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 December 31, 2021

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 January 26, 2022, the registrant had 35,964,013 shares of common stock, no par value per share, issued and outstanding.

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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. 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 Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 under the heading "*Risk Factors.*" 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;
- 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 under a particular capacity purchase agreement by (ii) the maximum number of block hours that could be flown during such month under the particular capacity purchase agreement) 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 other agreements; 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)

	December 31, 2021	September 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,332	$ 120,517
Restricted cash	3,350	3,350
Receivables, net	2,919	3,167
Expendable parts and supplies, net	25,206	24,467
Prepaid expenses and other current assets	4,488	6,885
Total current assets	138,295	158,386
Property and equipment, net	1,157,922	1,151,891
Intangible assets, net	6,537	6,792
Lease and equipment deposits	8,249	6,808
Operating lease right-of-use assets	88,469	93,100
Deferred heavy maintenance, net	3,271	3,499
Other assets	31,752	36,121
Total assets	$ 1,434,495	$ 1,456,597
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and finance leases	$ 111,059	$ 111,710
Current portion of deferred revenue	5,528	6,298
Current maturities of operating leases	26,935	32,652
Accounts payable	62,933	61,476
Accrued compensation	7,638	12,399
Other accrued expenses	36,283	33,657
Total current liabilities	250,376	258,192
Noncurrent liabilities:		
Long-term debt and finance leases, excluding current portion	547,409	539,700
Noncurrent operating lease liabilities	34,405	33,991
Deferred credits	3,721	3,934
Deferred income taxes	65,716	69,940
Deferred revenue, net of current portion	24,788	28,202
Other noncurrent liabilities	33,606	34,591
Total noncurrent liabilities	709,645	710,358
Total liabilities	960,021	968,550
Commitments and contingencies (Note 15)		
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; 35,963,984 (2022) and 35,958,759 (2021) shares issued and outstanding, 4,899,497 (2022) and 4,899,497 (2021) warrants issued and outstanding	257,073	256,372
Retained earnings	217,401	231,675
Total stockholders' equity	474,474	488,047
Total liabilities and stockholders' equity	$ 1,434,495	$ 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 December 31,	
	2021	2020
Operating revenues:		
Contract revenue	$ 136,894	$ 127,158
Pass-through and other revenue	10,863	23,213
Total operating revenues	147,757	150,371
Operating expenses:		
Flight operations	47,598	36,964
Fuel	1,257	390
Maintenance	58,981	52,864
Aircraft rent	9,586	10,048
Aircraft and traffic servicing	715	901
General and administrative	12,578	13,073
Depreciation and amortization	21,028	20,470
Government grant recognition	—	(11,311)
Total operating expenses	151,743	123,399
Operating income (loss)	(3,986)	26,972
Other income (expense), net:		
Interest expense	(7,930)	(9,082)
Interest income	51	126
Loss on investments, net	(6,462)	—
Other income (expense), net	(59)	923
Total other expense, net	(14,400)	(8,033)
Income (loss) before taxes	(18,386)	18,939
Income tax expense (benefit)	(4,112)	4,821
Net income (loss) and comprehensive income (loss)	$ (14,274)	$ 14,118
Net income (loss) per share attributable to common shareholders		
Basic	$ (0.40)	$ 0.40
Diluted	$ (0.40)	$ 0.39
Weighted-average common shares outstanding		
Basic	35,963	35,531
Diluted	35,963	36,647

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)

	Three Months Ended December 31, 2020				
	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

	Three Months Ended December 31, 2021				
	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

See accompanying notes to these condensed consolidated financial statements.

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

(In thousands) (Unaudited)

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020
Cash flows from operating activities:		
Net income (loss)	$ (14,274)	$ 14,118
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	21,028	20,470
Stock compensation expense	716	850
Loss on investments, net	6,462	—
Deferred income taxes	(4,224)	4,836
Amortization of deferred credits	(213)	(793)
Amortization of debt discount and issuance costs and accretion of interest into long-term debt	3,199	1,860
Gain on extinguishment of debt	—	(950)
Loss on disposal of assets	5	24
Provision for obsolete expendable parts and supplies	238	(37)
Changes in assets and liabilities:		
Receivables	248	(1,700)
Expendable parts and supplies	(978)	256
Prepaid expenses and other operating assets and liabilities	2,094	4,296
Accounts payable	174	(5,723)
Deferred revenue	(4,184)	53,999
Accrued expenses and other liabilities	(4,868)	(12,637)
Operating lease right-of-use assets and liabilities	(672)	404
Net cash provided by operating activities	4,751	79,273
Cash flows from investing activities:		
Capital expenditures	(19,775)	(1,773)
Investments in equity securities	(200)	—
Payments of equipment and other deposits	(6,954)	—
Net cash used in investing activities	(26,929)	(1,773)
Cash flows from financing activities:		
Proceeds from long-term debt	30,811	195,000
Principal payments on long-term debt and finance leases	(24,510)	(189,131)
Payments of debt and warrant issuance costs	(2,293)	(1,257)
Repurchase of stock	(15)	(19)
Net cash provided by financing activities	3,993	4,593
Net change in cash, cash equivalents and restricted cash	(18,185)	82,093
Cash, cash equivalents and restricted cash at beginning of period	123,867	102,841
Cash, cash equivalents and restricted cash at end of period	$ 105,682	$ 184,934
Supplemental cash flow information		
Cash paid for interest	$ 2,815	$ 6,743
Cash paid for income taxes, net	$ —	$ 1
Operating lease payments in operating cash flows	$ 10,152	$ 9,304
Supplemental non-cash operating activities		
Right-of-use assets obtained in exchange for lease liabilities	$ 4,190	$ 69
Supplemental non-cash financing activities		
Debt issuance costs related to loan agreement with U.S. Department of the Treasury	$ —	$ (1,887)
Investments in warrants to purchase common stock	$ 100	$ —
Accrued capital expenditures	$ 1,722	$ —

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 a holding company whose principal subsidiary, Mesa Airlines, Inc. ("Mesa Airlines"), operates as a regional air carrier providing scheduled flight service to 120 cities in 42 states, the District of Columbia, the Bahamas, and Mexico as well as cargo services out of Cincinnati/Northern Kentucky International Airport. As of December 31, 2021, Mesa's fleet consisted of 167 aircraft which were operated under the Company's Capacity Purchase Agreements ("CPAs") and Flight Services Agreement ("FSA"), leased to a third party, or maintained as operational spares, with approximately 457 daily departures and 2,999 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").

The capacity purchase agreements between us and our major partners involve a revenue-guarantee arrangement whereby the major partner pays 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 capacity purchase agreements, the major partner controls 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 services. Ground support expenses including fueling and airport fees are paid directly by DHL.

American Capacity Purchase Agreement

As of December 31, 2021, we operated 40 CRJ-900 aircraft under the American Capacity Purchase Agreement (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 covers 40 CRJ-900 aircraft for a five-year term expiring 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 FAA or the 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 our CCF or CD0 fall 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 has the option in its sole discretion to withdraw up to: (i) 10 aircraft during calendar year 2021, (ii) five 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.

United Capacity Purchase Agreement

As of December 31, 2021, we operated 60 E-175 and 20 E-175LL aircraft under the United Capacity Purchase Agreement (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 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 December 31, 2021, had entered into agreements to lease 17 of our 20 CRJ-700 aircraft.

