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 March 31, 2020

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 of 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 March 31, 2020, the registrant had 35,194,902 shares of common stock, no par value per share, issued and outstanding.

TABLE OF CONTENTS

Where You Can Find More Information

Investors and others should note that we may announce material business and financial information to our investors using our investor relations website (http://investor.mesa-air.com/), SEC filings, webcasts, press releases, and conference calls. We use these mediums, including our website, to communicate with our members and public about our company, our products, and other issues. It is possible that the information that we make available may be deemed to be material information. We therefore encourage investors and others interested in our company to review the information that we make available on our website.

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.

In some cases, you can identify forward-looking statements by terms such as "may", "should", "expects", "might", "plans", "anticipates", "could", "intends", "target", "projects", "contemplates", "believes", "estimates", "predicts", "potential", "seek", "would", "continue", or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described in the "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. 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;
- 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;
- the volatility of pilot attrition;
- dependence on, and changes to, or non-renewal of, our capacity purchase 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;
- direct operation of regional jets by our major airline partners;
- the financial strength of our major airline partners and their ability to successfully manage their businesses through the unprecedented decline in air travel attributable to the COVID-19 pandemic;
- limitations on our ability to expand regional flying within the flight systems of our major airline partners' and those of other major airlines;
- our significant amount of debt and other contractual obligations;
- our compliance with ongoing financial covenants under our credit facilities; and
- our ability to keep costs low and execute our growth strategies.

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)

	March 31, 2020	September 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,399	$ 68,855
Restricted cash	3,441	3,646
Receivables, net	14,182	23,080
Expendable parts and supplies, net	22,378	21,337
Prepaid expenses and other current assets	5,911	40,923
Total current assets	98,311	157,841
Property and equipment, net	1,242,797	1,273,585
Intangibles, net	8,782	9,532
Lease and equipment deposits	13,973	2,167
Operating lease right-of-use assets	140,753	—
Other assets	7,124	8,792
Total assets	$ 1,511,740	$ 1,451,917
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and financing leases	$ 168,171	$ 165,900
Current maturities of operating leases	43,648	—
Accounts payable	49,246	49,930
Accrued compensation	12,406	11,988
Other accrued expenses	27,138	28,888
Total current liabilities	300,609	256,706
Noncurrent liabilities:		
Long-term debt and financing leases, excluding current portion	619,793	677,423
Noncurrent operating lease liabilities	78,698	—
Deferred credits	10,242	12,134
Deferred income taxes	59,791	55,303
Other noncurrent liabilities	1,255	24,483
Total noncurrent liabilities	769,779	769,343
Total liabilities	1,070,388	1,026,049
Commitments and contingencies (Note 14 and 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; 35,194,902 (2020) and 31,413,287 (2019) shares issued and outstanding, 0 (2020) and 3,600,953 (2019) warrants issued and outstanding	241,059	238,504
Retained earnings	200,293	187,364
Total stockholders' equity	441,352	425,868
Total liabilities and stockholders' equity	$ 1,511,740	$ 1,451,917

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Operations

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Operating revenues:				
Contract revenue	$ 165,781	$ 169,771	$ 337,580	$ 340,220
Pass-through and other	14,115	7,376	26,351	15,083
Total operating revenues	179,896	177,147	363,931	355,303
Operating expenses:				
Flight operations	52,891	49,366	105,535	102,611
Fuel	188	101	358	222
Maintenance	64,335	45,380	122,430	85,182
Aircraft rent	12,285	14,110	23,614	28,229
Aircraft and traffic servicing	1,336	1,065	2,400	1,999
General and administrative	14,500	13,472	27,496	25,686
Depreciation and amortization	20,469	19,276	41,021	37,767
Total operating expenses	166,004	142,770	322,854	281,696
Operating income	13,892	34,377	41,077	73,607
Other (expenses) income, net:				
Interest expense	(11,673)	(13,772)	(24,300)	(28,614)
Interest income	36	299	94	455
Loss on extinguishment of debt	-	(3,616)	-	(3,616)
Other (expense) income, net	937	47	641	533
Total other (expense), net	(10,700)	(17,042)	(23,565)	(31,242)
Income before taxes	3,192	17,335	17,512	42,365
Income tax expense	1,307	4,086	4,842	10,035
Net income	$ 1,885	$ 13,249	$ 12,670	$ 32,330
Net income per share attributable to common shareholders				
Basic	$ 0.05	$ 0.38	$ 0.36	$ 0.93
Diluted	$ 0.05	$ 0.38	$ 0.36	$ 0.92
Weighted-average common shares outstanding				
Basic	35,141	34,699	35,082	34,607
Diluted	35,265	34,962	35,220	35,041

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)

	Six Months Ended March 31, 2019				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2018	23,902,903	10,614,990	$ 234,683	$ 139,784	$ 374,467
Stock compensation expense	—	—	1,454	—	1,454
Stock issuance costs	—	—	157	—	157
Net income	—	—	—	19,081	19,081
Balance at December 31, 2018	23,902,903	10,614,990	$ 236,294	$ 158,865	$ 395,159
Stock compensation expense	—	—	$ 1,298	—	$ 1,298
Repurchased shares	(52,967)	—	(449)	—	(449)
Stock issuance costs	—	—	28	—	28
Warrants converted to common stock	3,834,693	(3,834,693)	—	—	—
Restricted shares issued	284,846	—	—	—	—
Net Income	—	—	—	13,249	13,249
Balance at March 31, 2019	27,969,475	6,780,297	$ 237,171	$ 172,114	$ 409,285

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

(In thousands, except share amounts) (Unaudited)

	Six Months Ended March 31, 2020				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2019	31,413,287	3,600,953	$ 238,504	$ 187,364	$ 425,868
Adoption ASU 2018-09 Stock compensation-income taxes	—	—	—	259	259
Stock compensation expense	—	—	1,320	—	1,320
Repurchased shares and warrants	(5,558)	—	(41)	—	(41)
Warrants converted to common stock	1,612,481	(1,612,481)	—	—	—
Restricted shares issued	18,916	—	—	—	—
Net income	—	—	—	10,785	10,785
Balance at December 31, 2019	33,039,126	1,988,472	$ 239,783	$ 198,408	$ 438,191
Stock compensation expense	—	—	1,193	—	1,193
Repurchased shares and warrants	(18,244)	—	(160)	—	(160)
Warrants converted to common stock	1,988,472	(1,988,472)	—	—	—
Restricted shares issued	141,614	—	—	—	—
Employee share purchases	43,934	—	243	—	243
Net income	—	—	—	1,885	1,885
Balance at March 31, 2020	35,194,902	—	$ 241,059	$ 200,293	$ 441,352

See accompanying notes to these condensed consolidated financial statements.

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

(In thousands) (Unaudited)

	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019
Cash flows from operating activities:		
Net income	$ 12,670	$ 32,330
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	41,021	37,767
Stock compensation expense	2,513	2,752
Deferred income taxes	4,490	10,039
Amortization of deferred credits	(2,041)	(2,575)
Unfavorable lease liabilities	—	(3,095)
Amortization of debt financing costs and accretion of interest on non-interest-bearing subordinated notes	2,149	2,000
Loss on extinguishment of debt	—	3,616
Loss (Gain) on disposal of assets	514	(33)
Provision for obsolete expendable parts and supplies	306	319
Changes in assets and liabilities:		
Receivables	9,019	1,734
Expendable parts and supplies	(1,382)	(3,890)
Prepaid expenses and other current assets	97	(7,244)
Accounts payable	(602)	(3,451)
Accrued liabilities	2,122	(499)
Change in operating lease right-of-use assets	(5,674)	—
Net cash provided by operating activities	65,202	69,770
Cash flows from investing activities:		
Capital expenditures	(12,968)	(34,250)
Sales of investment securities	—	20,077
Lease and equipment deposits	(13,804)	(7,296)
Returns of lease and equipment deposits	1,999	2,978
Net cash used in investing activities	(24,773)	(18,491)
Cash flows from financing activities:		
Proceeds from long-term debt	23,000	91,200
Principal payments on long-term debt and financing leases	(79,395)	(163,748)
Debt financing costs	(494)	(2,540)
Debt prepayment costs	—	(1,672)
Stock issuance costs	—	185
Repurchase of stock	(201)	(449)
Net cash used in financing activities	(57,090)	(77,024)
Net change in cash, cash equivalents and restricted cash	(16,661)	(25,745)
Cash, cash equivalents and restricted cash at beginning of period	72,501	107,134
Cash, cash equivalents and restricted cash at end of period	$ 55,840	$ 81,389
Supplemental cash flow information		
Cash paid for interest	$ 22,402	$ 27,937
Cash paid for income taxes, net	$ 45	$ 51
Operating lease payments in operating cash flows (1)	$ 26,240	$ —
Supplemental non-cash operating activities		
Right-of-use assets obtained in exchange of lease liabilities	$ 145,627	$ —
Supplemental non-cash investing activities		
Accrued capital expenditures	$ 98	$ 6,345

See accompanying notes to these condensed consolidated financial statements.

