8.4%
Pass-through and other	15,498	15,503	(5)	(0.0)%
Total operating revenues	$ 134,397	$ 125,157	$ 9,240	7.4%
Operating data:				
Available seat miles—ASMs (thousands)	1,553,616	2,056,905	(503,289)	(24.5)%
Block hours	63,486	85,162	(21,676)	(25.5)%
Revenue passenger miles—RPMs (thousands)	1,358,298	1,692,687	(334,389)	(19.8)%
Average stage length (miles)	619	651	(32)	(4.9)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 7.65	¢ 5.33	¢ 2.32	43.5%
Passengers	2,164,295	2,572,303	(408,008)	(15.9)%

"Available seat miles" or "ASMs" means the number of seats available for passengers multiplied by the number of miles the seats are flown.

"Average stage length" means the average number of statute miles flown per flight segment.

"Block hours" means the number of hours during which the aircraft is in revenue service, measured from the time of gate departure before take-off until the time of gate arrival at the destination.

"CRASM" means contract revenue divided by ASMs.

"RPM" means the number of miles traveled by paying passengers.

Total operating revenue increased by $9.2 million, or 7.4%, to $134.4 million for our three months ended June 30, 2022 as compared to our three months ended June 30, 2021. Contract revenue increased by $9.2 million, or 8.4%, to $118.9 million primarily due to normalized contractual rates from our major partners and recognition of higher deferred revenue, partially offset by reduced block hours flown compared to the three months ended June 30, 2021. The increase in rates compared to the three months ended June 30, 2021 is attributable to temporarily reduced rates from our major partners impacting the three months ended June 30, 2021 as a result of lower labor costs due to government assistance received during the same period. Our block hours flown during our three months ended June 30, 2022, decreased 25.5% compared to the three months ended June 30, 2021 due to a decrease in scheduled flying for our major partners across all fleets. Our pass-through and other revenue remained static during our three months ended June 30, 2022.

Operating Expenses

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 43,254	$ 41,314	$ 1,940	4.7%
Maintenance	49,694	51,986	(2,292)	(4.4)%
Aircraft rent	9,299	9,648	(349)	(3.6)%
General and administrative	11,112	12,087	(975)	(8.1)%
Depreciation and amortization	20,103	20,933	(830)	(4.0)%
Other operating expenses	722	916	(194)	(21.2)%
Government grant recognition	—	(26,101)	26,101	(100.0)%
Total operating expenses	$ 134,184	$ 110,783	$ 23,401	21.1%
Operating data:				
Available seat miles—ASMs (thousands)	1,553,616	2,056,905	(503,289)	(24.5)%
Block hours	63,486	85,162	(21,676)	(25.5)%
Average stage length (miles)	619	651	(32)	(4.9)%
Departures	33,291	42,390	(9,099)	(21.5)%

Flight Operations. Flight operations expense increased $1.9 million, or 4.7%, to $43.3 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021. The increase was primarily driven by an increase in pilot training-related costs.

Maintenance. Aircraft maintenance expense decreased $2.3 million, or 4.4%, to $49.7 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021. This decrease was primarily driven by a lower volume of airframe C-checks, partially offset by increases in pass-through engine overhauls, labor, and other maintenance expenses. Total pass-through maintenance expenses reimbursed by our major partners decreased by $0.3 million during our three months ended June 30, 2022 compared to our three months ended June 30, 2021.

The following table presents information regarding our maintenance costs during the three months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Change	
Engine overhaul	$ 2,052	$ 1,307	$ 745	57.0%
Pass-through engine overhaul	6,028	2,740	3,288	120.0%
C-check	3,725	8,567	(4,842)	(56.5)%
Pass-through C-check	1,260	5,553	(4,293)	(77.3)%
Component contracts	6,131	7,349	(1,218)	(16.6)%
Rotable and expendable parts	5,726	5,921	(195)	(3.3)%
Other pass-through	4,997	4,260	737	(17.3)%
Labor and other	19,775	16,289	3,486	21.4%
Total	$ 49,694	$ 51,986	$ (2,292)	(4.4)%

Aircraft Rent. Aircraft rent expense decreased $0.3 million, or 3.6%, to $9.3 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021. This was primarily driven by lower engine rent expense.

General and Administrative. General and administrative expense decreased $1.0 million, or 8.1%, to $11.1 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021. The decrease is primarily due to a decrease in property taxes. For our three months ended June 30, 2022 and 2021, $2.3 million and $3.3 million, respectively, of our insurance and property tax expenses were reimbursed by our major partners.

Depreciation and Amortization. Depreciation and amortization expense decreased by $0.8 million, or 4.0%, to $20.1 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021.

Other Operating Expenses. Other operating expenses decreased $0.2 million, or 21.2%, to $0.7 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021. The decrease is primarily attributable to a decrease in aircraft depreciation expense as a result of a portion of our fleet being classified as held for sale during the three months ended June 30, 2022, offset by an increase in spare engine depreciation expense as well as amortization of deferred heavy maintenance. The decrease is primarily driven by a decrease in aircraft cleaning expense.

Government Grant Recognition. Recognition of payroll support funds decreased $26.1 million, or 100.0%, to $0.0 million for our three months ended June 30, 2022 compared to our three months ended June 30, 2021. Under the American Recovery Plan Act of 2021, the government provided the Company with a grant of $52.2 million in payroll support, of which $26.1 million was recognized as an offset to operating expense during the three months ended June 30, 2021. There were no government grant funds received by the Company recognized as an offset to operating expense during the three months ended June 30, 2022.

Other Expense

Other expense increased $4.1 million, or 48.0%, to $12.7 million for our three months ended June 30, 2022, compared to our three months ended June 30, 2021. The increase is primarily attributable to net losses on investments in equity securities of $3.9 million.

Income Taxes

Our effective tax rate (ETR) from continuing operations was 19.9% for the three months ended June 30, 2022 and 26.3% for the three months ended June 30, 2021. Our ETR during the three months ended June 30, 2022 decreased from the prior year tax rate, primarily as a result of certain permanent tax differences, state taxes, and changes in the valuation allowance against state net operating losses.

We continue to maintain a valuation allowance on a portion of our state net operating losses in jurisdictions with shortened carryforward periods or in jurisdictions where our operations have significantly decreased as compared to prior years in which the net operating losses were generated.

As of September 30, 2021, the Company had aggregate federal and state net operating loss carryforwards of $541.3 million and $235.7 million, respectively, which expire in 2027-2038 and 2022-2041, respectively. Approximately $1.2 million of state net operating loss carryforwards are expected to expire in the current year.

Nine Months Ended June 30, 2022 Compared to Nine Months Ended June 30, 2021

We had operating loss of $48.5 million in our nine months ended June 30, 2022 compared to operating income of $58.1 million in our nine months ended June 30, 2021. In our nine months ended June 30, 2022, we had net loss of $67.0 million compared to net income of $24.1 million in our nine months ended June 30, 2021.

Our operating results for the nine months ended June 30, 2022 reflect an increase in flight operations expense due to higher pilot and flight attendant wages, lodging, and training expenses. We also recognized impairment charges of $39.5 million on certain of our CRJ aircraft classified as held for sale during the nine months ended June 30, 2022, as described in Note 6 to the condensed consolidated financial statements. Additionally, there were no government grant funds utilized as an offset to operating expenses during the nine months ended June 30, 2022, compared to $93.4 million during the nine months ended June 30, 2021. Lastly, our general and administrative expense decreased due to lower pass-through insurance costs.