Our United CPA is subject to termination rights prior to its expiration, 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 select 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 two (2) Boeing 737-400F aircraft to provide cargo air transportation services. In exchange for providing such 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 including fueling and airport fees are paid directly by DHL.

Under our DHL FSA, DHL leases two 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 the following termination rights prior to its expiration:

- 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.
- 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.

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 United States generally accepted accounting principles 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 and 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 December 31, 2021, 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 capacity purchase agreements and flight services agreement. Under the capacity purchase agreements and flight services agreement, 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 when 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 capacity purchase agreements and flight services agreement. 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 months ended December 31, 2021, we recognized $4.2 million of previously deferred revenue. Deferred revenue is recognized as flights are completed over the remaining contract term.

The deferred revenue balance as of December 31, 2021 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 September 30,		Total Revenue
2022 (remainder of)	$	3,631
2023		9,569
2024		9,517
2025		4,286
2026		1,957
Thereafter		1,356
Total	$	30,316

A portion of the compensation under our capacity purchase agreements 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 that this component of the compensation under these agreements is deemed to be 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 capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue in the condensed consolidated statements of operations. We recognized $40.3 million and $49.5 million of lease revenue for the three months ended December 31, 2021 and 2020, respectively. We have not separately stated aircraft rental income and aircraft rental expense in the condensed consolidated statements of operations because the use of the aircraft is not a separate activity from the total service provided under our capacity purchase agreements.

We have entered into lease agreements with GoJet Airlines LLC (“GoJet”) to lease 17 CRJ-700 aircraft as of December 31, 2021. 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 December 31, 2021, we recognized $14.4 million of lease incentive assets, net of amortization, and $10.9 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 $6.4 million for the three months ended December 31, 2021. Amounts deferred for supplemental rent payments totaled $1.4 million as of December 31, 2021, which are included in other accrued expenses in the condensed consolidated balance sheets. The following table summarizes future minimum rental income under operating leases related to leased aircraft that had remaining non-cancelable lease terms as of December 31, 2021 (in thousands):

Periods Ending September 30,	**Total Payments**
2022 (remainder of)	$ 13,923
2023	18,564
2024	18,564
2025	18,564
2026	18,564
Thereafter	67,801
Total	$ 155,980

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. 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. We use our estimated incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments, or the implicit rate in the lease when it is readily determinable. Our lease terms may 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 10% 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, the trusts 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 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 December 31, 2021 and September 30, 2021 were $4.6 million and $4.8 million, respectively. We recognized $0.2 million and $0.8 million of the deferred credits within contract revenue during the three months ended December 31, 2021 and 2020, respectively.

Maintenance Expense

We operate under a Federal Aviation Administration ("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 $0.2 million for the three months ended December 31, 2021 and $0.0 million for the three months ended December 31, 2020. As of December 31, 2021 and September 30, 2021, our deferred heavy maintenance balance, net of accumulated amortization, was $3.3 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 $5.3 million and $14.4 million for the three months ended December 31, 2021, and 2020, respectively, of which $3.8 million and $9.6 million, respectively, was pass-through expense. Airframe C-check expense totaled $9.1 million and $10.1 million for the three months ended December 31, 2021, and 2020, respectively, of which $0.0 million and $7.1 million, respectively, was pass-through expense.

3. Recent Accounting Pronouncements

In December 2019, the FASB issued new guidance 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 December 31, 2021, we had $3.4 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, $3.4 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 the Company's total revenue or net accounts receivable balance at each respective balance sheet date. All of our revenue for the three months ended December 31, 2021 and 2020 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 December 31, 2021 and September 30, 2021 was derived from these agreements.

American accounted for approximately 45% and 46% of our total revenue for the three months ended December 31, 2021 and 2020, respectively. United accounted for approximately 49% and 53% of our total revenue for the three months ended December 31, 2021 and 2020, respectively. A termination of either the American or the 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. The allowance for doubtful accounts was $0.3 million and $0.3 million at December 31, 2021 and September 30, 2021, respectively. 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 December 31, 2021 and September 30, 2021, is as follows (in thousands):

	December 31, 2021	September 30, 2021
Customer relationship	$ 43,800	$ 43,800
Accumulated amortization	(37,263)	(37,008)
Net carrying value	$ 6,537	$ 6,792

Total amortization expense recognized was approximately $0.3 million and $0.3 million for the three months ended December 31, 2021 and 2020, respectively. We expect to record amortization expense of $0.7 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 December 31, 2021, the intangible assets' remaining weighted average term is 13.8 years.

6. Balance Sheet Information

Certain significant amounts included in the condensed consolidated balance sheets as of December 31, 2021 and September 30, 2021, consisted of the following (in thousands):

	December 31, 2021	September 30, 2021
Expendable parts and supplies, net:		
Expendable parts and supplies	$ 30,877	$ 29,297
Less: obsolescence and other	(5,671)	(4,830)
	$ 25,206	$ 24,467
Prepaid expenses and other current assets:		
Prepaid aviation insurance	$ 140	$ 2,171
Lease incentives	1,715	1,445
Other	2,633	3,269
	$ 4,488	$ 6,885
Property and equipment, net:		
Aircraft and other flight equipment	$ 1,637,154	$ 1,611,544
Other equipment	4,971	4,934
Leasehold improvements	2,776	2,776
Vehicles	1,184	1,184
Building	699	699
Furniture and fixtures	292	300
Total property and equipment	1,647,076	1,621,437
Less: accumulated depreciation	(489,154)	(469,546)
	$ 1,157,922	$ 1,151,891
Other assets:		
Investments in equity securities	$ 19,005	$ 25,149
Lease incentives	12,705	10,957
Other	42	15
	$ 31,752	$ 36,121
Other accrued expenses:		
Accrued property taxes	$ 8,598	$ 8,783
Accrued interest	4,481	2,565
Accrued vacation	5,829	5,936
Other	17,375	16,373
	$ 36,283	$ 33,657
Other noncurrent liabilities:		
Warrant liabilities	$ 22,064	$ 21,964
Lease incentive obligations	7,289	6,358
Other	4,253	6,269
	$ 33,606	$ 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 existed and have determined that no charges were deemed necessary under applicable accounting standards as of December 31, 2021. Our assumptions about future conditions relevant to the assessment of potential impairment of the long-lived assets are subject 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 $20.5 million and $20.2 million for the three months ended December 31, 2021 and 2020, 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 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. During the three months ended December 31, 2021, all of our warrants were 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.

Losses on our investments in Archer totaled $6.5 million during the three months ended December 31, 2021 and are reflected in loss on investments, net in our condensed consolidated statement of operations. The total carrying amount of our investments in Archer common stock was $13.7 million as of December 31, 2021.

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, in other income (expense), net. The initial investment in preferred stock was measured at cost of $5.0 million. There were no observable price changes or transactions as of December 31, 2021 and as such, no adjustments to the carrying amount of the equity investment have been recorded.