(1)*See section 14 Leased and Commitments.*

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 135 cities in 39 states, the District of Columbia, Canada, Mexico, Cuba, and the Bahamas. As of March 31, 2020, Mesa operated a fleet of 145 aircraft with approximately 662 daily departures and 3,600 employees. Mesa operates all of its flights as either American Eagle or United Express flights pursuant to the terms of the capacity purchase agreements entered into with American Airlines, Inc. (“American”) and United Airlines, Inc. (“United”).

The financial arrangements between the Company and its major airline partners involve a revenue-guarantee arrangement (i.e. a "capacity purchase agreement") whereby the major airline pays a monthly guaranteed amount 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 flight flown and reimbursement of certain direct operating expenses in exchange for providing regional flying. The major airline 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 airline controls route selection, pricing and seat inventories, thereby reducing the Company's exposure to fluctuations in passenger traffic, fare levels, and fuel prices.

Impact of the COVID-19 Pandemic

The unprecedented and rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world have significantly reduced demand for air travel. The length and severity of the reduction in demand due to the pandemic is uncertain. This reduction in demand has had an unprecedented and materially adverse impact on our revenues and financial position. We expect the adverse impact to grow in the June 2020 quarter. While we are planning for a modest demand recovery beginning in the September 2020 quarter, 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. Our forecasted expense management and liquidity measures may be modified as we clarify the demand recovery timing. Since a portion of our revenue is fixed due to the structure of our capacity purchase agreements, the impact to Mesa will be partially mitigated or offset. In addition, we have limited exposure to fluctuations in passenger traffic, ticket and fuel prices. While the fixed revenue remains mostly unchanged, the variable revenue based on number of block hours has been significantly reduced in the last few weeks in March and we may experience further reductions. The initiatives and measures put in place to limit the spread of the virus has and will continue to have a materially adverse impact on our business. The Company further reports that, beginning in March 2020, it has experienced a material decline in demand in block hours from both of its major airline partners, American and United Airlines, Inc. (“United” and together with American, the “Partners”) resulting from the spread of the COVID-19 virus. As a result of this decline in demand and the subsequent capacity reductions by the Company’s Partners, the Company operated 10,297 block hours in April 2020, a 72.4% drop from April 2019. The Company also anticipates similar schedule reductions will likely continue into the second quarter of 2020 and may continue throughout the remainder of 2020 and into 2021.

In response to these developments, our major partners and the Company have implemented measures to focus on the safety of our customers and employees, while at the same time seeking to mitigate the impact on our financial position and operations. These measures include, but are not limited to, the following:

- Increasing the scope of cleaning and sanitization of aircraft both while remaining overnight and on turn flights. Both on our own, and in coordination with our codeshare partners, we have taken steps to ensure that high touch areas used by both employees and customers are routinely and comprehensively cleaned and disinfected to prevent transmission of the virus on surfaces. To assist our crewmembers in keeping the aircraft clean and disinfected, we have increased the supply of sanitizing wipes onboard.

- In coordination with our codeshare partners, social distancing methods onboard have been implemented comprised of seat-blocking to encourage additional space between passengers and our Inflight teams help to encourage passenger spacing onboard.

- We have provided, and continue to resupply, our employees with Personal Protective Equipment (PPE) consisting of gloves and face coverings for use whenever social distancing cannot be maintained or when working with our customers. In addition, at various locations, we have coordinated with our codeshare partners to conduct temperature checks of employees reporting for duty. In those locations where this is not yet established, crewmembers have been directed to self-monitor their temperature before reporting for duty and twice daily.

- Based on recommendations from the Centers for Disease Control (CDC), we have increased facility cleaning and disinfection protocols at all of our facilities and have implemented social distancing measures including telecommuting for many of our Corporate personnel and methods to increase physical distance between workers who remain working at our Corporate facilities

- Established protocols for employees who are positive for, or suspected of, COVID-19 to ensure that they have the necessary time off. Additionally, we have implemented protocols to ensure that proper notification is made to any affected employees. Protocols have also been put into place for the immediate disinfection of any affected aircraft above and beyond routine cleaning and disinfection protocols.

Expense Management. With the reduction in revenue, we have, and will continue to implement cost saving initiatives, including:

- Reducing employee-related costs, including:
  - Offering voluntary short-term unpaid leaves to all employees.
  - Compensation reductions for Executive level employees.
  - Instituting a company-wide hiring freeze.
  - Delaying non-essential heavy maintenance expense and reducing or suspending other discretionary spending.

Balance Sheet, Cash Flow and Liquidity. As of March 31, 2020, our cash and cash equivalents balance was $52.4 million. We have taken the following actions to increase liquidity and strengthen our financial position.

- Reducing planned heavy engine and airframe maintenance events by approximately $3.7 million in the current fiscal year.
- Working with major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.
- Drew $23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.
- In April 2020, we were granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. We received the first installment of $30.8 million in April 2020 and the remaining $61.6 million is scheduled to be paid to Mesa in four equal payments from June to September 2020.
- The CARES Act also provides for up to $25 billion in secured loans to the airline industry. We have submitted an application for a loan under the loan program of $184 million for working capital, $568 million for financing new equipment and $252 million for financing existing equipment and are awaiting the outcome of the application process.

American Capacity Purchase Agreement

As of March 31, 2020, the Company operated 59 CRJ-900 aircraft for American under our American Capacity Purchase Agreement. In exchange for providing flight services under our American Capacity Purchase Agreement, 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 departures and controllable completion percentages. American also reimburses us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes, all as set forth in our American Capacity Purchase Agreement. 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.

Our American Capacity Purchase Agreement establishes utilization credits which are required to be paid if the Company does not operate at minimum levels of flight operations. In prior periods, the FAA Qualification Standards (as defined below) have negatively impacted our ability to hire pilots at a rate sufficient to support required utilization levels, and, as a result, we have issued credits to American pursuant to the terms of our American Capacity Purchase Agreement.

Our American Capacity Purchase Agreement will terminate with respect to different tranches of aircraft between 2021 and 2025, unless otherwise extended or amended. As of the date of this filing, we remain in discussions with American regarding the terms of extending the 30 aircraft that are due to expire in 2021 and the 19 aircraft that are due to expire in 2022 and the 7 aircraft that expire in 2025. Our American Capacity Purchase Agreement is subject to termination prior to that date, subject to our right to cure, in various circumstances including:

- If either American or we become insolvent, file for bankruptcy or fail to pay our debts as they become due, the non-defaulting party may terminate the agreement;
- Failure by us or American to perform the covenants, conditions or provisions of our American Capacity Purchase Agreement, subject to 15 days' notice and cure rights;
- 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, American may terminate the agreement;
- If our controllable flight completion factor falls below certain levels for a specified period of time, subject to our right to cure; or
- Upon a change in our ownership or control without the written approval of American.

In the event that American has the right to terminate our American Capacity Purchase Agreement, American may, in lieu of termination, withdraw up to an aggregate of 14 aircraft from service under our American Capacity Purchase Agreement. Upon any such withdrawal, American's payments to us would be correspondingly reduced by the number of withdrawn aircraft.

On January 31, 2019, the Company entered into an amendment to the American Capacity Purchase Agreement, the terms of which provide for new and revised operational performance metrics, the Company's right to earn additional incentive compensation based on the achievement of such metrics, and the right of American to permanently withdraw up to six (6) aircraft in the event the Company fails to meet such new/revised performance metrics. Under the terms of such amendment the Company agreed, effective April 2, 2019, to convert two (2) aircraft to be utilized by the Company as operational spares in the Company's sole discretion throughout its system. In July 2019, American exercised its right to permanently withdraw two (2) aircraft from the American Capacity Purchase Agreement due to the Company's failure to meet certain performance metrics. The aircraft were removed on November 2, 2019. On November 25, 2019, the Company amended its agreement with American Airlines. The Company did not meet certain performance metrics during the then most recent measurement period, which would have allowed American to remove two additional aircraft from the capacity purchase agreement. American had agreed to defer the right to remove these two aircraft but subsequently elected to remove one of the two previously deferred aircraft, effective January 2, 2020. As of January 2, 2020 American had removed three (3) of the six (6) aircraft under the January 31st amendment.