Operating Revenues

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021	Change	
Operating revenues ($ in thousands):				
Contract	$ 367,781	$ 318,524	$ 49,257	15.5%
Pass-through and other	37,586	54,284	(16,698)	(30.8)%
Total operating revenues	$ 405,367	$ 372,808	$ 32,559	8.7%
Operating data:				
Available seat miles—ASMs (thousands)	5,275,133	5,499,346	(224,213)	(4.1)%
Block hours	215,178	228,351	(13,173)	(5.8)%
Revenue passenger miles—RPMs (thousands)	4,427,618	4,012,596	415,022	10.3%
Average stage length (miles)	644	659	(15)	(2.3)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.97	¢ 5.79	¢ 1.18	20.4%
Passengers	6,779,398	6,086,060	693,338	11.4%

Total operating revenue increased by $32.6 million, or 8.7%, to $405.7 million for our nine months ended June 30, 2022 as compared to our nine months ended June 30, 2021. Contract revenue increased by $49.3 million, or 15.5%, to $367.8 million primarily due to normalized contractual rates from our major partners and recognition of higher deferred revenue, partially offset by reduced block hours flown compared to the nine months ended June 30, 2021. The increase in rates compared to the nine months ended June 30, 2021 is attributable to temporarily reduced rates from our major partners impacting the nine months ended June 30, 2021 as a result of lower labor costs due to government assistance received during the same period. Our pass-through and other revenue decreased during our nine months ended June 30, 2022 by $16.7 million, or 30.8%, to $37.6 million primarily due to a decrease in pass-through maintenance related to our E-175 fleet and pass-through property taxes.

Operating Expenses

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 133,262	$ 115,681	$ 17,581	15.2%
Maintenance	156,032	156,623	(591)	(0.4)%
Aircraft rent	28,319	29,688	(1,369)	(4.6)%
General and administrative	31,550	36,324	(4,774)	(13.1)%
Depreciation and amortization	61,878	62,108	(230)	(0.4)%
Lease termination	—	4,508	(4,508)	(100.0)%
Impairment of assets held for sale	39,475	—	39,475	100.0%
Other operating expenses	3,379	3,148	231	7.3%
Government grant recognition	—	(93,379)	93,379	(100.0)%
Total operating expenses	$ 453,895	$ 314,701	$ 139,194	44.2%
Operating data:				
Available seat miles—ASMs (thousands)	5,275,133	5,499,346	(224,213)	(4.1)%
Block hours	215,178	228,351	(13,173)	(5.8)%
Average stage length (miles)	644	659	(15)	(2.3)%
Departures	108,721	113,004	(4,283)	(3.8)%

Flight Operations. Flight operations expense increased $17.6 million, or 15.2%, to $133.3 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The increase was primarily driven by an increase in pilot wages and pilot training-related costs.

Maintenance. Aircraft maintenance expense decreased $0.6 million, or 0.4%, to $156.0 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The decrease was primarily due to the reduction in engine overhaul and C-check costs, which was offset by the increase in parts and labor costs. Total pass-through maintenance expenses reimbursed by our major partners decreased by $10.7 million during our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021.

The following table presents information regarding our maintenance costs during our nine months ended June 30, 2022 and 2021 (in thousands):

	Nine Months Ended June 30,		Change	
	2022	2021		
Engine overhaul	$ 3,699	$ 10,769	$ (7,070)	(65.7)%
Pass-through engine overhaul	14,453	14,546	(93)	(0.6)%
C-check	17,047	20,031	(2,984)	(14.9)%
Pass-through C-check	1,749	18,294	(16,545)	(90.4)%
Component contracts	20,380	19,506	874	4.5%
Rotable and expendable parts	21,167	16,303	4,864	29.8%
Other pass-through	16,996	11,030	5,966	54.1%
Labor and other	60,541	46,144	14,397	31.2%
Total	$ 156,032	$ 156,623	$ (591)	(0.4)%

Aircraft Rent. Aircraft rent expense decreased $1.4 million, or 4.6%, to $28.3 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The decrease is attributable to a decrease in engine rent due to fewer leased engines and decrease in aircraft rent due to the purchase of a CRJ-900 aircraft during fiscal 2021 that was previously under lease.

General and Administrative. General and administrative expense decreased $4.8 million, or 13.1%, to $31.6 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The decrease is primarily due to a decrease in pass-through property taxes. For our nine months ended June 30, 2022 and 2021, $5.5 million and $10.7 million, respectively, of our insurance and property tax expenses were reimbursed by our major partners.

Depreciation and Amortization. Depreciation and amortization expense decreased $0.2 million, or 0.4%, to $61.9 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The decrease is primarily attributable to a portion of our fleet being classified as held for sale during the nine months ended June 30, 2022, offset by an increase in rotable part and spare engine depreciation expense as well as amortization of deferred heavy maintenance.

Lease Termination. Lease termination expense decreased $4.5 million, or 100.0%, to zero for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. This decrease is attributable to the termination expense resulting from the purchase of a CRJ-900 aircraft during our nine months ended June 30, 2021, which was previously leased from Bombardier Capital.

Impairment of Assets Held for Sale. Impairment of assets held for sale was $39.5 million for our nine months ended June 30, 2022 compared to $0.0 million for our nine months ended June 30, 2021. The increase is attributable to impairment charges on our CRJ aircraft classified as held for sale during the nine months ended June 30, 2022.

Other Operating Expenses. Other operating expenses remained static for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The slight increase is primarily due to higher fuel costs offset by lower aircraft cleaning expenses during the nine months ended June 30, 2022.

Government Grant Recognition. Recognition of payroll support funds decreased $93.4 million, or 100.0%, to $0.0 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. During the nine months ended June 30, 2021, we recognized $93.4 million in payroll support from the Payroll Support Program and its extensions as an offset to operating expense. There were no government grant funds received by the Company recognized as an offset to operating expenses during the nine months ended June 30, 2022.

Other Expense

Other expense increased $11.7 million, or 45.4%, to $37.5 million for our nine months ended June 30, 2022 compared to our nine months ended June 30, 2021. The increase is primarily attributable to net losses on investments in equity securities of $12.6 million, partially offset by a decrease in interest expense of $1.7 million due to lower interest rates on our Treasury Loan and a decrease in outstanding aircraft principal balances.

Income Taxes

The income tax benefit totaled $19.0 million for the nine months ended June 30, 2022 as compared to a tax expense of $8.2 million for the nine months ended June 30, 2021. The effective tax rate (ETR) was 22.1% for the nine months ended June 30, 2022 compared to 25.5% for the nine months ended June 30, 2021. The ETR for the nine months ended June 30, 2022 was impacted by vesting of stock compensation where the tax deduction differed from the book expense, state taxes, changes in the valuation allowance against state net operating losses, and changes in state statutory rates.

We continue to maintain a valuation allowance on a portion of our state net operating losses in jurisdictions with shortened carryforward periods or in jurisdictions where our operations have significantly decreased as compared to prior years in which the net operating losses were generated.

Cautionary Statement Regarding Non-GAAP Measures

We present Adjusted EBITDA and Adjusted EBITDAR, which are not recognized financial measures under GAAP, in this Quarterly Report on Form 10-Q as supplemental disclosures because our senior management believes that they are well-recognized valuation metrics in the airline industry that are frequently used by companies, investors, securities analysts and other interested parties in comparing companies in our industry.

Adjusted EBITDA. We define Adjusted EBITDA as net income or loss before interest, income taxes, and depreciation and amortization, adjusted for gains and losses on investments, lease termination costs, impairment charges, and gains or losses on extinguishment of debt including write-off of associated financing fees.

Adjusted EBITDAR. We define Adjusted EBITDAR as net income or loss before interest, income taxes, depreciation and amortization, and aircraft rent, adjusted for gains and losses on investments, lease termination costs, impairment charges, and gains or losses on extinguishment of debt including write-off of associated financing fees.