7. 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 the investments in equity securities described in Note 6, we did not measure any of our assets or liabilities at fair value on a recurring or nonrecurring basis as of December 31, 2021 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 long-term debt, including current maturities, were as follows (in millions):

	December 31, 2021		September 30, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and finance leases, including current maturities[1]	$ 678.6	$ 674.0	$ 670.3	$ 676.8

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

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

Long-term debt as of December 31, 2021 and September 30, 2021, consisted of the following (in thousands):

	December 31, 2021	September 30, 2021
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027[1]	83,409	86,551
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028[2]	152,100	152,100
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028[3]	118,840	122,762
Other obligations due to financial institution, collateralized by the underlying equipment, due 2023[4]	4,021	4,581
Notes payable to financial institution, collateralized by the underlying equipment, due 2024[5]	40,956	45,559
Notes payable to financial institution, collateralized by the underlying aircraft, due 2023[6]	26,250	30,625
Notes payable to financial institution due 2023[7]	3,500	4,000
Revolving credit facility[8]	15,630	22,930
Notes payable to U.S. Treasury due 2025[9]	203,069	201,227
Notes payable to financial institution, collateralized by the underlying equipment, due 2027[10]	30,811	—
Gross long-term debt, including current maturities	678,586	670,335
Less unamortized debt issuance costs	(11,083)	(9,295)
Less notes payable warrants	(9,035)	(9,630)
Net long-term debt, including current maturities	658,468	651,410
Less current portion, net of unamortized debt issuance costs	(111,059)	(111,710)
Net long-term debt	$ 547,409	$ 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 9.128% and the leases require monthly payments.

(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) 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%.

(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, the Company 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, we financed certain flight equipment with $30.8 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 December 31, 2021, and for each of the next five years are as follows (in thousands):

Periods Ending December 31,	Total Principal
2022 (remainder of)	$ 93,023
2023	94,597
2024	66,345
2025	61,661
2026	267,022
Thereafter	95,938
	$ 678,586

The net book value of collateralized aircraft and equipment as of December 31, 2021 was $1,082.0 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. At December 31, 2021, we had $152.1 million of equipment notes outstanding issued under the EETC financing included in long-term debt on 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. The pass-through trust was determined to be a VIE; however, we determined that we are not the primary beneficiary of 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%. During the three months ended December 31, 2021, we repaid $7.3 million of the outstanding balance. As of December 31, 2021, $15.6 million remained outstanding on the revolving credit facility.

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 will be 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, beginning with December 15, 2020.

All principal amounts outstanding under the Treasury Loan are due and payable in a single installment on October 30, 2025. Through December 31, 2021, 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. 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 sheet.

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 $30.8 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, this entity is consolidated in our financial statements and the borrowings are reflected as long-term debt in our condensed consolidated balance sheet.

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 December 31, 2021, we were in compliance with all debt covenants.

9. 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 December 31,	
	2021	2020
Net income (loss) attributable to Mesa Air Group	$ (14,274)	$ 14,118
Basic weighted average common shares outstanding	35,963	35,531
Add: Incremental shares for:		
Dilutive effect of warrants	—	800
Dilutive effect of restricted stock	—	316
Diluted weighted average common shares outstanding	35,963	36,647
Net income (loss) per common share attributable to Mesa Air Group:		
Basic	$ (0.40)	$ 0.40
Diluted	$ (0.40)	$ 0.39

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 considered to be anti-dilutive under the treasury stock method were 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 December 31,	
	2021	2020
Warrants	2,215	—
Restricted stock	341	—
	2,556	—

10. Common Stock

As discussed in Note 8, 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 December 31, 2021, 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.

11. Income Taxes

Our effective tax rate (ETR) from continuing operations was 22.4% for the three months ended December 31, 2021 and 25.5% for the three months ended December 31, 2020. Our ETR during the three months ended December 31, 2021 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. For the three months ended December 31, 2021, we used the year-to-date effective tax rate method to determine the interim income tax benefit because a reliable estimate of the annual effective tax rate could not be made.

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.

12. Share-Based Compensation and Stock Repurchases

Restricted Stock

We have granted 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 three months ended December 31, 2021 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	—	—
Vested	(7,500)	7.37
Forfeited	(8,695)	9.74
Restricted shares unvested at December 31, 2021	990,011	$ 6.18

As of December 31, 2021, there was $4.3 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 1.8 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 December 31, 2021 and 2020 was $0.7 million and $0.9 million, respectively.

We repurchased 2,275 shares of our common stock for $0.1 million to cover the income tax obligation on vested employee equity awards during the three months ended December 31, 2021.

13. 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 purchase Mesa Air Group, Inc. ordinary shares through the Employee Stock Purchase Plan. 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 December 31, 2021, eligible employees purchased and we issued an aggregate of 194,194 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP.

14. Leases

As of December 31, 2021, we leased 17 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 aircraft, equipment and facility operating leases totaled approximately $11.2 million and $11.4 million for the three months ended December 31, 2021 and 2020, respectively.

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

	Three Months Ended December 31,	
	2021	2020
Operating lease costs	$ 9,480	$ 9,708
Variable and short-term lease costs	1,735	1,689
Total lease costs	$ 11,215	$ 11,397

As of December 31, 2021, our operating lease right-of-use assets were $88.5 million, our current maturities of operating lease liabilities were $26.9 million, and our noncurrent operating lease liabilities were $34.4 million.

Our operating lease payments in operating cash flows for the three months ended December 31, 2021 and 2020 were $10.2 million and $9.3 million, respectively.

As of December 31, 2021, our operating leases have a remaining weighted average lease term of 3.7 years and our operating lease liabilities were measured using a weighted average discount rate of 4.4%.

As of December 31, 2021, we have $3.0 million of additional operating lease commitments commencing in future periods.

15. 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 December 31, 2021, we have purchased five of the engines pursuant to the Amended and Restated Letter Agreement No. 13-3 with delivery of the remaining five (5) 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. The plaintiffs seek unspecified monetary damages and other relief. In addition, we are subject to certain legal actions which we consider routine to our business activities. As of December 31, 2021, our management believed that the ultimate outcomes of the two putative class action lawsuits and such 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 6, in February 2021, we entered into a forward purchase contract with Archer for a number of electrically-powered vertical takeoff and landing aircraft (“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 6, 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.

16. Subsequent Events

For the months of November and December 2021 and January 2022, the Company did not meet the minimum performance levels under the American CPA for either the controllable flight completion rate ("CCF") or controllable on-time departures ("CD0"). Under the terms of the American CPA, 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. American has agreed to waive any default arising out of the Company's failure to meet the CCF or CD0 performance levels in January, which eliminates the right to terminate the American CPA for failure to meet the CD0 and CCF performance levels for the three (3) consecutive months ended January 2022, and has agreed to reset the 3-consecutive month period to commence with the month of February 2022. Additionally, American has the right to remove two (2) additional aircraft from the CPA, one (1) aircraft for not meeting the CD0 minimum performance level for two consecutive months and one (1) aircraft for not meeting the CCF minimum performance level for two (2) consecutive months. American has also agreed to waive its right to remove two (2) aircraft in connection with missing the November and December 2021 CCF and CD0 minimum performance levels. In the future, American has the right to remove additional aircraft should the Company fail to meet the CCF or CD0 minimum performance levels in subsequent two (2) consecutive month periods.

In February 2022, the Company entered into a forward purchase agreement with a manufacturer of hybrid-electric vertical takeoff and landing (“VTOL”) aircraft (the “Aircraft Purchase Agreement”). The Aircraft Purchase Agreement provides for the purchase of 100 VTOL aircraft. The Company’s obligation to purchase the aircraft is subject to the Company and the seller first agreeing in the future to a number of terms and conditions, including the base purchase price of the aircraft, which may or may not be met. In connection with the Aircraft Purchase Agreement, the Company also obtained a warrant to purchase common shares of the seller. The warrant vests and becomes exercisable in tranches upon completion of specified milestones. Following the execution of the Aircraft Purchase Agreement, one-third of the warrant vested and became exercisable.