On April 3, 2020, the Company received a new withdrawal notice from American seeking to permanently withdraw three aircraft from the American Capacity Purchase Agreement. Two of the aircraft will be withdrawn effective May 19, 2020 and the third aircraft will be withdrawn effective June 1, 2020. The withdrawal of these three aircraft stems from withdrawal rights that American previously asserted were triggered in September 2019 and November 2019. At such time, American refrained from exercising such withdrawal rights, however, reserved the right to withdraw the three aircraft at a later date under certain circumstances. In light of the rapid grounding of aircraft caused by the COVID-19 virus, the overall reduction in demand for air travel, and the need to reduce capacity, American elected to remove such aircraft now.

Following the removal of the three aircraft referenced above, the Company will continue to operate 56 CRJ-900 aircraft under the American CPA.

United Capacity Purchase Agreement

As of March 31, 2020, the Company operated 20 CRJ-700 and 60 E-175 aircraft for United under our United Capacity Purchase Agreement. In exchange for providing the flight services under our United Capacity Purchase Agreement, 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 also reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United. We also receive a minimum profit margin based upon our operational performance. Under our United Capacity Purchase Agreement, United owns 42 of the 60 E-175 aircraft and leases them to us at nominal amounts. United 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 42 E-175 aircraft owned by United. Our United Capacity Purchase Agreement permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us notice of 90 days or more. If United elects to terminate our United Capacity Purchase Agreement 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. In addition, if United removes any of our 18 owned E-175 aircraft from service at its direction, United would remain obligated to assume the aircraft ownership and associated debt with respect to such aircraft through the end of the term of the agreement.

On November 26, 2019, we amended and restated our United Capacity Purchase Agreement to, among other things, incorporate the terms of the 11 prior amendments to that Agreement and to extend the term thereof through the addition of twenty (20) new Embraer E175LL aircraft to the scope of such Agreement. These new aircraft will be financed and owned by us and operated for a period of twelve (12) years from the in-service date. Deliveries of the new E175LL aircraft are scheduled to begin in May 2020 and be completed by December 31, 2020. In March 2020, the deliveries of the new E175LL aircraft were negotiated between United and Embraer to begin in September 2020 and be completed by the quarter ended June 30, 2021. Commencing five (5) years after the actual in-service date, United has the right to remove the E175LL 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.

In addition to adding the 20 new E175LL aircraft to the amended and restated United Capacity Purchase Agreement, we extended the term of our 42 E-175 aircraft leased from United for an additional five (5) years, which now expire between 2024 and 2028. As part of the amended and restated United Capacity Purchase Agreement, we agreed to lease our twenty (20) CRJ-700 aircraft to another United Express service provider for a term of seven (7) years. We will continue to operate such aircraft until they are transitioned. United has a right to purchase the CRJ 700 aircraft at the then fair market value. In addition, we own 18 E-175 aircraft that expire in 2028.

Our United Capacity Purchase Agreement is subject to early termination under various circumstances noted above and including:

- By United if certain operational performance factors fall below a specified percentage for a specified time, subject to notice under certain circumstances;
- By United if we fail to perform the material covenants, agreements, terms or conditions of our United Capacity Purchase Agreement 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; or
- By United 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.

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.

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, 2019 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2019 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 IPO, subject to specified conditions. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. The Company has elected to "opt out" of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Adoption of New Lease Standard

Effective October 1, 2019, we have adopted ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") which provides guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. We determine if an arrangement is a lease at inception. Our current lease activities are recorded in operating lease right-of-use (“ROU”) assets, current maturities of operating lease and noncurrent operating lease liabilities in the condensed consolidated balance sheets. Finance leases are included in property and equipment, net, current portion of long-term debt and financing leases, long-term debt and financing leases, excluding current portion.

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. Operating lease ROU assets and liabilities are recognized at 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. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when 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. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As a lessor, for our aircraft operated under our capacity purchase agreements, we have historically accounted for the non-lease component under ASC 606 and have historically accounted for the lease component under ASC 840. Under the available practical expedient, we have elected to account for the lease and non-lease components as a single component for all classes of underlying assets. As the predominant component of the combined components are the flights services, the leases are being accounted for entirely under ASC 606. As a lessee, we elected a short-term lease exception policy on all classes of underlying assets, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less).

Aircraft Lease

In addition to the aircraft we receive from United under our United Capacity Purchase Agreement, approximately 12% 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 airline 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 will be written off.

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

Contract Liabilities

Contract liabilities consist of deferred credits for cost reimbursements from major airline partners related to aircraft modifications associated with capacity purchase agreements and pilot training. 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 to other accrued expenses and non-current deferred credits in the condensed consolidated balance sheets. The Company's total current and non-current deferred credit balances at March 31, 2020 and September 30, 2019 are $10.2 million and $12.1 million, respectively. The Company recognized $0.9 million and $1.4 million of the deferred credits to revenue in the condensed consolidated statements of operations during the three months ended March 31, 2020 and 2019, respectively, and $2.0 million and $2.6 million during the six months ended March 31, 2020 and 2019, respectively.

Contract Assets

The Company recognizes assets from the costs incurred to fulfill a contract including aircraft painting and reconfiguration and flight service personnel training costs. These costs are amortized based on the pattern of transfer of the services in relation to flight hours over the term of the contract. Contract assets are recorded as other assets in the condensed consolidated balance sheets. The Company's contract assets balances at March 31, 2020 and September 30, 2019 are $2.8 million and $3.9 million, respectively. Contract cost amortization was $0.4 million and $0.5 million for the three months ended March 31, 2020 and 2019, respectively, and $0.9 million and $1.0 million for the six months ended March 31, 2020 and 2019, respectively.

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.

Maintenance Expense

The Company operates under a Federal Aviation Administration ("FAA") approved continuous inspection and maintenance program. The Company uses the direct expense method of accounting for its maintenance of regional jet engine overhauls, airframe, landing gear, and normal recurring maintenance wherein the Company recognizes the expense when the maintenance work is completed, or over the repair period, if materially different. Our maintenance policy is determined by fleet when major maintenance is incurred. For leased aircraft, the Company is subject to lease return provisions that require a minimum portion of the "life" of an overhaul be remaining on the engine at the lease return date. The Company estimates the cost of maintenance lease return obligations and accrues such costs over the remaining lease term when the expense is probable and can be reasonably estimated.

Under the Company's aircraft operating lease agreements and FAA operating regulations, it is obligated to perform all required maintenance activities on its fleet, including component repairs, scheduled air frame checks and major engine restoration events. The Company estimates the timing of the next major maintenance event based on assumptions including estimated usage, FAA-mandated maintenance intervals and average removal times as recommended by the manufacturer. The timing and the cost of maintenance are based on estimates, which can be impacted by changes in utilization of its aircraft, changes in government regulations and suggested manufacturer maintenance intervals. Major maintenance events consist of overhauls to major components.

Engine overhaul expense totaled $14.5 million and $5.2 million for the three months ended March 31, 2020, and 2019, respectively, of which $0.7 million and $(0.4) million, respectively, was pass-through expense. Engine overhaul expense totaled $25.1 million and $9.4 million for the six months ended March 31, 2020, and 2019, respectively, of which $2.6 million and $1.2 million, respectively, was pass-through expense. Airframe C-check expense totaled $10.5 million and $4.7 million for the three months ended March 31, 2020, and 2019, respectively, of which $3.9 million and $0.0 million, respectively, was pass-through expense. Airframe C-check expense totaled $17.8 million and $6.2 million for the six months ended March 31, 2020, and 2019, respectively, of which $5.1 million and $0.0 million, respectively, was pass-through expense.

3. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This ASU introduces a new accounting model known as Credit Expected Credit Losses (“CECL”). CECL requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which provides guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. The Company adopted Topic 842 effective October 1, 2019 and elected the package of transition practical expedients for expired or existing contracts, which does not require reassessment of: (1) whether any of the Company’s contracts are or contain leases, (2) lease classification and (3) initial direct costs. In July 2018, the FASB issued ASU No. 2018-11, "Targeted Improvements - Leases (Topic 842)." The Company did not elect the hindsight practical expedient. This update provides an optional transition method that allows entities to elect to apply the standard using the modified retrospective approach at its effective date, versus recasting the prior years presented. If this adoption method is elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. The Company elected this adoption method on October 1, 2019.There was no adjustment to retained earnings.