Adjusted EBITDA and Adjusted EBITDAR have limitations as analytical tools. Some of the limitations applicable to these measures include: (i) Adjusted EBITDA and Adjusted EBITDAR do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; (ii) Adjusted EBITDA and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (iii) Adjusted EBITDA and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; (iv) Adjusted EBITDA and Adjusted EBITDAR do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; (v) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; (vi) Adjusted EBITDA and Adjusted EBITDAR do not reflect gains and losses on investments, which are non-cash gains and losses but will occur in periods when there are changes in the value of our investments in equity securities; and (vii) Adjusted EBITDA and Adjusted EBITDAR do not reflect any cash requirements for such replacements and other companies in our industry may calculate Adjusted EBITDA and Adjusted EBITDAR differently than we do, limiting its usefulness as a comparative measure. Because of these limitations, Adjusted EBITDA and Adjusted EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. In addition, Adjusted EBITDAR should not be viewed as a measure of overall performance because it excludes aircraft rent, which is a normal, recurring cash operating expense that is necessary to operate our business. For the foregoing reasons, each of Adjusted EBITDA and Adjusted EBITDAR has significant limitations which affect its use as an indicator of our profitability. Accordingly, you are cautioned not to place undue reliance on this information.

Adjusted EBITDA and Adjusted EBITDAR

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA and Adjusted EBITDAR (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Reconciliation:				
Net income (loss)	$ (9,985)	$ 4,276	$ (67,042)	$ 24,083
Income tax expense (benefit)	(2,493)	1,525	(18,987)	8,236
Income (loss) before taxes	$ (12,478)	$ 5,801	$ (86,029)	$ 32,319
Loss on investments, net	3,926	—	12,649	—
Adjustments(1)(2)(3)(4)	(135)	—	39,708	3,558
Adjusted income (loss) before taxes	(8,687)	5,801	(33,672)	35,877
Interest expense	8,716	8,627	24,766	26,464
Interest income	(24)	(82)	(117)	(287)
Depreciation and amortization	20,103	20,933	61,878	62,108
Adjusted EBITDA	$ 20,108	$ 35,279	$ 52,855	$ 124,162
Aircraft rent	9,299	9,648	28,319	29,688
Adjusted EBITDAR	$ 29,407	$ 44,927	$ 81,174	$ 153,850

(1) Includes adjustment for gain on extinguishment of debt of $1.0 million related to repayment of certain aircraft debts during our nine months ended June 30, 2021.

(2) Includes adjustment for lease termination expense of $4.5 million during our nine months ended June 30, 2021 related to the purchase of a CRJ-900 aircraft which was previously leased from Bombardier Capital.

(3) Includes adjustment for impairment charges of $39.5 million during our nine months ended June 30, 2022, respectively, related to certain of our aircraft which are classified as held for sale.

(4) Includes adjustment for operating lease right of use asset impairment true-up of ($0.1) million during our three months ended June 30, 2022 and $0.2 million during our nine months ended June 30, 2022, related to the abandonment of one of our leased facilities.

Liquidity and Capital Resources

Impact of Pilot Shortage

The length and severity of the pilot shortage, which has impacted the US passenger and cargo carriers, remains uncertain. One of the primary factors contributing to the pilot shortage includes the demand for pilots at major carriers, which are hiring at an accelerated rate to backfill the thousands of pilots whom they offered early retirements to at the beginning of the pandemic. These airlines now seek to increase their capacity to meet the growing demand for air travel as the global pandemic has moderated. A primary source of pilots for the major US passenger and cargo carriers are the US regional airlines.

While there is strong demand for air travel now in the United States, the exact timing and pace of a full recovery in demand remains uncertain given the significant impact of the pandemic on the overall U.S. and global economy. Air travel demand may continue to fluctuate as a result of the pandemic either moderating or becoming more extreme.

Our forecasted expenses and liquidity measures may be modified as we clarify the pilot shortage recovery timing and its impact upon our block hour production. The variable revenue based on the number of block hours has been significantly impacted by pilot attrition and our corresponding shortage of trained pilots. We may experience further reductions in subsequent quarters.

As a result of the pilot shortage, elevated pilot attrition and its negative impact on our financial results, we have taken, and are continuing to take, certain actions to increase liquidity and strengthen our financial position which include:

- Working collaboratively with our major partners, we have and continue to address financial and operational impacts of pilot attrition, hiring and overall associated costs.
- We have added flight training simulators and flight training instructors to expand our training capacity to more rapidly backfill pilots lost to attrition.

- We have implemented a bonus program to attract new pilots and put in other incentives to attract and retain simulator instructors and line check airmen.
- We have expanded the United Aviate program participation to include all pilots flying for Mesa allowing Mesa to attract and retain more qualified pilots. Previously, pilots had to fly under the United Express contract for a minimum of two (2) years to qualify for the flow through to United Airlines. Now, all pilots regardless of contract, are eligible to flow through to United.
- We continue to evaluate other initiatives to increase pilot recruitment and accelerate training throughput.
- We have formally listed 12 excess aircraft for sale to raise capital and retire debt
- We have a plan to sell 18 CRJ-700 aircraft that are currently leased to a third party.
- We have initiated discussions to refinance and defer repayment of our outstanding and drawn balance on our revolving credit facility with CIT Bank, N.A which is currently due in December 2022.
- We have delayed and/or deferred major spending on aircraft and engine maintenance to match the current and projected level of flight activity.

While there is no guarantee that these initiatives will come to fruition or otherwise achieve their desired objective, we believe it is probable that the initiatives outlined above, along with the cash flow from operating activities and cash on hand will provide us with adequate cash resources to maintain our operations and comply with our various debt and other contractual agreements, through at least the next 12 months.

As of June 30, 2022, the Company has $112.8 million of principal maturity payments on long-term debt due within the next twelve months. We plan to meet these obligations with our cash on hand, ongoing cashflows from our operations, as well as the liquidity created from our plans to sell 18 CRJ-700 aircraft, refinance our revolving credit facility, and further amend of CPAs. If our plans are not realized, this will necessitate exploring additional opportunities to create liquidity by refinancing and deferring repayment of our principal maturity payments that are due within the next twelve months. The Company continues to monitor covenant compliance with its lenders as any noncompliance could have a material impact on the Company's financial position, cash flows and results of operations.

Sources and Uses of Cash

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures, aircraft pre-delivery payments, maintenance, aircraft rent, and debt service obligations, including principal and interest payments. Our cash needs vary from period to period primarily based on the timing and costs of significant maintenance events. Our principal sources of liquidity are cash on hand, cash generated from operations and funds from external borrowings.

We believe that the key factors that could affect our internal and external sources of cash include:

- Factors that affect our results of operations and cash flows, including the impact on our business and operations as a result of changes in demand for our services, competitive pricing pressures, and our ability to achieve further reductions in operating expenses; and
- Factors that affect our access to bank financing and the debt and equity capital markets that could impair our ability to obtain needed financing on acceptable terms or to respond to business opportunities and developments as they arise, including interest rate fluctuations, macroeconomic conditions, sudden reductions in the general availability of lending from banks or the related increase in cost to obtain bank financing, and our ability to maintain compliance with covenants under our debt agreements in effect from time to time.

Our ability to service our long-term debt obligations, including our equipment notes, to remain in compliance with the various covenants contained in our debt agreements and to fund working capital, capital expenditures and business development efforts will depend on our ability to generate cash from operating activities, which is subject to, among other things, our future operating performance, as well as other factors, some of which may be beyond our control.

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer-term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us.

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust operating and capital expenditures to reflect the current market conditions and our projected demand. Our capital expenditures are primarily directed toward our aircraft fleet and flight equipment including spare engines. Our capital expenditures, net of purchases of rotable spare parts and aircraft and spare engine financing for the nine months ended June 30, 2022 were approximately 0.9% of our revenue during the same period. We expect to incur capital expenditures to support our business activities. Future capital expenditures may be impacted by events and transactions that are not currently forecasted.