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 flight service to 120 cities in 42 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 December 31, 2021, our fleet consisted of 167 aircraft which we operated under our CPAs and FSA, leased to a third party, or maintained as spares, with approximately 457 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 2 Boeing 737-F400 aircraft under our DHL FSA. For the three months ended December 31, 2021, 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 months ended December 31, 2021 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 year 2022. 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.

Operating Revenues

Our operating revenues consist 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. 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.

Fuel. Fuel expense includes fuel and related fueling costs for flying we undertake outside of our CPAs and FSA, including aircraft repositioning and maintenance. All aircraft fuel and related fueling costs for flying under our CPAs and FSA were 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.

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.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense includes expenses related to our CPAs, including aircraft cleaning, passenger disruption reimbursements, international navigation fees and wages of airport operations personnel, a portion of which are reimbursable by our major partners.

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.

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 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.

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 December 31, 2021 Compared to Three Months Ended December 31, 2020

We had operating loss of $4.0 million in our three months ended December 31, 2021 compared to operating income of $27.0 million in our three months ended December 31, 2020. In our three months ended December 31, 2021, we had net loss of $14.3 million compared to net income of $14.1 million in our three months ended December 31, 2020. Our operating revenues for the three months ended December 31, 2021 reflected an increase in contract revenue primarily related to more flying on all fleets relative to prior period, partially offset by flying fewer aircraft under our American CPA compared to the three months ended December 31, 2020, and a decrease in pass-through and other revenues primarily due to a decrease in pass-through maintenance expense.

Flight operations expense increased in the three months ended December 31, 2021 due to higher pilot and flight attendant wages, pilot and flight attendant lodging, and pilot training expenses. Our maintenance expense increased primarily due to an increase in C-checks (excluding pass-through amounts), component contracts, labor, parts, and other maintenance expense as a result of increased flying and a higher volume of maintenance events compared to the three months ended December 31, 2020. Additionally, there were no government grant funds utilized as an offset to operating expenses during the three months ended December 31, 2021, compared to $11.3 million during the three months ended December 31, 2020.

Operating Revenues

	Three Months Ended December 31,		Change	
	2021	2020		
Operating revenues ($ in thousands):				
Contract	$ 136,894	$ 127,158	$ 9,736	7.7%
Pass-through and other	10,863	23,213	(12,350)	(53.2)%
Total operating revenues	$ 147,757	$ 150,371	$ (2,614)	(1.7)%
Operating data:				
Available seat miles—ASMs (thousands)	2,104,621	1,670,943	433,678	26.0%
Block hours	86,079	69,247	16,832	24.3%
Revenue passenger miles—RPMs (thousands)	1,764,161	1,171,411	592,750	50.6%
Average stage length (miles)	644	637	7	1.1%
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.50	¢ 7.61	¢ (1.11)	(14.6)%
Passengers	2,693,468	1,829,714	863,754	47.2%

"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.

"Revenue passenger miles” or “RPMs" means the number of miles traveled by paying passengers.

Total operating revenue decreased by $2.6 million, or 1.7%, to $147.8 million for our three months ended December 31, 2021 as compared to our three months ended December 31, 2020. Contract revenue increased by $9.7 million, or 7.7%, to $136.9 million primarily due to an increase in block hours flown during the same period, partially offset by flying fewer aircraft under our American CPA compared to the three months ended December 31, 2020. Our block hours flown during our three months ended December 31, 2021 increased 24.3% compared to the three months ended December 31, 2020 due to increased flying on our CRJ-900 and E-175 fleets. Our pass-through and other revenue decreased during our three months ended December 31, 2021 by $12.4 million, or 53.2%, to $10.9 million primarily due to a decrease in pass-through maintenance revenue related to our E-175 fleet.

Operating Expenses

	Three Months Ended December 31,			
	2021	2020	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 47,598	$ 36,964	$ 10,634	28.8%
Fuel	1,257	390	867	222.3%
Maintenance	58,981	52,864	6,117	11.6%
Aircraft rent	9,586	10,048	(462)	(4.6)%
Aircraft and traffic servicing	715	901	(186)	(20.6)%
General and administrative	12,578	13,073	(495)	(3.8)%
Depreciation and amortization	21,028	20,470	558	2.7%
Government grant recognition	—	(11,311)	11,311	(100.0)%
Total operating expenses	$ 151,743	$ 123,399	$ 28,344	23.0%
Operating data:				
Available seat miles—ASMs (thousands)	2,104,621	1,670,943	433,678	26.0%
Block hours	86,079	69,247	16,832	24.3%
Average stage length (miles)	644	637	7	1.1%
Departures	43,447	35,344	8,103	22.9%

Flight Operations. Flight operations expense increased $10.6 million, or 28.8%, to $47.6 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. The increase was primarily driven by an increase in pilot and flight attendant wages and lodging expenses, premium pay, and pilot training-related costs.

Fuel. Fuel expense increased $0.9 million, or 222.3%, to $1.3 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. The increase was primarily driven by fuel expense related to maintenance events and ferry flights for our CRJ-900 fleet. All fuel costs related to flying under our CPAs and FSA during our three months ended December 31, 2021 and 2020 were directly paid to suppliers by our major partners.

Maintenance. Aircraft maintenance expense increased $6.1 million, or 11.6%, to $59.0 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. This increase was primarily driven by an increase in C-checks (excluding pass-through amounts), component contracts, parts, and labor and other expense due to increased flying and a higher number of maintenance events compared to the three months ended December 31, 2020. This increase was partially offset by a decrease in engine overhaul expense. Total pass-through maintenance expenses reimbursed by our major partners decreased by $8.5 million during our three months ended December 31, 2021 compared to our three months ended December 31, 2020.

The following table presents information regarding our maintenance costs during the three months ended December 31, 2021 and 2020 (in thousands):

	Three Months Ended December 31,			
	2021	2020	Change	
Engine overhaul	$ 1,529	$ 4,753	$ (3,224)	(67.8)%
Pass-through engine overhaul	3,781	9,633	(5,852)	(60.7)%
C-check	9,106	2,958	6,148	207.8%
Pass-through C-check	—	7,138	(7,138)	(100.0)%
Component contracts	7,662	5,787	1,875	32.4%
Rotable and expendable parts	7,759	5,318	2,441	45.9%
Other pass-through	7,620	3,112	4,508	144.9%
Labor and other	21,524	14,165	7,359	52.0%
Total	$ 58,981	$ 52,864	$ 6,117	11.6%

Aircraft Rent. Aircraft rent expense decreased $0.5 million, or 4.6%, to $9.6 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. The decrease is attributable to a $0.5 million decrease in aircraft rent due to the purchase of a CRJ-900 aircraft during fiscal 2021 that was previously under lease.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense decreased $0.2 million, or 20.6%, to $0.7 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. The decrease is primarily due to a decrease in interrupted trip expense and regulatory and freight charges.

General and Administrative. General and administrative expense decreased $0.5 million, or 3.8%, to $12.6 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. The decrease is primarily due to a decrease in property tax expense. For our three months ended December 31, 2021 and 2020, $3.3 million and $4.5 million, respectively, of our insurance and property tax expenses were reimbursed by our major partners.

Depreciation and Amortization. Depreciation and amortization expense increased $0.6 million, or 2.7%, to $21.0 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. The increase is primarily attributable to an increase in depreciation of aircraft, spare engines, and related equipment and amortization of deferred heavy maintenance.