Additionally, the Company’s adoption of Topic 842 did not have a significant impact on the recognition, measurement or presentation of lease revenue and lease expenses within the consolidated statements of operations or the consolidated statements of cash flows. The Company’s adoption of Topic 842 did not have a material impact on the timing or amount of the Company’s lease revenue as a lessor. The Company’s prepaid aircraft rents, accrued aircraft rents and deferred rent credits that were separately stated in the Company’s September 30, 2019 balance sheet have been classified as a component of the Company’s right-of-use assets effective October 1, 2019. The consolidated financial statements for the three months ended December 31, 2019 are presented under the new standard, while comparative years presented are not adjusted and continue to be reported in accordance with the Company’s historical accounting policy. See Note 14, "Leases, Commitments and Contingencies," for more information.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, which contains amendments that affect a wide variety of Topics in the Codification, including amendment to Subtopic 718-40, Compensation-Stock Compensation-Income Taxes, that clarifies the timing of when an entity should recognize excess tax benefits. We adopted this standard on October 1, 2019 and it did not have a material impact on our condensed consolidated financial statements.

4. Concentrations

At March 31, 2020, the Company had capacity purchase agreements with American and United. All of the Company's condensed consolidated revenue for the six months ended March 31, 2020 and 2019 and accounts receivable at March 31, 2020 and September 30, 2019 was derived from these agreements. The terms of both the American and United capacity purchase agreements are not aligned with the lease obligations on the aircraft performing services under such agreements.

Amounts billed by the Company under capacity purchase agreements are subject to the Company's interpretation of the applicable capacity purchase agreement and are subject to audit by the Company's major airline partners. Periodically, the Company's major airline 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 airline partner. As such, the Company periodically reviews amounts past due and records a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $2.8 million and $1.0 million at March 31, 2020 and September 30, 2019, respectively. If the Company's ability to collect these receivables and the financial viability of its partners is materially different than estimated, the Company's estimate of the allowance could be materially impacted.

American accounted for approximately 51% and 55% of the Company's total revenue for the three months ended March 31, 2020 and 2019, respectively, and 51 % and 54 % for the six months ended March 31, 2020 and 2019. United accounted for approximately 49% and 45% of the Company's revenue for the three months ended March 31, 2020 and 2019, respectively, and 49% and 46% for the six months ended March 31, 2020 and 2019. A termination of either the American or the United capacity purchase agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations, and cash flows.

5. Intangible Assets

The Company monitors for any indicators of impairment of the intangible assets. When certain conditions or changes in the economic situation such as the current environment brought by COVID-19 exist, the assets may be impaired and the carrying amount of the assets exceed its fair value. The assets need to be tested for recoverability of carrying amount.

We determined that our reduced flying schedules and cash flow projections as a result of the COVID-19 pandemic indicate that an impairment loss may have been incurred. Therefore, we quantitatively assessed whether it was more likely than not that the intangible assets we hold have been impaired as of March 31, 2020. We reviewed our previous forecasts and assumptions based on our current projections that are subject to various risks and uncertainties, including: (1) forecasted revenues, expenses and cash flows, including the duration and extent of impact to our business from the COVID-19 pandemic, (2) current discount rates, (3) changes to the regulatory environment and (4) the nature and amount of government support that will be provided.

Based on our carrying amount recoverability test, we have concluded that our finite-lived intangible assets are not impaired as of March 31, 2020. Given the uncertain future amid COVID-19, we will conduct additional tests in 3rd quarter 2020.

Information about the intangible assets of the Company at March 31, 2020 and September 30, 2019, were as follows (in thousands):

	March 31, 2020	September 30, 2019
Customer relationship	$ 43,800	$ 43,800
Accumulated amortization	(35,018)	(34,268)
	$ 8,782	$ 9,532

Total amortization expense recognized was approximately $0.4 million and $0.5 million for the three months ended March 31, 2020 and 2019, respectively, and $0.7 million and $0.9 million for the six months ended March 31, 2020 and 2019 respectively. The Company expects to record amortization expense of $0.7 million for the remainder of 2020, and $1.2 million, $1.0 million, $0.9 million, $0.8 million for fiscal years 2021, 2022, 2023, and 2024 respectively.

6. Balance Sheet Information

Certain significant amounts included in the Company's condensed consolidated balance sheet as of March 31, 2020 and September 30, 2019, consisted of the following (in thousands):

	March 31, 2020	September 30, 2019
Expendable parts and supplies, net:		
Expendable parts and supplies	$ 26,527	$ 25,336
Less: obsolescence and other	(4,149)	(3,999)
	$ 22,378	$ 21,337
Prepaid expenses and other current assets:		
Prepaid aircraft rent	$ -	$ 35,786
Deferred offering and reimbursed costs	1,514	2,092
Other	4,397	3,045
	$ 5,911	$ 40,923
Property and equipment, net:		
Aircraft and other flight equipment	$ 1,588,462	$ 1,582,199
Other equipment	5,122	5,122
Leasehold improvements	2,797	2,797
Vehicles	962	924
Building	699	699
Furniture and fixtures	302	302
Total property and equipment	1,598,344	1,592,043
Less: accumulated depreciation	(355,547)	(318,458)
	$ 1,242,797	$ 1,273,585
Other accrued expenses:		
Accrued property taxes	$ 5,707	$ 9,186
Accrued interest	4,488	4,497
Accrued vacation	5,538	6,128
Accrued wheels, brakes and tires	2,705	1,513
Other	8,700	7,564
	$ 27,138	$ 28,888

The Company monitors for any indicators of impairment of the long-lived fixed assets. When certain conditions or changes in the economic situation such as the current environment brought by COVID-19 exist, the assets may be impaired and the carrying amount of the assets exceed its fair value. The assets need to be tested for recoverability of carrying amount.

To determine whether impairments exist, we group assets at the Capacity Purchase Agreement and fleet-type level (i.e., the lowest level for which there are identifiable cash flows) and then estimate future cash flows based on projections of capacity purchase arrangements, block hours, maintenance events, labor costs and other relevant factors. Due to our reduced flying schedules and projections of future cash flows, we evaluated each of our fleets to determine if any of the fleets are impaired.

Based on our carrying amount recoverability test, we have concluded that no fleet was impaired as of March 31, 2020 as the future cash flows exceeded the carrying value of our long-lived fixed assets. Given the uncertain future amid COVID-19, we will conduct additional tests in 3rd quarter 2020.

Depreciation expense totaled approximately $20.1 million and $18.8 million for the three months ended March 31, 2020 and 2019, respectively, and $40.3 million and $36.9 million for the six months ended March 31, 2020 and 2019, respectively.

Prior to the Company's adoption of Topic 842 on October 1, 2019, the Company recorded amortization of the unfavorable lease liability of approximately $1.5 million for the three months ended March 31, 2019 as a reduction to lease expense. Upon the Company's adoption of Topic 842, the unfavorable lease liability is now included in its ROU asset balance and amortized therein.

7. Fair Value Measurements

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.

The Company's debt agreements are not traded on an active market. The Company has determined the estimated fair value of its 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. The Company utilizes the discounted cash flow method to estimate the fair value of Level 3 debt.

The carrying value and estimated fair value of the Company's long-term debt, including current maturities, were as follows (in millions):

	March 31, 2020		September 30, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and financing leases, including current maturities(1)	$ 802.0	$ 815.5	$ 858.1	$ 882.7

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

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

Long-term debt as of March 31, 2020 and September 30, 2019, consisted of the following (in thousands):

	March 31, 2020	September 30, 2019
Notes payable to financial institution, collateralized by the underlying aircraft, due 2022(1)(2)	$ 41,472	$ 49,795
Notes payable to financial institution, collateralized by the underlying aircraft, due 2024(3)	55,674	60,761
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027(4)	105,540	110,912
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028(5)	181,776	191,168
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028(6)	145,592	152,945
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022(7)	59,868	71,998
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022(8)	38,903	47,309
Notes payable to financial institution, collateralized by the underlying equipment, due 2020(9)	829	1,659
Notes payable to financial institution due 2020(10)	1,523	2,329
Notes payable to financial institution, collateralized by the underlying equipment, due 2020(11)	4,182	6,962
Other obligations due to financial institution, collateralized by the underlying equipment, due 2023(12)	7,904	8,530
Notes payable to financial institution, collateralized by the underlying equipment, due 2024(13)	71,865	80,153
Notes payable to financial institution, collateralized by the underlying aircraft, due 2023(14)	56,875	65,625
Notes payable to financial institution due 2023 (15)	7,000	8,000
Working capital draw loan, used to cover operational needs (16)	23,000	—
Gross long-term debt, including current maturities	802,003	858,145
Less unamortized debt issuance costs	(14,039)	(14,822)
Net long-term debt, including current maturities	787,964	843,323
Less current portion	(168,171)	(165,900)
Net long-term debt	$ 619,793	$ 677,423

(1) In fiscal 2007, the Company financed three CRJ-900 and three CRJ-700 aircraft for $120.3 million. The debt bears interest at the monthly LIBOR plus 2.25% (3.24% at March 31, 2020) and requires monthly principal and interest payments.