As of June 30, 2022, our principal sources of liquidity were cash and cash equivalents of $54.4 million. In addition, we had restricted cash of $3.3 million as of June 30, 2022. As of June 30, 2022, we had $634.9 million in secured indebtedness incurred primarily in connection with our financing of 84 total aircraft and related equipment. As of June 30, 2022, we had $109.5 million of current debt, excluding finance leases, and $525.4 million of long-term debt excluding finance leases.

Restricted Cash

As of June 30, 2022, we had $3.3 million in restricted cash. We have an agreement with a financial institution for a letter of credit facility and to issue letters of credit for particular airport authorities, worker's compensation insurance, property and casualty insurance and other business needs as required in certain lease agreements. Pursuant to the term of this agreement, $3.3 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Cash Flows

The following table presents information regarding our cash flows for each of the nine months ended June 30, 2022 and 2021 (in thousands):

	Nine Months Ended June 30,	
	2022	2021
Net cash provided by operating activities	$ 13,584	$ 131,212
Net cash used in investing activities	(40,384)	(17,039)
Net cash used in financing activities	(39,271)	(33,264)
Net increase (decrease) in cash, cash equivalents and restricted cash	(66,071)	80,909
Cash, cash equivalents and restricted cash at beginning of period	123,867	102,841
Cash, cash equivalents and restricted cash at end of period	$ 57,796	$ 183,750

Net Cash Provided by Operating Activities

Our primary source of cash from operating activities is cash collections from our major partners pursuant to our CPAs and FSA. Our primary uses of cash from operating activities are for maintenance costs, personnel costs, operating lease payments, and interest payments.

During our nine months ended June 30, 2022, we had cash flow provided by operating activities of $13.6 million. We had net loss of $67.0 million adjusted for the following significant non-cash items: depreciation and amortization of $61.9 million, stock-based compensation of $2.1 million, net losses on investments in equity securities of $12.6 million, deferred income taxes of $(19.1) million, amortization of deferred credits of $(0.6) million, amortization of debt discount and financing costs and accretion of interest of $8.2 million, and impairment of assets held for sale of $39.5 million. We had a net change of $(24.6) million within other net operating assets and liabilities largely driven by decreases in accrued expenses and other liabilities, deferred revenue, and operating lease liabilities and an increase in accounts receivable, partially offset by an increase in accounts payable during our nine months ended June 30, 2022.

During our nine months ended June 30, 2021, we had cash flow provided by operating activities of $131.2 million. We had net income of $24.1 million adjusted for the following significant non-cash items: depreciation and amortization of $62.1 million, stock-based compensation of $2.4 million, deferred income taxes of $8.0 million, amortization of deferred credits of $(2.5) million, amortization of debt discount and financing costs and accretion of interest of $8.2 million, and loss on lease termination of $4.5 million. We had a net change of $25.1 million within other net operating assets and liabilities largely driven by increases in accrued expenses and deferred revenue and a decrease in receivables, partially offset by operating lease activity during our nine months ended June 30, 2021.

Net Cash Used in Investing Activities

Our investing activities generally consist of capital expenditures for aircraft and related flight equipment, deposits paid or returned for equipment and other purchases, and strategic investments.

During our nine months ended June 30, 2022, net cash flow used in investing activities totaled $40.4 million. We invested $33.2 million in capital expenditures primarily consisting of spare engines, rotable parts, and other equipment, and $7.0 million in payments of equipment and other deposits. We also invested a total of $0.2 million in equity securities of a private company.

During our nine months ended June 30, 2021, net cash flow used in investing activities totaled $17.0 million. We invested $4.9 million in inventory, $1.6 million in aircraft purchases, $4.2 million in tools and other equipment and miscellaneous projects and $6.9 million in payments of equipment and other deposits offset by $0.6 million from the return of lease and equipment deposits.

Net Cash Used in Financing Activities

Our financing activities generally consist of debt borrowings, principal repayments of debt, payment of debt financing costs, stock repurchases, and proceeds received from issuing common stock under our ESPP.

During our nine months ended June 30, 2022, net cash flow used in financing activities was $39.3 million. We received $35.3 million of proceeds from long-term debt. We made $72.0 million of principal repayments on long-term debt and paid $2.4 million of costs related to debt financing. We received $0.2 million in proceeds from the issuance of common stock under our ESPP and paid $0.4 million to repurchase shares of our common stock.

During our nine months ended June 30, 2021, net cash flow used in financing activities was $33.3 million. We received $195.0 million of proceeds from the Treasury Loan. We made $225.8 million of principal repayments on long-term debt. We paid $1.3 million of costs related to debt financing and $1.4 million in repurchases of shares of our common stock. We received $0.2 million in proceeds from the issuance of common stock under our ESPP.

Critical Accounting Estimates

We prepare our condensed consolidated financial statements in accordance with GAAP. In doing so, we must make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting estimates.

The accompanying discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated interim financial statements included elsewhere in this Form 10-Q. We believe certain of our accounting estimates and policies are critical to understanding our financial position and results of operations. There have been no material changes to the critical accounting estimates as explained in Part 1, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 under the heading "Critical Accounting Estimates."

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 3: "Recent Accounting Pronouncements" to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the ordinary course of our business. These risks include interest rate risk and, on a limited basis, commodity price risk with respect to foreign exchange transactions. The adverse effects of changes in these markets could pose a potential loss as discussed below. The sensitivity analysis provided does not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ.

Interest Rate Risk. We are subject to market risk associated with changing interest rates on our variable rate long-term debt; the variable interest rates are based on LIBOR. The interest rates applicable to variable rate notes may rise and increase the amount of interest expense on our variable rate long-term debt. We do not purchase or hold any derivative instruments to protect against the effects of changes in interest rates.

As of June 30, 2022, we had $471.4 million of variable-rate debt, including current maturities. A hypothetical 100 basis point change in market interest rates would have affected interest expense by approximately $3.5 million in the nine months ended June 30, 2022.

As of June 30, 2022, we had $182.0 million of fixed-rate debt, including current maturities. A hypothetical 100 basis point change in market interest rates would not impact interest expense or have a material effect on the fair value of our fixed-rate debt instruments as of June 30, 2022.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. In December 2020, the administrator of LIBOR proposed to cease publication of certain LIBOR settings after December 2021 and to cease publication of the remainder of the LIBOR settings after June 2023. The majority of our debt arrangements are indexed to one- and three-month LIBOR, which will be sunset on June 30, 2023. While the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by Treasury securities, we cannot currently predict whether this index will gain widespread acceptance as a replacement for LIBOR. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere.

We may in the future pursue amendments to our LIBOR-based debt transactions to provide for a transaction mechanism or other reference rate in anticipation of LIBOR’s discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. As of June 30, 2022, we had $484.5 million of borrowings based on LIBOR. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our long-term debt to be different or higher than expected.

Foreign Currency Risk. We have *de minimis* foreign currency risks related to our station operating expenses denominated in currencies other than the U.S. dollar, primarily the Canadian dollar. Our revenue is U.S. dollar denominated. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not had a formal hedging program with respect to foreign currency. A 10% increase or decrease in current exchange rates would not have a material effect on our financial results.

Fuel Price Risk. Unlike other airlines, our agreements largely shelter us from volatility related to fuel prices, which are directly paid and supplied by our major partners.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2022, there were no changes in our internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to two putative class action lawsuits alleging federal securities law violations in connection with our IPO, one in the Superior Court of the State of Arizona and one in U.S. District Court of Arizona. These purported class actions were filed in March and April 2020 against the Company, certain current and former officers and directors, and certain underwriters of the Company's IPO. The state and federal lawsuits each make the same or similar allegations of violations of the Securities Act of 1933, as amended, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement.