Government grant recognition. Recognition of payroll support funds decreased $11.3 million, or 100.0%, to $0.0 million for our three months ended December 31, 2021 compared to our three months ended December 31, 2020. Under the CARES Act, the government provided the Company with a grant of $95.2 million in payroll support for the period of April through October 2020, of which, the final $11.3 million was recognized during the three months ended December 31, 2020. There were no government grant funds received by the Company recognized during the three months ended December 31, 2021.

Other Expense

Other expense increased $6.4 million, or 79.3%, to $14.4 million for our three months ended December 31, 2021, compared to our three months ended December 31, 2020. The increase is primarily attributable to losses on investments in equity securities of $6.5 million as a result of a reduction in the market price of our investment in Archer Aviation, Inc., offset by a decrease in interest expense due to lower interest rates on our Treasury Loan and a decrease in outstanding aircraft principal balances.

Income Taxes

Our effective tax rate (ETR) from continuing operations was 22.4% for the three months ended December 31, 2021 and 25.5% for the three months ended December 31, 2020. Our ETR during the three months ended December 31, 2021 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. For the three months ended December 31, 2021, we used the year-to-date effective tax rate method to determine the interim income tax benefit because a reliable estimate of the annual effective tax rate could not be made.

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 $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 fiscal year.

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, 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, and gains or losses on extinguishment of debt including write-off of associated financing fees.

You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA and Adjusted EBITDAR, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in our presentation of Adjusted EBITDA and Adjusted EBITDAR. Gains and losses on investments, which are presented as adjustments to EBITDA and EBITDAR because they are non-cash gains and losses driven by changes in stock prices and other valuation techniques and are not reflective of our core operations, will occur in periods in which there are changes in the fair values of our investments in equity securities. Our presentation of Adjusted EBITDA and Adjusted EBITDAR should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. There can be no assurance that we will not modify the presentation of Adjusted EBITDA or Adjusted EBITDAR and any such modification may be material.

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 December 31,	
	2021	2020
Reconciliation:		
Net income (loss)	$ (14,274)	$ 14,118
Income tax expense (benefit)	(4,112)	4,821
Income (loss) before taxes	$ (18,386)	$ 18,939
Loss on investments, net	6,462	—
Adjustments[1]	—	(950)
Adjusted income (loss) before taxes	(11,924)	17,989
Interest expense	7,930	9,082
Interest income	(51)	(126)
Depreciation and amortization	21,028	20,470
Adjusted EBITDA	$ 16,983	$ 47,415
Aircraft rent	9,586	10,048
Adjusted EBITDAR	$ 26,569	$ 57,463

(1) Includes adjustment for gain on extinguishment of debt of $1.0 million related to the repayment of certain aircraft debts during the three months ended December 31, 2020.

Liquidity and Capital Resources

We expect to meet our cash needs for the next twelve months with cash and cash equivalents, financing arrangements, and cash flows from operations. As of December 31, 2021, we had $102.3 million in unrestricted liquidity. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

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 to 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 three months ended December 31, 2021 were approximately 1.5% of quarterly revenue. 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 December 31, 2021, our principal sources of liquidity were cash and cash equivalents of $102.3 million. In addition, we had restricted cash of $3.4 million as of December 31, 2021. As of December 31, 2021, we had $674.6 million in secured indebtedness, excluding finance leases, incurred in connection with our financing of 84 total aircraft and related equipment. As of December 31, 2021, we had $107.1 million of current debt, excluding finance leases, and $567.5 million of long-term debt excluding finance leases.

Restricted Cash

As of December 31, 2021, we had $3.4 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, $3.4 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 three months ended December 31, 2021 and 2020 (in thousands):

	Three Months Ended December 31,	
	2021	2020
Net cash provided by operating activities	$ 4,751	$ 79,273
Net cash used in investing activities	(26,929)	(1,773)
Net cash provided by financing activities	3,993	4,593
Net increase (decrease) in cash, cash equivalents and restricted cash	(18,185)	82,093
Cash, cash equivalents and restricted cash at beginning of period	123,867	102,841
Cash, cash equivalents and restricted cash at end of period	$ 105,682	$ 184,934

Net Cash Flow Provided by Operating Activities

During our three months ended December 31, 2021, we had cash flow provided by operating activities of $4.8 million. We had net loss of $14.3 million adjusted for the following significant non-cash items: depreciation and amortization of $21.0 million, stock-based compensation of $0.7 million, losses on investments in equity securities of $6.5 million, deferred income taxes of $(4.2) million, amortization of deferred credits of $(0.2) million, and amortization of debt discount and financing costs and accretion of interest of $3.2 million. We had a net change of $(8.2) million within other net operating assets and liabilities primarily due to changes in deferred revenue and accrued expenses and other liabilities.

During our three months ended December 31, 2020, we had cash flow provided by operating activities of $79.3 million. We had net income of $14.1 million adjusted for the following significant non-cash items: depreciation and amortization of $20.5 million, stock-based compensation of $0.9 million, deferred income taxes of $4.8 million, amortization of deferred credits of $(0.8) million, amortization of debt discount and financing costs and accretion of interest of $1.9 million, and gain on extinguishment of debt of $(1.0) million. We had a net change of $38.9 million within other net operating assets and liabilities largely driven by an increase in current portion of deferred revenue offset by decreases in other accrued expenses and accounts payable during our three months ended December 31, 2020.

Net Cash Flows Used in Investing Activities

During our three months ended December 31, 2021, net cash flow used in investing activities totaled $26.9 million. We invested $19.8 million in capital expenditures primarily consisting of spare engines and other equipment, and $6.9 million in payments of equipment and other deposits. We invested a total of $0.2 million in equity securities of a private company.

During our three months ended December 31, 2020, net cash flow used in investing activities totaled $1.8 million. We invested $1.8 million in tools and equipment.

Net Cash Flows Provided by Financing Activities

During our three months ended December 31, 2021, net cash flow provided by financing activities was $4.0 million. We received $30.8 million of proceeds from long-term debt. We made $24.5 million of principal repayments on long-term debt during the period and paid $2.3 million of costs related to debt financing.

During our three months ended December 31, 2020, net cash flow provided by financing activities was $4.6 million. We received $195.0 million of proceeds from the Treasury Loan. We made $189.1 million of principal repayments on long-term debt and paid $1.3 million of costs related to debt financing.

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 changes to the critical accounting estimates as explained in Part 1, Item 7 of the 2021 Form 10-K 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 December 31, 2021, we had $499.6 million of variable-rate debt including current maturities. A hypothetical 50 basis point change in market interest rates would have affected interest expense by approximately $0.6 million in the three months ended December 31, 2021.

As of December 31, 2021, we had $179.0 million of fixed-rate debt, including current maturities. A hypothetical 50 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 December 31, 2021.

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 December 31, 2021, we had $499.6 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 Securities Exchange Act of 1934, as amended (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.

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. The plaintiffs seek unspecified monetary damages and other relief.

In addition, we are subject to certain legal actions which we consider routine to our business activities. As of December 31, 2021, our management believed that the ultimate outcome of the two putative class action lawsuits and such 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.

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

The Company repurchased 2,275 shares of its common stock for $0.1 million to cover the income tax obligation on vested employee equity awards during the three months ended December 31, 2021.