(2) In fiscal 2014, the Company financed ten CRJ-900 aircraft for $88.4 million. The debt bears interest at the monthly LIBOR plus a spread ranging from 1.95% to 7.25% (2.94% to 8.24% at March 31, 2020) and requires monthly principal and interest payments. In fiscal 2018, the Company repaid $40.0 million related to four CRJ-900 aircraft.

(3) In fiscal 2014, the Company financed eight CRJ-900 aircraft with $114.5 million in debt. The debt bears interest at 5.00% and requires monthly principal and interest payments.

(4) In fiscal 2015, the Company financed seven CRJ-900 aircraft with $170.2 million in debt. The senior notes payable of $151.0 million bear interest at monthly LIBOR plus 2.71% (3.7% at March 31, 2020) 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. The Company has 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.

(5) In fiscal 2016, the Company 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.

(6) In fiscal 2016, the Company 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% (3.65% to 3.77% at March 31, 2020) and require quarterly principal and interest payments. The subordinated notes payable bear interest at 4.50% and require quarterly principal and interest payments.

(7) In June 2018, the Company refinanced six CRJ-900 aircraft with $27.5 million in debt and financed nine CRJ-900 aircraft, which were previously leased, with $69.6 million in debt. The senior notes payable of $65.8 million bear interest at the three-month LIBOR plus 3.50% (4.95 % at March 31, 2020) and require quarterly principal and interest payments. The subordinated notes payable of $29.8 million bear interest at three month LIBOR plus 7.50% (8.95% at March 31, 2020) and require quarterly principal and interest payments.

(8) In December 2017, the Company refinanced nine CRJ-900 aircraft with $74.9 million in debt. The senior notes payable of $46.9 million bear interest at the three-month LIBOR plus 3.50% (4.95% at March 31, 2020) and require quarterly principal and interest payments. The subordinated notes payable bear interest at the three-month LIBOR plus 4.50% (5.95% at March 31, 2020) and require quarterly principal and interest payments.

(9) In fiscal 2015, the Company financed certain flight equipment with $8.3 million in debt. The debt bears interest at 5.163% and requires monthly principal and interest payments.

(10) In fiscal 2015 and 2016, the Company financed certain flight equipment maintenance costs with $10.2 million in debt. The debt bears interest at the three-month LIBOR plus 3.07% (4.52% at March 31, 2020) and requires quarterly principal and interest payments.

(11) In fiscal 2016-2019, the Company financed certain flight equipment maintenance costs with $26.1 million in debt. The debt bears interest at the three-month LIBOR plus a spread ranging from 2.93% to 3.21% (4.38% to 4.66% at March 31, 2020) and requires quarterly principal and interest payments. The debt is subject to a fixed charge ratio covenant. As of March 31, 2020, the Company was in compliance with this covenant.

12) In February 2018, the Company leased two spare engines. The leases were determined to be capital as the leases contain a bargain purchase option at the end of the term. Imputed interest is 9.128% and the leases requires monthly payments.

(13) In January 2019, the Company financed certain flight equipment with $91.2 million in debt. The debt bears interest at the monthly LIBOR plus 3.10% (4.09% at March 31, 2020) and requires monthly principal and interest payments.

(14) In June 2019, the Company 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% (5.99% at March 31, 2020) and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1st quarter, 2020 due to United Airlines extension of CRJ-700.

(15) On September 27,2019, the Company financed certain flight equipment for $8.0 million. The debt bears interest at the monthly LIBOR plus 5.00% (5.99% at March 31, 2020) and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1st quarter, 2020 due to United Airlines extension of CRJ-700.

(16) On September 25, 2019, the company extended the term on their $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 5.24%. In 2nd quarter, 2020, $23.0 million was drawn to cover operational needs.

Principal maturities of long-term debt as of March 31, 2020, and for each of the next five years are as follows (in thousands):

Periods Ending March 31,	Total Principal
Remainder of 2020	$ 168,170
2021	160,080
2022	149,834
2023	89,635
2024	58,131
Thereafter	176,153
	$ 802,003

The net book value of collateralized aircraft and equipment as of March 31, 2020 was $1,168.0 million.

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 March 31, 2020 Mesa has $181.8 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.

Mesa evaluated whether the pass-through trust formed for its EETC financing is a Variable Interest Entity ("VIE") and required to be consolidated. The pass-through trust was determined to be a VIE, however, the Company has determined that it does not have a variable interest in the pass-through trust, and therefore, has not consolidated the pass-through trust with its financial statements.

On January 28, 2019, the Company entered into a Term Loan Agreement (the "Term Loan") pursuant to which the lenders thereunder committed to lend to the Company term loans in the aggregate principal amount of $91.2 million. Borrowings under the Term Loan bear interest at LIBOR plus 3.10%. This interest rate is significantly lower than the interest rate under the Company's Spare Engine Facility (defined below), which the Term Loan refinanced and replaced. The Spare Engine Facility accrued interest at LIBOR plus 7.25%. The Term Loan has a term of five years, with principal and interest payments due monthly over the term of the loan in accordance with an amortization schedule. The Company recorded a loss on extinguishment of debt of $3.6 million, due to a $1.9 million write-off of financing fees and $1.7 million in prepayment penalties, in connection with the repayment of the Spare Engine Facility.

On June 14, 2019, the Company completed the purchase of ten CRJ-700 aircraft, which were previously leased under the aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the “GECAS Lease Facility”), for $70.0 million. The Company financed the aircraft purchase with $70.0 million in new debt. The notes payable of $70.0 million require monthly payments of principal and interest through fiscal 2023 bearing interest at LIBOR plus 5.0%. The Company recorded non-cash lease termination expense of $9.5 million in connection with the lease buyout.

On September 25, 2019, the Company extended the term on their $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 5.24%. In 2nd quarter, 2020, $23.0 million was drawn to cover operational needs.

On September 27, 2019, the Company financed certain flight equipment with $8.0 million in new debt. The debt of $8.0 million require monthly payments of principal and interest through fiscal 2023 bearing interest at Libor plus 5.0%.

9. Earnings Per Share and Equity

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Net income attributable to Mesa Air Group	$ 1,885	$ 13,249	$ 12,670	$ 32,330
Basic weighted average common shares outstanding	35,141	34,699	35,082	34,607
Add: Incremental shares for:				
Dilutive effect of restricted stock	124	263	138	434
Diluted weighted average common shares outstanding	35,265	34,962	35,220	35,041
Net income per common share attributable to Mesa Air Group:				
Basic	$ 0.05	$ 0.38	$ 0.36	$ 0.93
Diluted	$ 0.05	$ 0.38	$ 0.36	$ 0.92

Basic income per common share is computed by dividing net income 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 (excluding warrants with a nominal conversion price) 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. There were no anti-dilutive shares relating to restricted stock and exercise of warrants that were excluded from the calculation of diluted loss per share for the three and six months ended March 31, 2020 and 2019.

10. Common Stock

The Company previously issued warrants to third parties, which had a five-year term to be converted to common stock at an exercise price of $0.004 per share. Certain persons who are not U.S. citizens currently hold outstanding warrants to purchase shares of the Company's common stock. The warrants are exercisable if consistent with federal law, which requires that no more than 24.9% of the Company's stock be voted, directly or indirectly, or controlled by persons who are not U.S. citizens. The warrants can be converted to common stock upon warrant holders demonstrating U.S. citizenship or if consistent with above described federal law ownership limitations. In June 2018, the Company and holders agreed to extend the term of outstanding warrants set to expire by five years (through fiscal year 2023). As of March 31, 2020 all the outstanding warrants were converted to common shares.

In July 2018, the Company's Board of Directors and Compensation Committee approved the issuance of shares of restricted common stock under its 2018 Equity Incentive Plan (the "2018 Plan") immediately following completion of the Company's IPO to certain of its employees and directors in exchange for the cancellation of existing restricted phantom stock units, unvested restricted shares and SARs. The shares of restricted common stock issued under the 2018 Plan in exchange for the cancellation of restricted phantom stock units, unvested restricted shares and SARs are subject to vesting on the same terms set forth in the prior vesting schedules and are not subject to acceleration in connection with the 2018 Plan issuances.