On March 2, 2022, the parties in the federal lawsuit attended a mediation and reached an agreement in principle to settle all claims asserted in that action for the sum of $5 million, which will be paid by the Company's directors' and officers' insurance carriers. The settlement is subject to final documentation and preliminary and final approval by the federal court. The motion for preliminary approval was filed on May 6, 2022, and no objections to the settlement were filed by the deadline for such objections. The parties are waiting for the Court to schedule a date for the preliminary approval hearing. If preliminary and final approval is obtained, the claims of all putative class members, whether asserted in the federal or state actions, will be extinguished, unless and only to the extent that a particular class member takes affirmative steps to have its claims excluded.

In addition, we are subject to certain legal actions which we consider routine to our business activities. As of June 30, 2022, our management believed the ultimate outcomes of other routine legal matters are not likely to have a material adverse effect on our financial position, liquidity or results of operations.

Item 1A. Risk Factors

We refer you to documents filed by us with the SEC, specifically "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, which identify important risk factors that could materially affect our business, financial condition and future results. We also refer you to the factors and cautionary language set forth in the section entitled "Cautionary Statements Regarding Forward-looking Statements" of this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q, including the accompanying condensed consolidated financial statements and related notes, should be read in conjunction with such risks and other factors for a full understanding of our operations and financial condition. The risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 and herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or operating results. Except as set forth below, there have been no material changes to the risk factors previously disclosed in our 2021 Form 10-K.

The reduced utilization levels of our aircraft under our agreements with our major partner, to the extent they continue, would have a material adverse impact on our results of operations and financial condition.

Historically, our major partners have utilized our flight operations at levels at or near the maximum capacity of our fleet allocations under the applicable CPA agreements. As previously reported, we operated at significantly lower block hours during fiscal 2020 and fiscal 2021 due to the COVID pandemic, though we experienced a recovery in demand for air travel during the second half of fiscal 2021, which has continued into fiscal 2022.

Notwithstanding the increase in demand for air travel, in recent periods our high level of pilot attrition and pilot training output limitations has resulted in a reduction of our block hours flown. If we continue to experience pilot attrition above historic levels, we may experience further reductions in the block hours flown under our CPAs by our major partners, and we may not be able to maintain operating efficiencies previously obtained, each of which would negatively impact our operating results and financial condition. There can be no assurance that we will be able to adequately address the pilot attrition issues or that our major partners will increase the utilization of our aircraft to historical levels in future periods if we do experience an improvement in pilot attrition. If pilot attrition persists, we may experience additional declines in utilization levels, which would in turn have a material adverse impact on our financial condition and results of operations.

If the supply of pilots to the airline industry remains constrained and pilot attrition continues to exceed historical levels, our results of operations and financial condition would be negatively impacted.

Our operations continue to be negatively impacted by the pilot shortages that have plagued the airline industry as whole, and by the associated pilot attrition that we believe has disproportionately impacted regional airlines, including us. Our pilots continue to be recruited by other carriers, primarily the major carriers and heavy equipment cargo operators, which generally offer higher salaries and more extensive benefit programs. The magnitude of this attrition in fiscal 2022 has created significant backlogs in training, further exacerbating an already challenging environment. These events have had, and continue to have, a negative impact on pilot scheduling, work hours, and the number of pilots required to support our operations.

There has been significant press coverage over the past several months regarding the issues stemming from the pilot shortages (namely flight cancellations and delays by the major carriers), with no airline being immune to the issues created by the pilot shortage or the associated negative press. As we have in the past, we are taking important steps to further attract, hire and retain qualified pilots, including the ongoing implementation of significant pilot wage and bonus increases, pilot retention initiatives, increases in training capacity, and other cost efficiency initiatives. Notwithstanding these steps, our current rate of hiring has not kept pace with attrition. As such, even with increases in training capacity we are not currently able to hire qualified pilots at a rate sufficient to fill all available classroom training spaces, which in turn has negatively impacted the number of pilots available for scheduled operations. No assurance can be given that the measures we are currently taking or may take in the future will enable us to attract, hire and train pilots at a rate necessary to support our operations.

Our ability to attract, hire and retain qualified pilots has been, and continues to be, negatively impacted by the status of our collective bargaining agreement with ALPA, which became amendable in July 2021 and remains under negotiation. Recent efforts to reach a mutually acceptable deal have not resulted in an agreement between the parties. Absent certainty surrounding the terms and conditions of our future collective bargaining agreement with ALPA, we have experienced, and are likely to continue to experience, challenges attracting, hiring, and retaining pilots. These challenges, if they persist, will likely negatively impact our financial condition, results of operations, and relationship with our major partners.

In addition to the foregoing, our pilot premium wage and bonus initiatives have substantially increased our labor costs and continue to negatively impact our operations and financial condition. Other regional air carriers have implemented similar measures, which has only served to increase the competition for qualified pilots and the costs associated with hiring pilots. We expect these increased costs, to the extent they persist, to materially and adversely impact our financial condition and results of operations in future periods.

If the high levels of pilot attrition persist and we are unable to attract, hire and retain pilots at a rate sufficient to support required utilization levels under our CPAs, we may be required to issue credits or provide offsets to our major partners, as we have done in the past, and to reduced flight schedules with our major partners, which has resulted in and may continue to result in monetary performance penalties under our CPAs, as well as give rise to the ability of our major partners in certain circumstances to elect to remove aircraft from the scope of our CPAs. Should any of these events arise in the future, they could have a material and adverse impact on our financial condition and results of operations.

The failure to pay at maturity the amounts outstanding under our CIT Revolving Credit Facility or to timely refinance this indebtedness would result in a default thereunder, which would also trigger cross-default clauses under our other indebtedness and give such lenders the right to accelerate the payment of such obligations.

Our CIT Revolving Credit Facility currently matures on December 31, 2022. No assurance can be given that we will have sufficient liquidity to pay at maturity the amounts outstanding thereunder (approximately $15.0 million at June 30, 2022) or that we will be able to timely refinance such indebtedness if we are unable or do not intend to repay the same. Failure to pay at maturity the amounts outstanding thereunder or to otherwise timely refinance this indebtedness would result in an event of default under the Credit Facility, which would in turn entitle the lenders thereunder to exercise all available remedies, including seeking repayment from the guarantor of such indebtedness, Mesa Air, foreclosing on the assets securing such indebtedness (i.e., certain engines, spare parts, and related collateral), or requiring the borrowers thereunder to cash collateralize all outstanding letter of credit liabilities in an amount equal to 105% of such liabilities. A default under the CIT Revolving Credit Facility would also trigger cross-default clauses under our other indebtedness and give the lenders thereunder the right to exercise all available remedies under such loan agreements, including, to the extent they so elect, the acceleration of such indebtedness. We currently do not have sufficient liquidity to repay all of our outstanding debt in full if such debt were accelerated. If we are unable to pay our debts as they come due, or obtain waivers for such payments, our secured lenders could foreclose on any assets securing such debt. These events would materially adversely affect our business, results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company repurchased 132,151 shares of its common stock for $0.4 million to cover the income tax obligation on vested employee equity awards and warrant conversions during the nine months ended June 30, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.1**	Amendment No. 8 to the Amended and Restated Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and American Airlines, Inc. dated June 10, 2022
10.2**	Amendment No. 9 to the Amended and Restated Capacity Purchase Agreement among the Registrant, Mesa Airlines, Inc. and American Airlines, Inc. dated June 20, 2022
10.3**	Third Amendment to the Second Amended and Restated United Capacity Purchase Agreement between United Airlines, Inc. and Mesa Airlines, Inc. dated July 11, 2022
31.1	Certification of Principal Executive Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* This certification will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

** Certain confidential information contained in this agreement has been omitted because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURES

Pursuant to the requirements 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.