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**	Fourteenth Amendment to Lease between the Registrant and BOF AZ Phoenix Gateway Center LLC, dated December 15, 2021
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: February 9, 2022

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

Exhibit 10.1

Certain confidential information contained in this document, marked by brackets, has been omitted because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.

FOURTEENTH AMENDMENT TO LEASE

THIS FOURTEENTH AMENDMENT TO LEASE (this "Fourteenth Amendment") is made and entered into as of the ________ day of December 2021, by and between **BOF AZ PHOENIX GATEWAY CENTER LLC**, a Delaware limited liability company ("Landlord"), and **MESA AIR GROUP, INC.**, a Nevada corporation ("Tenant").

RECITALS:

A. Landlord (as successor-in-interest to DMB Property Ventures Limited Partnership) and Tenant are parties to that certain Lease dated October 16, 1998 (the "Original Lease"), which lease has been previously amended by instruments dated (i) March 9, 1999, (ii) November 8, 1999, (iii) November 7, 2000, (iv) May 15, 2001, (v) October 11, 2002, (vi) April 1, 2003, (vii) April 15, 2005, (viii) October 12, 2005, (ix) November 4, 2010, (x) February 6, 2014, (xi) July 31, 2014 (the "Eleventh Amendment"), (xii) November 20, 2014 (the "Twelfth Amendment"), and (xiii) May 22, 2019 (collectively with all of the above described agreements, the "Lease"), pursuant to which Landlord leases to Tenant approximately 33,770 rentable square feet (RSF) of space (the "Premises") in the building commonly known as Gateway Three and located at 410 North 44th Street, Phoenix, Arizona 85008 (the "Building").

B. The Lease Term is scheduled to expire on November 30, 2025 (the "Expiration Date").

C. Landlord and Tenant have agreed to amend the Lease to, among other things, extend the Lease Term.

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension of Lease Term. The Lease Term is hereby extended through November 30, 2032. Therefore, as of the date of this Fourteenth Amendment, the "Expiration Date" under the Lease shall mean November 30, 2032. The period commencing on December 1, 2025 and continuing through November 30, 2032 is hereinafter referred to as the "Extended Term." The extension of the Lease Term herein shall not constitute Tenant's exercise of its Extension Option under Section X of the Eleventh Amendment, which Extension Option hereby remains in full force and effect.

2. Rent.

(a) Tenant shall continue to pay Rent for the Premises through November 30, 2025 in the same manner as set forth in the Lease prior to this Fourteenth Amendment. Effective as of December 1, 2025 and continuing through the Expiration Date (as herein amended), Tenant shall pay Rent for the Premises in accordance with the following schedule:

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

Period	Annual Rent Per RSF*	Monthly Rent+*
December 1, 2025 – November 30, 2026	[***]	[***]
December 1, 2026 – November 30, 2027	[***]	[***]
December 1, 2027 – November 30, 2028	[***]	[***]
December 1, 2028 – November 30, 2029	[***]	[***]
December 1, 2029 – November 30, 2030	[***]	[***]
December 1, 2030 – November 30, 2031	[***]	[***]
December 1, 2031 – November 30, 2032	[***]	[***]

+Note: Tenant shall pay, in addition to Rent, all applicable sales, rent and use tax.

*Note: Provided that no monetary Event of Default under the Lease beyond any applicable notice and cure period then exists, the Rent due during December 2022, January 2023 and every subsequent December of the Term through December 2030 (the collective sum of **[***]**, hereinafter referred to as the "Abated Rent") shall be fully abated. Notwithstanding the foregoing, if, at any time during the Extended Term, Tenant causes a monetary Event of Default under the Lease beyond any applicable notice and cure period, the unamortized portion of the Abated Rent shall immediately become due and payable to Landlord as Additional Rent under the Lease. If Tenant fails to timely pay to Landlord such Abated Rent, Landlord shall be entitled to all rights and remedies available to Landlord under the Lease and at law and in equity. Tenant's payment of such Abated Rent pursuant to this paragraph shall not, in any way, limit the rights and remedies available to Landlord under the Lease and at law and in equity as to any monetary Event of Default.

3. Additional Rent.

(a) Effective as of January 1, 2022, the Expense Stop, as defined in the Summary of Selected Matters section of the Lease and in Article 7 of the Lease, shall mean the actual operating costs incurred in the calendar year 2023.

(b) Except as expressly set forth in Section 3(a) above, Tenant shall continue to pay, through the Expiration Date (as herein amended), additional rent (including but not limited to Tenant's pro rata share of the amount by which the Building's operating cost exceeds the Expense Stop) in the same manner as set forth in the Lease.

4. Security Deposit. No additional security deposit shall be required in connection with this Fourteenth Amendment.

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

5. Signage. Subject to government regulation, code, ordinance and approval, and any existing rights held by other tenants of the Building, Tenant shall have the ongoing right (the "First Right to Top") to install on the roof of the Building one (1) rooftop sign, subject to the following terms, conditions and limitations:

(a) At such time as Tenant desires to exercise its First Right to Top, Tenant shall so notify Landlord, in writing, and Tenant shall cooperate with Landlord's in-house or third party design team to create renderings and elevation drawings of the desired signage. Landlord hereby acknowledges and agrees that, as of the date of this Fourteenth Amendment, Tenant desires for its rooftop sign to be substantially similar in size, design and illuminations to the Health Choice and Arcadis signs currently located on the Building. Upon Landlord and Tenant agreeing to the final drawings, Landlord shall apply for a variance from the City of Phoenix for such Building signage. All costs incurred by Landlord in its attempt to obtain such variance, including but not limited to design fees, attorneys' fees and permit fees, shall be reimbursed by Tenant no later than thirty (30) days following receipt of invoice from Landlord.

(b) In the event the City of Phoenix does not grant a variance, Landlord and Tenant shall make a good faith effort to mutually agree on a revised design of the rooftop sign that complies with the existing Phoenix Zoning Ordinance. In the event the City of Phoenix grants the variance, Landlord shall manage the purchase and installation of the rooftop sign, at Tenant's cost and expense. Prior to commencing installation, Landlord shall deliver to Tenant an estimate of the total cost of purchase and installation of the rooftop sign. Landlord shall not purchase the rooftop sign or commence its installation until Tenant has paid to Landlord the full estimated cost. Tenant shall be responsible for all sign and installation costs in excess of the estimate.

(c) If, following the installation of the rooftop sign, signage space where Health Choice's or Arcadis' signs are currently located becomes available, then Landlord shall notify Tenant in writing at least thirty (30) business days prior to the date on which such space (or spaces) shall become available; provided, however, if Health Choice or Arcadis does not provide Landlord with at least thirty (30) business days' prior written notice of its desire to remove its sign, Landlord shall not be required to deliver thirty (30) business days' prior written notice to Tenant and shall instead only be required to notify Tenant in writing as soon as is practicable under the circumstances. Upon Tenant's receipt of such notice, Tenant shall notify Landlord within thirty (30) business days thereafter if it desires to immediately relocate its rooftop sign to the Health Choice or Arcadis location. If Tenant timely delivers such notice, Landlord shall promptly manage such relocation and Tenant shall be responsible for paying for all of Landlord's costs and expenses related thereto. If Tenant fails to timely deliver such notice, or if Tenant declines, in writing, to relocate its rooftop sign, Landlord shall be permitted to offer such available signage space to any third parties and to enter into agreements for the leasing or licensing of such space, at any time. Tenant shall be liable for the cost to repair any damage related to the relocation of its rooftop sign(s).