On August 8, 2018, the Company filed its Second Amended and Restated Articles of Incorporation, which, among other things: (i) effected a 2.5-for-1 stock split of its common stock; and (ii) increased the authorized number of shares of its common and preferred stock to 125,000,000 and 5,000,000, respectively. All references to share and per share amounts in the Company's condensed consolidated financial statements have been retrospectively revised to reflect the stock split and increase in authorized shares.

The Company's shares of common stock were listed on The NASDAQ Global Select Market under the symbol "MESA" effective August 10, 2018. On August 14, 2018, the Company completed its IPO, in which it issued and sold 9,630,000 shares of common stock, no par value, at a public offering price of $12.00 per share (the "Firm Shares"). Additionally, in connection with the IPO, the Company granted the underwriters an option to purchase up to an additional 1,444,500 shares of common stock at the same price. On September 11, 2018, the Company closed the sale of 1,344,500 shares ("Option Shares") of its common stock, in connection with the partial exercise of the overallotment option granted to the underwriters in its IPO. Of the 1,344,500 Option Shares sold, 723,985 were purchased directly from the Company and the remaining 620,515 shares were purchased directly from the selling shareholders. The Firm Shares and Option Shares were sold to the public for a price of $12.00 per share. The aggregate gross proceeds to us from the IPO were approximately $124.2 million. The Company received $111.7 million in net proceeds after deducting $8.7 million of underwriting discounts and commissions and $3.6 million in offering costs.

On April 9, 2019, and pursuant to Section 4.4 of the 2018 Plan in connection with the 2.5-for-1 stock split effected on August 8, 2018, the board of directors approved an increase in the number of shares authorized for issuance under the 2018 Plan by 1,000,000 shares of common stock.

The Company has not historically paid dividends on shares of its common stock. Additionally, the Company's aircraft lease facility (the "RASPRO" Lease Facility) with RASPRO Trust 2005, a pass-through trust contains restrictions that limit the Company's ability to or prohibit it from paying dividends to holders of its common stock.

11. Income Taxes

The Company’s effective tax rate (ETR) from continuing operations was 40.9% and 27.6% for the three months and six months ended March 31, 2020, respectively, and 23.6% and 23.7% for the three months and six months ended March 31, 2019, respectively. The Company's ETR during the three months and six months ended March 31, 2020 was different from the federal statutory rate of 21% as a result of the vesting and exercise of stock compensation, state taxes, and changes in valuation allowance against state net operating losses, as well as differences between the book and tax deductions associated with meals, entertainment, employer provided parking, and compensation of officers.

The Company's ETR during the six months ended March 31, 2019 was different than the statutory rate as a result of state taxes, the vesting and exercises of stock compensation, differences in the GAAP and tax deductibility of meals and parking benefits, and changes in the valuation allowance against state net operating losses.

As of September 30, 2019, the Company had aggregate federal and state net operating loss carryovers of approximately $478.2 million and $228.0 million, respectively, which expire in fiscal years 2027-2037 and 2020-2039, respectively. Approximately $2.7 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

The restricted share activity for the three months ended March 31, 2020 were summarized as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested at September 30, 2019	847,974	$ 9.56
Granted	156,498	6.33
Vested	(160,528)	5.97
Forfeited	(6,000)	7.03
Restricted shares unvested at March 31, 2020	837,944	$ 8.65

As of March 31, 2020, there was $4.4 million, of total unrecognized compensation cost related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Compensation cost for share-based awards are recognized on a straight-line basis over the vesting period. Share-based compensation expense for the three months ended March 31, 2020 and 2019 was $1.2 million and $1.3 million, respectively, and for the six months ended March 31, 2020 and 2019 was $2.5 million and $2.8 million, respectively.

The Company repurchased 18,244 shares of its common stock for $0.04 million to cover the income tax obligation on vested employee equity awards and warrant conversions during the six months ended March 31, 2020.

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

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 March 31, 2020, eligible employees purchased and the company issued 43,934 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP.

14. Leases and Commitments

Effective October 1, 2019, the Company adopted Topic 842 and recorded ROU assets and lease liabilities of $154.6 million and $141.9 million, respectively. As part of the adoption, prepaid aircraft rent, deferred rent credits and accrued aircraft rents of $35.8 million, $21.3 million and $1.8 million, respectively, were classified as a component of the Company's ROU assets.

At March 31, 2020, the Company leased 18 aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases. The leases require the Company 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. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased. Aggregate rental expense under all operating aircraft, equipment and facility leases totaled approximately $18.6 million and $18.7 million for the three months ended March 31, 2020 and 2019, respectively, and $35.4 million and $37.8 million for the six months ended March 31, 2020 and 2019.

As of March 31, 2020, the Company's operating lease right-of-use assets were $140.8 million, the Company's current maturities of operating lease liabilities were $43.6 million, and the Company's noncurrent lease liabilities were $78.7 million.

As of March 31, 2020, the Company's operating lease payments in operating cash flows for the six months ended March 31, 2020 is $26.2 million. The disclosure is not applicable for the six months ended March 31, 2019 due to the method of adoption of the new leasing Standard ASC-842. (1)

The table below presents lease related terms and discount rates as of March 31, 2020:

As of March 31,2020	
Weighted average remaining lease term Operating leases	4.0 years
Weighted average discount rate Operating leases	4.2%

	Three Months Ended March 31,			
	2020	2019	$ Change	% Change
Operating lease cost	$ 18,583	$ 18,714	$ (131)	(0.7)%

	Six Months Ended March 31,			
	2020	2019	$ Change	% Change
Operating lease cost	$ 35,366	$ 37,804	$ (2,438)	(6.4)%

The following table summarizes future minimum rental payments primarily related to leased aircraft required under operating leases that had initial or remaining non-cancelable lease terms as of March 31, 2020 (in thousands):

Periods Ending March 31,	Total Maturities
2020	$ 22,120
2021	46,777
2022	31,916
2023	14,547
2024	13,982
Thereafter	1,654
Less: Interest	$ (8,740)
Amounts recorded in the Consolidated Balance Sheet	$ 122,256

The following represents future minimum lease obligations under non-cancelable operating leases as of September 30, 2019 (in thousands):

Periods Ending September 30,	Total Payments
2020	47,814
2021	46,007
2022	31,090
2023	13,726
2024	13,185
Thereafter	1,368
Total	$ 153,190

Engine Purchase Commitments

On March 26, 2020, the Company and General Electric Company ("GE"), acting through its GE-Aviation business unit, entered into (a) Amended and Restated Letter Agreement No. 13-1 ("Letter Agreement No. 13-1"), which amends and restates Letter Agreement No. 13 entered into by the parties effective December 11, 2019, and (b) Amended and Restated Letter Agreement No. 12-1 ("Letter Agreement No. 12-1" and together with Letter Agreement No. 13-1, the "Amended and Restated Letter Agreements"), which amends and restates Letter Agreement No. 12 entered into by the parties effective October 22, 2019. The Amended and Restated Letter Agreements each provide that they are effective March 20, 2020.

Under Letter Agreement No. 13-1, the Company has agreed to purchase and take delivery of 20 new spare CF34-8C5 engines. Delivery of the new spare engines will now commence in April 2021, with the final spare engine being delivered in December 2021. The parties had previously agreed to commence delivery of the new spare engines in August 2020. The payment terms for the new spare engines were also amended, with payments to now be made in four (4) separate tranches commencing in October and December 2020 and February and March 2021.

Under Letter Agreement No. 12-1, the Company has agreed to purchase and take delivery of two (2) new spare CF34-8C5 engines by no later than March 31, 2020. The parties agreed that progress payments previously made by the Company constitute full payment for these engines. The Company does not consider this Letter Agreement to be a material definitive agreement, as defined by the rules and regulations of the Securities and Exchange Commission, but has elected to voluntarily file such Letter Agreement along with the filing of Letter Agreement No. 13-1. The total purchase commitment under these agreements is approximately $118.9 million.

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

15. Contingencies

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

16. Supplemental Disclosure

The Company adopted ASU 2016-18 on a retrospective basis during the quarter ended December 31, 2018. The following is a reconciliation of the captions in the Condensed Consolidated Balance Sheets to the Condensed Consolidated Statements of Cash Flows (in thousands):

	March 31, 2020	September 30, 2019
Condensed Consolidated Balance Sheets		
Cash and cash equivalents	$ 52,399	$ 68,855
Restricted cash	3,441	3,646
Cash, cash equivalents, and restricted cash in Condensed Consolidated Statement of Cash Flows	$ 55,840	$ 72,501

The restricted cash balance primarily includes deposits in trust accounts to collateralize letters of credit and to fund workers' compensation claims, landing fees, and other business needs.

17. Subsequent Events

CARES Act

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. This relief package includes financial grant providing the airline industry with up to $25 billion to be used for employee wages, salaries and benefits.