MESA AIR GROUP, INC.

Date: August 8, 2022

By: /s/ D. Torque Zubeck
Torque Zubeck
Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

AMENDMENT NO. 8 TO
CAPACITY PURCHASE AGREEMENT

This Amendment No. 8 to Capacity Purchase Agreement (this ***"Amendment')*** is dated as of June 10, 2022 (the ***"Amendment No. 8 Effective Date"),*** between American Airlines, Inc., a Delaware corporation (together with its successors and permitted assigns, ***"American"),*** and Mesa Airlines, Inc., a Nevada corporation (together with its permitted successors and assigns, ***"Contractor").***

WHEREAS, American entered into that certain Amended and Restated Capacity Purchase Agreement, dated as of November 19, 2020 and made effective as of January 1, 2021, with Contractor (as amended, modified and supplemented from time to time, the ***"Capacity Purchase Agreement")*** to establish the terms by which Contractor will provide regional airline services utilizing certain Covered Aircraft on behalf of American;

WHEREAS, on December 22, 2020, American entered into that certain Amendment No. 1 to Capacity Purchase Agreement with Contractor;

WHEREAS, on April 9, 2021, American entered into that certain Amendment No. 2 to Capacity Purchase Agreement with Contractor;

WHEREAS, on April 9, 2021, American entered into that certain Amendment No. 3 to Capacity Purchase Agreement with Contractor;

WHEREAS, on June 9, 2021, American entered into that certain Amendment No. 4 to Capacity Purchase Agreement with Contractor;

WHEREAS, on August 9, 2021, American entered into that certain Limited Waiver and Amendment No. 5 to Capacity Purchase Agreement with Contractor;

WHEREAS, on February 4, 2022, American entered into that certain Limited Waiver and Amendment No. 6 to Capacity Purchase Agreement with Contractor;

WHEREAS, on March 31, 2022, American entered into that certain Amendment No. 7 to Capacity Purchase Agreement with Contractor;

WHEREAS, it is in the best interests of the parties hereto to further amend the Capacity Purchase Agreement to reflect the agreements set forth herein; and

WHEREAS, all capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Capacity Purchase Agreement.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, American, on the one hand, and Contractor, on the other hand, agree to the following with respect to the Capacity Purchase Agreement:

1. *Section II(D)* of *Schedule 5 (Tranche 1 Primary Driver Rates)* of the Capacity Purchase Agreement is hereby amended to replace the Tranche 1 Block Hour Rate as reflected below:

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]

2. *Section IJ(E)* of *Schedule 5 (Tranche 2 Primary Driver Rates)* of the Capacity Purchase Agreement is hereby amended and restated to read as follows:

   E. **Tranche 2 Primary Driver Rates.** The Tranche 2 Primary Driver Rates are as set forth below.

[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

[***]

3. This Amendment shall become effective as of the Amendment No. 8 Effective Date upon satisfaction of all of the following conditions precedent:

   a. Receipt by American of each of the following, in form and substance reasonably satisfactory to American: (i) a copy of this Amendment, duly executed and delivered by Contractor; and
   (ii) any other documents or agreements reasonably requested by American in connection with the transactions contemplated by this Amendment.

4. The Parties hereby acknowledge and represent to each other that after giving effect to the terms hereof, each representation and warranty of Contractor contained **in** the Capacity Purchase Agreement or in any other Related Agreement is true and correct in all material respects on the Amendment No. 8 Effective Date.

5. Except as amended and modified hereby, any and all of the terms and provisions of the Capacity Purchase Agreement shall remain in full force and effect and are hereby in all respects ratified and confirmed by American and Contractor. Each of American and Contractor hereby agrees that the amendments and modifications herein contained shall in no manner affect or impair the liabilities, duties and obligations of American or Contractor under the Capacity Purchase Agreement. Each reference in the Capacity Purchase Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference in the Capacity Purchase Agreement or other agreements, documents or other instruments executed and delivered pursuant to the Capacity Purchase Agreement to the "Capacity Purchase Agreement", shall mean and be a reference to the Capacity Purchase Agreement as amended by this Amendment.

6. THIS AMENDMENT, THE CAPACITY PURCHASE AGREEMENT, THE OTHER RELATED AGREEMENTS AND THE OTHER DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND THEREWITH WHEN TAKEN TOGETHER REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

IN WITNESS WHEREOF, American and Contractor have executed this Amendment as of the Amendment No. 8 Effective Date.

AMERICAN AIRLINES, INC.

By: /s/ Brandon Kahle
Name: Brandon Kahle
Title: Vice President, Regional Operations & Planning

MESA AIRLINES, INC.

By: /s/ Bradford Rich
Name: Bradford Rich
Title: EVP & COO

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[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

American Airlines

June 20, 2022

Mesa Air Group, Inc.
410 N. 44th Street, Suite 700
Phoenix, AZ 85008
Attn: President and Chief Executive Officer

RE: Amendment No. 9 – Tail Swaps

Ladies and Gentlemen,

Reference is made to that certain Amended and Restated Capacity Purchase Agreement, dated as of November 19, 2020 and made effective as of January 1, 2020, between American Airlines, Inc., a Delaware corporation ("***American***") and Mesa Airlines, Inc., a Nevada corporation ("***Contractor***") (as amended by American and Contractor from time to time in accordance with the provisions thereof pursuant to that certain Amendment No. 1 dated as of December 22, 2020, that certain Amendment No. 2 dated as of April 9, 2021, that certain Amendment No. 3 dated as of April 19, 2021, that certain Amendment No. 4 dated as of June 9, 2021, that certain Limited Waiver and Amendment No. 5 dated as of August 9, 2021, that certain Limited Waiver and Amendment No. 6 dated as of February 4, 2022, that certain Amendment No. 7 dated as of March 31, 2022, and that certain Amendment No. 8 dated as of June 10, 2022, and together with all attachments, exhibits and schedules thereto, the "***Capacity Purchase Agreement***"). Capitalized terms used but not defined in this amendment (this "***Amendment No. 9***") shall have the meanings set forth in the Capacity Purchase Agreement.

For and in consideration of the mutual covenants and agreements herein contained, American, on the one hand, and Contractor, on the other hand, agree as follows:

1. **Amendments.**

   a. *Schedule 1* of the Capacity Purchase Agreement (Covered Aircraft) is hereby deleted in its entirety and replaced with *Schedule 1* attached to this Amendment No. 9.

2. **Additional Agreements.**

   a. Contractor hereby acknowledges and agrees to the following with respect to the Covered Aircraft added to *Schedule 1*: (i) as of the date first set forth above, the Covered Aircraft with tail number [***] is equipped with operational WiFi capabilities; (ii) Contractor shall equip the Covered Aircraft with tail numbers [***] with in-seat power capabilities, to American's satisfaction, on or before [***]; and (iii) [***].