(d) For the sake of clarity, (i) at no point during the Lease Term (as herein extended) shall Tenant pay signage rent for any rooftop sign, (ii) except as otherwise expressly set forth in this Section 5, all costs incurred by Landlord during the performance of its obligations under this Section 5 shall be reimbursed by Tenant no later than thirty (30) days following receipt

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

of invoice from Landlord, and (iii) any failure by Tenant to timely reimburse Landlord as required herein shall constitute a monetary Event of Default under the Lease beyond any applicable notice and cure periods.

(e) Upon the Expiration Date or the date on which the Lease is earlier terminated in accordance with the provisions thereunder or under a separate written agreement entered into by the parties, or in the event Tenant fails to satisfy any of the conditions set forth under Section 5(g) below, all signage installed on the roof of the Building pursuant to this Section 5 shall be removed by Landlord at Landlord's cost and Tenant shall reimburse Landlord for all such costs incurred by Landlord (including, without limitation, the cost to repair any damage related to the removal of such signage) within thirty (30) days following receipt of invoice.

(f) Without limiting the foregoing, Tenant acknowledges that the Building roof may be encumbered by rights or options in favor of telecommunications licensees of the Building, and that Tenant's rights under this Section 5 shall be subordinate and subject to such other rights and options. Tenant also acknowledges that, in accordance with Article 19 of the Lease, Tenant's rights under this Section 5 are subordinate and subject to the rights of any mortgagees of the Building and Landlord (and its successors and assigns). Tenant shall have no claims against Landlord or its mortgagee(s) if the beneficiaries of such other rights or options elect to exercise their rights.

(g) The rights granted in this Section 5 shall be subject to the satisfaction of the following conditions and in the event any of the following occur Tenant's rights under this Section 5 shall terminate: (i) no portion of the Premises shall have been sublet by Tenant and the Lease shall not have been assigned to any third party, it being agreed to by Landlord and Tenant that Tenant's rights hereunder are personal to the named tenant under the Lease; (ii) an Event of Default under the Lease beyond any applicable notice and cure period shall not then be occurring; and (iii) at no point during the remainder of the Lease Term shall Tenant lease fewer than 21,172 RSF in the Building.

6. Tenant Improvements.

(a) The parties hereby acknowledge that, as of the date of this Fourteenth Amendment, Tenant has a remaining tenant improvement balance in the amount of **[***]** (the "Current Improvement Allowance Balance"), which amount is the sum of [***] remaining under Section VI.C. of the Eleventh Amendment (the "Eleventh Amendment Allowance Balance") plus [***] remaining under Section V.C. of the Twelfth Amendment (the "Twelfth Amendment Allowance Balance"). Pursuant to the Eleventh Amendment, the deadline by which Tenant must use the Eleventh Amendment Allowance Balance in the manner set forth therein before such amount automatically reverts to Landlord and is no longer available to Tenant is December 31, 2022. Pursuant to the Twelfth Amendment, the deadline by which Tenant must use the Twelfth Amendment Allowance Balance in the manner set forth therein before such amount automatically reverts to Landlord and is no longer available to Tenant is November 30, 2024. The Lease is hereby further amended such that, (i) the deadline by which Tenant must use the Eleventh Amendment Allowance Balance in the manner set forth in the Eleventh Amendment is modified to be December 31, 2023, and (ii) the deadline by which Tenant must use the Twelfth Amendment

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Allowance Balance in the manner set forth in the Twelfth Amendment is modified to be December 31, 2023.

(b) Upon the full execution and delivery of this Fourteenth Amendment, Landlord shall, at its sole cost and expense, upgrade the common area elevator lobby corridor and restrooms on the seventh (7th) floor of the Building to be substantially similar in fit and finish to the refresh on the eleventh (11th) floor of the Building ("Landlord's Work"). Landlord's Work shall be completed by July 7, 2022; provided, however, such deadline shall be extended on a day-for-day basis as a result of any force majeure event, including without limitation any of the events described in Section 20(a) of the Lease, any government shutdowns, variance delays, permitting delays, labor shortages or materials shortages. Landlord shall consider Tenant's input regarding the design of Landlord's Work; provided, however, all of Tenant's design selections shall be subject to Landlord's approval, which approval shall be in Landlord's reasonable discretion.

(c) Notwithstanding anything to the contrary contained herein, and provided there is then no Event of Default under the Lease beyond any applicable notice and cure periods, Landlord shall provide Tenant with a refurbishment allowance in an amount not to exceed [***] (the "Refurbishment Allowance"), which Refurbishment Allowance shall be in the form of a reimbursement to Tenant for any costs incurred by Tenant in refurbishing the Premises during the period commencing on the date of this Fourteenth Amendment and expiring on December 31, 2023 (the "Refurbishment Allowance Deadline"). In order to receive payment of the Refurbishment Allowance, Tenant must submit to Landlord a written request for payment, a final payment affidavit from Tenant's general contractor (which general contractor must be approved in writing by Landlord, at Landlord's reasonable discretion) and final and unconditional releases of lien from Tenant's general contractor, all subcontractors, material suppliers and others entitled to lien Landlord's property under Georgia law, all in forms acceptable to Landlord. Upon Tenant's written request to Landlord, Tenant may apply up to [***] of the Refurbishment Allowance as a credit toward Rent due under the Lease during the period from December 1, 2021 through November 30, 2023. Notwithstanding the foregoing, Tenant hereby agrees that (i) Landlord shall have no obligation to pay (or apply toward Rent) any remaining portion of the Refurbishment Allowance that corresponds to written requests for payment (or application) delivered after the Refurbishment Allowance Deadline, and (ii) any unused and unapplied portion of the Refurbishment Allowance shall automatically and forever be retained by Landlord. Any refurbishment referenced herein shall be deemed to be an alteration under the Lease and shall be subject to all of the terms therein related to alterations (including, without limitation, Article 10), except as expressly provided herein.

(d) Except as expressly provided herein, Tenant hereby accepts the Premises in its current "as-is" condition and Landlord shall have no obligation to make any improvements to the Premises. Except as expressly provided herein, there are no rental abatements, improvement allowances, moving allowances or other payments, credits or allowances of any kind whatsoever being made or provided by Landlord with respect to this Fourteenth Amendment.

7. Termination Option. Tenant shall have the one-time right to terminate the Lease (the "Termination Option"), effective as of 11:59 p.m. Mountain Standard Time on November 30,

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2030 (the "Termination Date"), but solely upon and subject to all of the following terms and conditions:

(i) Tenant must deliver to Landlord written notice of Tenant's election to exercise its Termination Option in accordance with this Section 7 (the "Termination Notice") by no later than November 30, 2029 (the "Termination Notice Deadline");

(ii) Tenant shall pay to Landlord a sum of [***] in cash (the "Termination Fee"), in accordance with the following schedule: (y) **[***]** shall be due simultaneously with the delivery of the Termination Notice, and (z) the remaining **[***]** shall be due by no later than November 23, 2029. Any failure by Tenant to timely pay any portion of the Termination Fee when due shall constitute an automatic Event of Default under the Lease beyond any applicable notice and cure period and further shall, at Landlord's option exercisable by written notice to Tenant delivered no later than five (5) days following such failure, terminate the Termination Option and render Tenant's exercise thereof void and of no further force or effect, in which event the expiration date of the Lease shall revert to the Expiration Date (as herein amended).