In April 2020, the Company was granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. The Company received the first installment of $30.8 million in April 2020 and the remaining $61.6 million is scheduled to be paid to Mesa in four equal payments from June to September 2020.

The relief payments are conditioned on our agreement to refrain from conducting involuntary employee layoffs or furloughs through September 30, 2020. Other conditions include prohibitions on share repurchases and dividends through September 30, 2021, continuing essential air service as directed by the U.S. Department of Transportation and certain limitations on executive compensation.

The CARES Act provides for up to $25 billion in secured loans to the airline industry. The Company has submitted the application for a loan under the loan program and is awaiting the outcome of the application. Under the Loan Program, the Company expects to have the ability, through September 30, 2020, to borrow a currently undetermined amount from the U.S. Treasury Department for a term of up to five years. Any loans issued under the Loan Program are expected to be senior secured obligations of the Company, with collateral to be determined. If the Company borrows any amounts under the Loan Program, the Company expects to issue to the U.S. Treasury Department warrants to purchase shares of MESA common stock.

The CARES Act also provides for deferred payment of the employer portion of social security taxes through the end of 2020. The Company expects to defer approximately $7.0 million with 50% of the deferred amount to be repaid on December 31, 2021 and the remaining 50% to be repaid on December 31, 2022.

These aforementioned reliefs under the CARES Act are expected to provide liquidity during the locked down and recovery periods this year.

One of our aircraft lenders has agreed to defer $28 million of principal debt payments otherwise due beginning on March 19, 2020, to and including September 30, 2020. All Deferred Payments shall be due in a lump sum payment on September 30, 2020 per the letter agreement dated April 9, 2020. Although the agreement is to pay the full amount back on September 30, 2020, the Company is seeking more favorable repayment terms from the lender. There is no certainty on whether the repayment terms will be able to be modified.

Removal of Aircraft from Code Share and Revenue Sharing Agreement with American Airlines

In April 2020, the Company received a withdrawal notice from American seeking to permanently withdraw three aircraft from the Code Share and Revenue Sharing Agreement. Two of the aircraft will be withdrawn effective May 19, 2020 and the third aircraft will be withdrawn effective June 1, 2020. American's withdrawal of these three aircraft stems from withdrawal rights that American previously asserted were triggered in September 2019 and November 2019. At such time, American refrained from exercising such withdrawal rights, however, reserved the right to withdrawal the three aircraft at a later date under certain circumstances. In light of the rapid grounding of aircraft caused by the COVID-19 virus, the overall reduction in demand for air travel, and the need to reduce capacity, American has elected to remove such aircraft now.

Following the removal of the three aircraft referenced above, the Company will continue to operate 56 CRJ-900 aircraft under the American CPA.

Decline in Block Hours Flown for Major Airlines Partners

The Company further reports that, beginning in March 2020, it has experienced a material decline in demand in block hours from both of its major airline partners, American and United Airlines, Inc. ("United" and together with American, the "Partners") resulting from the spread of the COVID-19 virus. As a result of this decline in demand and the subsequent capacity reductions by the Company's Partners, the Company operated 10,297 block hours in April 2020, a 72.4% drop from April 2019. The Company also anticipates similar schedule reductions will likely continue into the second quarter of 2020 and may continue throughout the remainder of 2020 and into 2021.

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 135 cities in 39 states, the District of Columbia, Canada, Mexico, Cuba and the Bahamas. All of our flights are operated as either American Eagle or United Express flights pursuant to the terms of capacity purchase agreements we entered into with American Airlines, Inc. ("***American***") and United Airlines, Inc. ("***United***") (each, our "*major airline partner*"). We have a significant presence in several of our major airline partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of March 31, 2020, we operated a fleet of 145 aircraft with approximately 662 daily departures. We operate 59 CRJ-900 aircraft under our capacity purchase agreement with American (our "*American Capacity Purchase Agreement*") and 20 CRJ-700 and 60 E-175 aircraft under our capacity purchase agreement with United (our "*United Capacity Purchase Agreement*"). For the three months ended March 31, 2020, approximately 49% of our aircraft in scheduled service were operated for United and approximately 51% were operated for American. All of our operating revenue in our fiscal year ended September 30, 2019 (our "*2019 fiscal year*") and the six months ended March 31, 2020 was derived from operations associated with our American and United Capacity Purchase Agreements.

Our long-term capacity purchase agreements 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 flight actually flown, and reimbursement of certain direct operating expenses in exchange for providing regional flying on behalf of our major airline partners. Our capacity purchase agreements 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 capacity purchase agreements, we use the logos, service marks, flight crew uniforms and aircraft paint schemes of our major airline partners. Our major airline partners control route selection, pricing, seat inventories, marketing and scheduling, and provide us with ground support services, airport landing slots and gate access.

Impact of the COVID-19 Pandemic

On January 30, 2020 the World Health Organization declared an outbreak of a highly contagious form of an upper respiratory infection caused by COVID-19, a novel coronavirus strain commonly referred to as “coronavirus”. In March 2020, the outbreak of COVID-19 was recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread, including in all of the markets in which we operate. The COVID-19 outbreak has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses; “shelter in place” and other governmental regulations; reduced spending due to both job losses and other effects attributable to COVID-19; an unprecedented decline in air travel.

The unprecedented and rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world have significantly reduced demand for air travel. This reduction in demand has had an unprecedented and materially adverse impact on our revenues and financial position. The length and severity of the reduction in demand due to the pandemic is uncertain; accordingly, we expect the adverse impact to grow in the June 2020 quarter. While we are planning for a modest demand recovery beginning in the September 2020 quarter, 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. Our forecasted expense management and liquidity measures may be modified as we clarify the demand recovery timing. Since a portion of our revenue is fixed due to the structure of our capacity purchase agreements, the impact to Mesa will be less severe due to the significant reduction in our scheduled flying. In addition, we have limited exposure to fluctuations in passenger traffic, ticket and fuel prices. While our fixed revenue remains mostly unchanged, our variable revenue which based on the number of block hours actually flown, was significantly reduced in the last few weeks of March and we may experience further reductions. The initiatives and measures put in place to limit the spread of the virus has and will continue to have a material adverse impact on our business, financial position and results of operations.

In response to these developments, we have implemented measures to focus on the safety of our customers and employees, while at the same time seeking to mitigate the impact on our financial position and operations. These measures include, but are not limited to, the following:

Expense Management. With the reduction in revenue, we have, and will continue to implement cost saving initiatives, including:

- Reducing employee-related costs, including:
  - Offering voluntary short-term unpaid leaves to all employees.
  - Compensation reductions for Executive level employees.
  - Instituting a company-wide hiring freeze.
  - Delaying non-essential heavy maintenance expense and reducing or suspending other discretionary spending.

Balance Sheet, Cash Flow and Liquidity. As of March 31, 2020, our cash and cash equivalents balance was $52.4 million. We have taken the following actions to increase liquidity and strengthen our financial position.

- Reducing planned heavy engine and airframe maintenance events by approximately $3.7 million in the current fiscal year.
- Working with major airline partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.
- Drew $23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.
- In April 2020, we were granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. We received the first installment of $30.8 million in April 2020 and the remaining $61.6 million is scheduled to be paid to Mesa in four equal payments from June to September 2020.
- The CARES Act also provides for up to $25 billion in secured loans to the airline industry. We have submitted an application for a loan under the loan program of $184 million for working capital, $568 million for financing new equipment and $252 million for financing existing equipment and are awaiting the outcome of the application process

Components of Results of Operations

The following discussion summarizes the key components of our condensed consolidated statements of operations.

Operating Revenues

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

Contract Revenue. Contract revenue consists of the fixed monthly amounts per aircraft received pursuant to our capacity purchase agreements with our major airline partners, along with the additional amounts received based on the number of flights and block hours flown. Contract revenues we receive from our major airline partners are paid and recognized by us on a weekly basis.

Pass-Through and Other. Pass-through and other revenue consists of passenger and hull insurance, aircraft property taxes, and 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 capacity purchase agreements, including aircraft repositioning and maintenance. All aircraft fuel and related fueling costs for flying under our capacity purchase agreements were directly paid and supplied by our major airline partners. Accordingly, we do not record an expense or the related revenue for fuel supplied by American and United for flying under our capacity purchase agreements.

Maintenance. Maintenance 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, as well as maintenance lease return obligations on our leased aircraft when the expense is probable and can be reasonably estimated. We record these expenses using the direct expense method of accounting, wherein the expense is recognized when the maintenance work is completed, or over the repair period, if materially different. Our maintenance policy is determined by fleet when major maintenance is incurred. As a result of using the direct expense method, the timing of maintenance expense reflected in the financial statements may vary significantly period to period.