3. Miscellaneous.

a. This Amendment No. 9 shall become effective as of the date first set forth above upon satisfaction of all of the following conditions precedent:

i. Receipt by each Party of a copy of this Amendment, duly executed and delivered by American and Contractor.

b. The Parties hereby acknowledge and represent to each other that after giving effect to the terms hereof, each representation and warranty of Contractor contained in the Capacity Purchase Agreement or in any other Related Agreement is true and correct in all material respects on the date first set forth above.

c. Any and all of the terms and provisions of the Capacity Purchase Agreement shall remain in full force and effect and are hereby in all respects ratified and confirmed by the Parties. Each Party hereby agrees that the terms and conditions set forth herein shall in no manner affect or impair the liabilities, duties and obligations of such Party under the Capacity Purchase Agreement.

d. If any of the terms or provisions of this Amendment No. 9 conflict with any terms or provisions of the Capacity Purchase Agreement, then the terms and provisions of this Amendment No. 9 shall govern and control. To the extent a matter is not addressed in this Amendment No. 9, the terms of the Capacity Purchase Agreement shall apply in all respects and the same shall be given full force and effect.

e. THIS AMENDMENT NO. 9, THE CAPACITY PURCHASE AGREEMENT, AND THE OTHER DOCUMENTS EXECUTED IN CONNECTION THEREWITH REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

f. This Amendment No. 9 may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment No. 9 shall extend to and bind the successors and assigns of the respective Parties hereto. Each Party shall take all reasonable commercial actions in order to effectuate the intent of this Amendment No. 9.

Kindly countersign below to indicate Contractor’s agreement to the terms of this Amendment No. 9.

[Signature page follows.]

Sincerely,

AMERICAN AIRLINES, INC.

/s/Brandon Kahle
Signature

Brandon Kahle
Name

Vice President, Regional Operations & Planning
Title

6/21/22
Date

Accepted and Agreed:

MESA AIRLINES, INC.

/s/ Michael Lotz
Signature

Michael Lotz
Name

President
Title

6/21/22
Date

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

SCHEDULE 1

COVERED AIRCRAFT

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* Subject to the terms and conditions of this Agreement, Contractor may substitute Engines listed on this ***Schedule 1*** within its reasonable discretion. Contractor shall promptly Notify American of any such substitution (which Notice shall include the engine serial number for each of the former Engine and the substitute Engine).

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

July 11, 2022

<u>VIA FEDEX AND E-MAIL</u>

Mesa Airlines, Inc.
410 N. 44th Street
Suite 700
Phoenix, AZ 85008
Attention: President & General Counsel

Re: Third Amendment (this "Amendment") to the Capacity Purchase Agreement

Ladies and Gentlemen:

As you are aware, Mesa Airlines, Inc. ("Contractor"), Mesa Air Group, Inc. ("Parent") and United Airlines, Inc. ("United" and, together with Contractor and Parent, the "Parties"), are each a party to that certain Second Amended and Restated Capacity Purchase Agreement dated as of November 4, 2020 (as amended by the First Amendment and Second Amendment thereto, the "CPA"). Capitalized terms not defined herein shall be defined as provided in the CPA. All terms and conditions set forth in this Amendment are effective as of the date first written above.

SECTION 1. Certain Amendments.

1.1 Section 2.1(d) – Spare Aircraft. Section 2.1(d) of the CPA is hereby amended to add the following after the phrase "subject to the provisions below in this Section 2.1(d)" in the second line thereof: "and also subject to Section 10.9".

1.2 Section 3.2(c) – Incentive Program. Section 3.2 of the CPA is hereby amended to add the following provisions as a new sub-paragraph (c):

(c) [***]

[***]	[***]
[***]	[***]
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1.3 Section 4.1(g) – Aviate™ Participation Agreement. The proviso set forth in the first sentence of Section 4.1(g) of the CPA is hereby deleted in its entirety.

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

1.4 Section 4.27(d) – Block-Hour Requirement; Pilot Requirement; Designation of Non-Comp Aircraft. The reference in Section 4.27(d) of the CPA to [***] is hereby replaced with [***]

1.5 Section 8.4(e) – Liquidated Damages for Termination by United or Contractor Breach. The CPA is hereby amended by deleting Section 8.4(e) and Section 8.4(f) in their entirety and replacing them with the following:

"(e) If either (x) Contractor or Parent, either expressly or through an affirmative act, repudiates this Agreement, or otherwise breaches this Agreement in any manner that either results in Contractor's inability or failure to materially perform under this Agreement or substantially deprives United of the benefits of this Agreement, and Contractor is unable or unwilling to provide United with reasonable assurance that such breach will be cured by Contractor within [***] following such breach (a "Repudiation Event"), or (y) United terminates this Agreement as a result of Contractor's breach, then, in each case [***] in each case calculated as though both (I) in the [***] period referenced in the definition of "Daily United Damages" every Final Monthly Schedule during such period fully satisfied the Block Hour Requirement applicable to such Final Monthly Schedule based on "Average Scheduled Stage Length" in the table set out in Section 4.27(a) and (II) United had exercised its full extension rights to the maximum extent permitted under Section 10.2 as of immediately prior to such Repudiation Event or termination with respect to each United Owned E175 Covered Aircraft; *provided* that, solely for the purpose of the reference to Section 10.2 in this Section 8.4(e), (i) the [***]notice requirement in Section 10.2 shall be disregarded, and (ii) such full exercise of extension rights referenced above shall be interpreted to include both increments of extensions referenced in the proviso to Section 10.2(a) and also to include all United Owned E175 Covered Aircraft as extended throughout such extension period. [***] (including all payments received pursuant to Section 3.6 in respect of such operations at the rates and amounts in effect prior to the Second Amendment Effective Date), *minus* (Y) the United incurred expenses referred to in Section 3.4(a) incurred in respect of such operation, and divided by (Z) 365. Where applicable, dollar amounts used in the calculations described in this Section 8.4(e) shall be as reported in United's Financial Profitability System. [***]

(f) If a Termination Event or Repudiation Event shall have occurred, then notwithstanding anything contained in this Agreement to the contrary [***] to Contractor that would otherwise have been required pursuant to Section 2.4 (but for this Section 8.4(f))."

1.6 Section 10.9 – Parked Aircraft. The CPA is hereby amended to add a new Section 10.9 as follows:

"10.9 Parked Covered Aircraft.

(a) United shall have the right, exercisable in its sole discretion at any time from time to time by delivery of written notice to Contractor, either (i) to designate [***] Covered Aircraft to a Parked Covered Aircraft or (ii) to cease to designate convert [***] Parked Covered Aircraft as Parked Covered Aircraft; *provided* that such written notice, if delivered from and after [***], shall (x) not provide for any such designation to be

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made effective prior to the date that is [***] following the date of delivery of such notice, (y) include a revised Schedule 1 that replaces the previously effective Schedule 1 in its entirety solely to specify a Parked Aircraft Commencement Date (in the case of a Covered Aircraft that has been designated as a Parked Covered Aircraft) and/or a Scheduled In-Service Date (in the case of a Parked Covered Aircraft that has ceased to be designated as a Parked Covered Aircraft), as applicable. Effective immediately upon delivery by United of any such written notice of designation to Contractor with respect to any aircraft, Schedule 1 shall be deemed automatically amended and restated in full compliance with Section 11.3 without any further action by any party and such amended and restated Schedule 1 shall thereafter constitute Schedule 1 for all purposes of this Agreement until and unless otherwise validly amended in accordance with this Agreement.

(b) Notwithstanding anything to the contrary in this Agreement, for so long as an aircraft is designated as a Parked Covered Aircraft pursuant to this Agreement:

i. [***]

ii. such Parked Covered Aircraft shall not be considered Covered Aircraft for the purposes of (w) determining whether a Covered Aircraft is used in scheduled service or available to schedule for Scheduled Flights, (x) the calculation of spare aircraft requirements pursuant to Section 2.1(d), or (y) the calculations in the definition of System Flight Disruption.

(c) United shall have complete discretion in the selection of the particular United-owned engines to be withdrawn with respect to any particular Parked Covered Aircraft subject to a termination or removal under this Agreement, and shall provide written notice to Contractor of its selection no later than [***] prior to the expiration of the applicable Covered Aircraft Lease.

(d) [***]

1.7 Schedule 1 – Covered Aircraft. Table 4 to Schedule 1 of the CPA is hereby amended and restated in its entirety with the version of such schedule set out on **Attachment 1** to this Amendment.