(iii) The Termination Notice shall be irrevocable, and any portion of the Termination Fee delivered to Landlord shall be deemed to be earned by Landlord and nonrefundable to Tenant.

(iv) If Tenant terminates pursuant to the foregoing terms and conditions, then in addition to the Termination Fee, Tenant shall remain obligated to pay all Rent and all other sums due under the Lease and comply with all other terms and conditions of the Lease, through the Termination Date, and any obligations of Tenant which survive termination of the Lease shall survive any such termination as if the Termination Date were the scheduled Expiration Date under the Lease.

(v) If Tenant terminates pursuant to the foregoing terms and conditions, then on or before the Termination Date, Tenant shall vacate the Premises and surrender possession thereof in accordance with the terms of the Lease, excepting normal wear and tear and casualty, to Landlord and shall pay to Landlord all unpaid Rent due to Landlord for all time periods up to and including the Termination Date.

(vi) An Event of Default, beyond any applicable notice and cure period, must not be outstanding as of the date of Tenant's delivery of the Termination Notice or as of the Termination Date. In the event that an Event of Default is then occurring under the Lease (beyond any applicable cure periods) Tenant's right to terminate the Lease as set forth herein shall, at Landlord's option, be terminated and extinguished without limitation on any remedies available to Landlord as to any defaults.

(vii) The termination right set forth in this Section 7 is personal to the named Tenant on the Lease (or its successors or assigns). If, whether before or after the delivery of the Termination Notice, Tenant assigns all or any part of the Lease or sublets any part of the Premises

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in violation of the terms of the Lease, Tenant's right to terminate the Lease as set forth herein shall automatically terminate and be null and void. If such assignment or sublease in violation of the terms of the Lease occurs after the delivery of the Termination Notice, the Termination Fee shall be retained by Landlord and deemed earned by Landlord. Additionally, as of the date of the Termination Notice and the Termination Date, Tenant shall not have entered into any amendment to the Lease after the date of this Fourteenth Amendment extending the Lease Term or expanding or contracting the Premises.

(viii) The obligations of Tenant under this Section 7 shall survive any expiration or termination of the Lease.

(ix) Landlord and Tenant acknowledge and agree that except as set forth herein, Tenant shall have no further rights under the Lease to terminate the Lease prior to the Expiration Date (as herein amended).

8. Parking. Effective as of the date of this Fourteenth Amendment, the rate at which Tenant shall pay for parking in the covered unreserved garage pursuant to the Lease shall be [***] per month, per parking space, for up to one hundred fifty (150) parking spaces. Any additional parking as may be requested by Tenant on a month-to-month basis shall be at then-current market rates.

9. Landlord's Address for Notices. Article 18 of the Lease is hereby amended to reflect that all notices, request, authorizations, approvals, consents and other such communications to be delivered to Landlord shall be addressed as follows:

BOF AZ Phoenix Gateway LLC
c/o Bridge Investment Group
Five Concourse Parkway, Suite 3100
Atlanta, GA 30328
Attn: Asset Management

with a copy to:

Bridge Investment Group
Five Concourse Parkway, Suite 3100
Atlanta, GA 30328
Attn: Travis D. Hughes, Counsel

10. Broker. Tenant represents and warrants to Landlord that it has not entered into any agreement with, or otherwise had any dealings with, any broker or agent in connection with this Fourteenth Amendment except Jones Lang LaSalle ("Landlord's Broker") and Cushman & Wakefield U.S., Inc. ("Tenant's Broker"). Tenant hereby indemnifies and holds Landlord harmless from and against all losses, costs, damages or expenses (including, but not limited to, court costs, investigation costs and reasonable attorneys' fees) as a result of any agreement or dealings, or alleged agreement or dealings, between Tenant and any broker or agent other than Landlord's Broker and Tenant's Broker.

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11. Time of the Essence. Time is of the essence with respect to all time periods set forth in this Fourteenth Amendment.

12. Confidentiality. Landlord and Tenant agree to keep the terms of this Fourteenth Amendment confidential. Notwithstanding the foregoing, each party shall have the right to disclose the terms of this Fourteenth Amendment (a) to any existing or prospective purchaser or lender, (b) if such disclosure is required by court order or subpoena, (c) to such party's accountants, attorneys, consultants, and such agents of such party that have a need to know of the terms of this Fourteenth Amendment, (d) in connection with any judicial or administrative proceeding and (e) in connection with any litigation concerning the rights and obligations of the parties to the Lease.

13. Counterparts. This Fourteenth Amendment may be executed in counterparts with the same effect as if both parties hereto had executed the same agreement. Both counterparts shall be construed together and shall constitute a single agreement. The parties hereto consent and agree that this Fourteenth Amendment may be signed and/or transmitted by facsimile, e-mail of a .pdf document or using electronic signature technology (e.g., via DocuSign or similar electronic signature technology), and that such signed electronic record shall be valid and as effective to bind the party so signing as a paper copy bearing such party's handwritten signature. The parties further consent and agree that (i) to the extent a party signs this Fourteenth Amendment using electronic signature technology, by clicking "SIGN", such party is signing this Fourteenth Amendment electronically, and (ii) the electronic signatures appearing on this Fourteenth Amendment shall be treated, for purposes of validity, enforceability and admissibility, the same as handwritten signatures.

14. Miscellaneous. The parties hereby acknowledge and agree that the recitals set forth above are true and accurate as of the date hereof. Whenever terms are used in this Fourteenth Amendment, but are not defined, such terms shall have the same meaning as set forth in the Lease. Except as modified by this Fourteenth Amendment, Landlord and Tenant do hereby ratify and reaffirm each and every provision, term, covenant, agreement and condition of the Lease. The Lease, as modified by this Fourteenth Amendment, sets forth the entire agreement between Landlord and Tenant and cancels all prior negotiations, arrangements, agreements and understandings, if any, between Landlord and Tenant regarding the subject matter of this Fourteenth Amendment. In the event of any conflict between the terms of the Lease and the terms of this Fourteenth Amendment, the terms of this Fourteenth Amendment shall control. Tenant represents and warrants that the person executing this Fourteenth Amendment is authorized to execute and deliver this Fourteenth Amendment and that all necessary approvals and consents have been obtained to bind Tenant under this Fourteenth Amendment and the Lease in accordance with their terms. Landlord represents and warrants that the person executing this Fourteenth Amendment is authorized to execute and deliver this Fourteenth Amendment and that all necessary approvals and consents have been obtained to bind Landlord under this Fourteenth Amendment and the Lease in accordance with their terms.

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IN WITNESS WHEREOF, the duly authorized officials of Landlord and Tenant have executed this Fourteenth Amendment as of the date first set forth above.

LANDLORD:

BOF AZ PHOENIX GATEWAY CENTER LLC,
a Delaware limited liability company

By: Bridge Office Holdings LLC,
a Delaware limited liability company
Its: Sole and Managing Member

By: ____
Name: John R. Ward
Its: Manager

[Signatures Continue on the Next Page]

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[Signatures Continued from the Previous Page]

TENANT:

MESA AIR GROUP, INC.,
a Nevada corporation

By: ______________________________
Name: Jonathan Ornstein
Its: CEO

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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: February 9, 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: February 9, 2022

/s/ 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 December 31, 2021 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: February 9, 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 December 31, 2021 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: February 9, 2022

/s/ TORQUE ZUBECK
Torque Zubeck
Chief Financial Officer