1.8 Schedule 2A. Table 1, Table 2, and Table 4 to Schedules 2A of the CPA are hereby amended and restated in their entirety with the versions of such schedules set out on **Attachment 2** to this Amendment.

1.9 Exhibit A – Defined Terms. Exhibit A to the CPA is hereby amended to add new definitions, or to amend and restate existing definitions, as applicable, as follows:

"Adjusted CCF" – [***]

"Aircraft Storage Costs" – has the meaning given to such term in Section 10.9.

"CCF Bonus Adjustment" – has the meaning given to such term in Section 3.2(c).

"CCF Bonus Adjustment Period" – has the meaning given to such term in Section 3.2(c).

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

"Covered Aircraft" means, subject to Section 10.9, the E175 Covered Aircraft, the E175LL Covered Aircraft, and the CRJ700 Covered Aircraft, it being understood that there are no CRJ550 Covered Aircraft.

"Parked Covered Aircraft" means, as of any date of determination, each aircraft designated by United as a Parked Covered Aircraft as of such date in accordance with Section 10.9.

"Repudiation Event" has the meaning given to such term in Section 8.4(e).

"Second Amendment Effective Date" means [***].

"Termination Date" – means the date of early termination of this Agreement, as such date is specified in a notice delivered from one party to the others pursuant to Section 2.4 or Section 8.2, as applicable, or, if no such early termination shall have occurred, the date of the end of the Term, it being understood that, from and after the Termination Date as to a Covered Aircraft (but without limiting the applicable provisions of Section 8.3), (i) such Covered Aircraft shall be considered withdrawn from the capacity purchase provisions of this Agreement and (ii) the term of any aircraft leases for any Covered Aircraft shall, without the requirement for any further notice, automatically expire and conclude on the earlier to occur of (x) the date of termination as set forth in any notice delivered pursuant to Section 2.4 or Section 8.2 and (y) date of the end of the Term.

"Very Long Delay" [***]

SECTION 2. Miscellaneous.

This Amendment may be executed in counterparts, each of which is deemed an original hereof. The Parties shall become bound by this Amendment immediately upon execution hereof by each Party. Except as expressly amended in this Amendment, the CPA will remain in full force and effect. Notwithstanding anything to the contrary in this Amendment, the terms and provisions of this Amendment are intended solely for the benefit of the Parties, and it is not the intention of the Parties to confer third party beneficiary rights upon any other person. This Amendment (together with the attached exhibits) constitutes the entire agreement between the Parties, and supersedes any other agreements, representations, warranties, covenants, communications, or understandings, whether oral or written (including, but not limited to, e-mail and other electronic correspondence), that may have been made or entered into by or between the Parties or any of their respective affiliates or agents relating in any way to the transactions contemplated by this Amendment.

[*Signature page follows*]

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

If Contractor is in agreement with the above, please indicate its agreement by having an authorized representative sign below in the space provided and return a signed copy of this Amendment to the undersigned.

Very truly yours,

UNITED AIRLINES, INC.

By: /s/ Gerry Laderman_
Name: Gerry Laderman
Title: EVP & CFO

ACCEPTED AND AGREED:

MESA AIRLINES, INC.

By: /s/ Michael Lotz
Name: Michael Lotz
Title: President

MESA AIR GROUP, INC.

By: /s/ Michael Lotz
Name: Michael Lotz
Title: President

ATTACHMENT 1

SCHEDULE 1
Covered Aircraft

Table 4 E175LL Covered Aircraft

[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
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Note 3 – Relating to E175LL Covered Aircraft:

The delivery dates and in-service dates for E175LL Covered Aircraft must satisfy the following conditions:

(a) No later than [***] prior to the scheduled delivery month for each E175LL Covered Aircraft, or as soon as practically possible for any of the E175LL Covered Aircraft, as set forth on Table 4 to Schedule 1 (the "E175LL Scheduled Delivery Date"), Contractor and United shall meet to discuss the dates that are likely to be selected as the committed in-service date for each of the E175LL Covered Aircraft (the "E175LL Committed In-Service Date"), it being understood that (x) such discussions shall not be binding for purposes of selecting the actual E175 Committed In-Service Date pursuant to clause (e) below, and (y)

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

such dates shall be used by Contractor and United in anticipating aircraft available to schedule and with respect to any applicable Final Monthly Schedule.

(b) Contractor shall use its commercially reasonable efforts to provide United with notice regarding the delivery status of each E175LL Covered Aircraft from time to time in advance of the E175LL Scheduled Delivery Date with respect to such E175LL Covered Aircraft, including without limitation information relating to the commencement of the delivery inspection period, delays in delivery, or otherwise relating to the delivery of such aircraft.

(c) [***] prior to the E175LL Scheduled Delivery Date for each of the E175LL Covered Aircraft as set forth on Table 4 to Schedule 1, and reasonably frequently from time to time thereafter, Contractor shall provide United with notice regarding the delivery status of such E175LL Covered Aircraft, including without limitation information relating to the commencement of the delivery inspection period (which notice is anticipated to be given no later than [***] prior to actual delivery date of such aircraft), delays in delivery, or otherwise relating to the delivery of such aircraft.

(d) With respect to each E175LL Covered Aircraft, Contractor shall provide a final notice of the actual delivery date of any E175LL Covered Aircraft to United no later than the Actual Delivery Date, and which determination shall be confirmed in writing by the parties.

(e) Following the determination of the Actual Delivery Date for an E175LL Covered Aircraft pursuant to clause (d) above, the parties shall determine an E175LL Committed In-Service Date, which shall be not later than the first to occur of (x) the [***] following the Actual Delivery Date and (y) the date set forth under the caption "Actual In-Service Date" for such aircraft on Table 4 to Schedule 1 (as such Actual In-Service Date may be delayed by, and only to the extent such date is delayed by, a delay attributable to the manufacturer or by a delay due to an Act of God that continues for fewer than [***] and which determination shall be confirmed in writing by the parties.

[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

ATTACHMENT 2

SCHEDULE 2A
E175 Covered Aircraft Compensation for Carrier Controlled Costs

<u>Table 1 – United Owned E175 Covered Aircraft</u>

The following <u>Table 1</u> shall apply per corresponding year to United Owned E175 Covered Aircraft flown under this Agreement:

[***]		[***]	[***]	[***]	[***]	[***]
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[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

<u>Table 2 – Contractor Owned E175 Covered Aircraft</u>

The following <u>Table 2</u> shall apply per corresponding year to Contractor Owned E175 Covered Aircraft flown under this Agreement:

[***] [***]	[***] [***]	[***] [***]	[***] [***]	[***] [***]	[***] [***]
[***]	[***]	[***]	[***]	[***]	[***]
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[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

Table 4 – E175LL Covered Aircraft – United Aircraft Ownership

The following Table 4 shall apply per corresponding year to E175LL Covered Aircraft flown under this Agreement with United aircraft ownership; [***]

	[***]	[***]	[***]	[***]	[***]
[***]		[***]	[***]	[***]	[***]
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[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

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[***]=[CONFIDENTIAL PORTION HAS BEEN OMITTED BECAUSE IT (I) IS NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED]

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jonathan G. Ornstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mesa Air Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2022

/s/ JONATHAN G. ORNSTEIN
Jonathan G. Ornstein
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Torque Zubeck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mesa Air Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2022

/s/ D. TORQUE ZUBECK
Torque Zubeck
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jonathan G. Ornstein, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 8, 2022

/s/ JONATHAN G. ORNSTEIN
Jonathan G. Ornstein
Chairman and Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Torque Zubeck, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 8, 2022

/s/ D. TORQUE ZUBECK
Torque Zubeck
Chief Financial Officer