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

Aircraft and Traffic Servicing. Aircraft and traffic servicing includes expenses related to our capacity purchase agreements, including aircraft cleaning, passenger disruption reimbursements, international navigation fees and wages of airport operations personnel, a portion of which are reimbursable by our major airline 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 (Expense) Income, Net

Interest Expense. Interest expense is interest on our debt to finance purchases of aircraft, engines, equipment as well as debt financing costs amortization.

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

Other Expense. Other expense includes expense derived from activities not classified in any other area of the condensed consolidated statements of income, including write-offs of miscellaneous third-party fees.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker 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.

While we operate under two separate capacity purchase agreements, we do not manage our business based on any performance measure at the individual contract level. Additionally, our chief operating decision maker ("**CODM**") uses condensed 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.

Cautionary Statement Regarding Non-GAAP Measures

We present Adjusted EBITDA and Adjusted EBITDAR in this Quarterly Report on Form 10-Q, which are not recognized financial measures under GAAP, 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 the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt, and 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 the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt, and write-off of associated financing fees.

Adjusted EBITDA and Adjusted EBITDAR have limitations as analytical tools. Some of the limitations applicable to these measures include: (i) Adjusted EBITDA and Adjusted EBITDAR do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; (ii) Adjusted EBITDA and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; (iii) Adjusted EBITDA and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; (iv) Adjusted EBITDA and Adjusted EBITDAR do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; (v) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future; and (vi) 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.

Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

We had operating income of $13.9 million in our three months ended March 31, 2020 compared to operating income of $34.4 million in our three months ended March 31, 2019. In our three months ended March 31, 2020, we had net income of $1.9 million compared to net income of $13.2 million in our three months ended March 31, 2019. Our operating results for the three months ended March 31, 2020 reflected a decrease in contract revenue primarily related to lower flying on our CRJ-900 fleet due to the impact of COVID-19 and an increase in pass-through and other revenues primarily due to an increase in maintenance pass-through expense.

Our maintenance expense increased primarily due to more airframe C-checks and engine heavy maintenance events due to timing of events. Flight operations expense also increased this quarter due to higher pilot wages and pilot training expenses. Our aircraft rent decreased in the three months ended March 31, 2020 compared to the same period in 2019 primarily as a result of purchasing ten CRJ-700 aircraft that were previously leased under our GECAS Lease Facility. We also had an increase in depreciation expense primarily due to the purchase of ten CRJ-700 aircraft that were previously leased under our GECAS Lease Facility.

Operating Revenues

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Change	
Operating revenues ($ in thousands):				
Contract	$ 165,781	$ 169,771	$ (3,990)	(2.4)%
Pass-through and other	14,115	7,376	6,739	91.4%
Total operating revenues	$ 179,896	$ 177,147	$ 2,749	1.6%
Operating data:				
Available seat miles—ASMs (thousands)	2,611,940	2,654,286	(42,346)	(1.6)%
Block hours	108,305	112,030	(3,725)	(3.3)%
Revenue passenger miles—RPMs (thousands)	1,785,153	2,079,589	(294,436)	(14.2)%
Average stage length (miles)	619	589	30	5.1%
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.35	¢ 6.40	¢ (0.05)	(0.8)%
Passengers	2,838,412	3,483,947	(645,535)	(18.5)%

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

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

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

"CRASM" means contract revenue divided by ASMs.

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

Total operating revenue increased by $2.7 million, or 1.6%, to $179.9 million for our three months ended March 31, 2020 as compared to our three months ended March 31, 2019. Contract revenue decreased by $4.0 million, or 2.4%, to $165.8 million primarily due to a decrease in flying on our CRJ-900 fleet and removal of five aircraft from our American Capacity Purchase Agreement. Our block hours flown during our three months ended March 31, 2020 decreased 3.3% compared to the three months ended March 31, 2019 primarily due to decreased flying on our CRJ-900 and E-175 fleets. Our pass-through and other revenue increased during our three months ended March 31, 2020 by $6.7 million, or 91.4%, to $14.1 million primarily due to pass-through maintenance revenue related to our E-175 fleet.

Operating Expenses

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 52,891	$ 49,366	$ 3,525	7.1%
Fuel	188	101	87	86.1%
Maintenance	64,335	45,380	18,955	41.8%
Aircraft rent	12,285	14,110	(1,825)	(12.9)%
Aircraft and traffic servicing	1,336	1,065	271	25.4%
General and administrative	14,500	13,472	1,028	7.6%
Depreciation and amortization	20,469	19,276	1,193	6.2%
Total operating expenses	$ 166,004	$ 142,770	$ 23,234	16.3%
Operating data:				
Available seat miles—ASMs (thousands)	2,611,940	2,654,286	(42,346)	(1.6)%
Block hours	108,305	112,030	(3,725)	(3.3)%
Average stage length (miles)	619	589	30	5.1%
Departures	55,435	59,225	(3,790)	(6.4)%

Flight Operations. Flight operations expense increased $3.5 million, or 7.1%, to $52.9 million for our three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily driven by an increase in pilot and flight attendant wages as well as pilot training related costs.

Fuel. Fuel expense increased $0.09 million, or 86.1%, to $0.2 million for our three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily driven by an increase in ferry flight fuel. All fuel costs related to flying under our capacity purchase agreements during our three months ended March 31, 2020 and 2019 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs increased $19.0 million, or 41.8%, to $64.3 million for our three months ended March 31, 2020 compared to the same period in 2019. This increase was primarily driven by an increase in engine overhaul expense and airframe C-Check expense. Total pass-through maintenance expenses reimbursed by our major airline partners increased by $6.8 million during our three months ended March 31, 2020.

The following table presents information regarding our maintenance costs during our three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,		Change	
	2020	2019		
Engine overhaul	$ 13,794	$ 5,610	$ 8,184	145.9%
Pass-through engine overhaul	704	(352)	1,056	(300.0)%
C-check	6,640	4,702	1,938	41.2%
Pass-through C-check	3,873	—	3,873	100.0%
Component contracts	9,395	9,178	217	2.4%
Rotable and expendable parts	7,461	7,593	(132)	(1.7)%
Other pass-through	4,511	2,657	1,854	69.8%
Labor and other	17,957	15,992	1,965	12.3%
Total	$ 64,335	$ 45,380	$ 18,955	41.8%

Aircraft Rent. Aircraft rent expense decreased $1.8 million, or 12.9%, to $12.3 million for our three months ended March 31, 2020 compared to the same period in 2019. The decrease is attributable to a $3.9 million decrease in aircraft lease expense as a result of purchasing ten CRJ-700 aircraft which were previously leased under the GECAS Lease Facility in June 2019, offset by a $2.1 million increase in engine rent due to additional leased engines.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense increased $0.3 million, or 25.4%, to $1.3 million for our three months ended March 31, 2020 compared to the same period in 2019. The increase is primarily due to an increase in interrupted trip expense, offset partially by pass-through regulatory charges. For our three months ended March 31, 2020 and 2019, 32.0% and 57.3%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense increased $1.0 million, or 7.6%, to $14.5 million for our three months ended March 31, 2020 compared to the same period in 2019. The increase is primarily due to an increase in wage expense. For our three months ended March 31, 2020 and 2019, $4.9 million and $4.5 million, respectively, of our insurance and property tax expenses were reimbursed by our major airline partners.

Depreciation and Amortization. Depreciation and amortization expense increased $1.2 million, or 6.2%, to $20.5 million for our three months ended March 31, 2020 compared to the same period in 2019. The increase is primarily attributable to an increase in depreciation expense related to the purchase of ten CRJ-700 aircraft which were previously leased under the GECAS Lease Facility. The increase was also partially related to the purchase of spare engines and rotable inventory, partially offset by a decrease in aircraft enhancement depreciation.

Other Expense

Other expense decreased $6.3 million, or 37.2%, to $10.7 million for our three months ended March 31, 2020, compared to the same period in 2019. The decrease is primarily a result of a decrease in interest expense due to lower interest rates on our new Spare Engine Facility and a decrease in outstanding aircraft principal balances. Additionally, we had one-time $3.6 million early termination fee related to our engine financing in the three months ended March 31, 2019.

Income Taxes

The Company's effective tax rate (ETR) from continuing operations was 40.9% for the three months ended March 31, 2020 and 23.6% for the three months ended March 31, 2019. The Company's current year effective tax rate increased compared to the prior year tax rate as a result of an increase to permanent differences between book and taxable income in the deductibility of meals, employer provided parking, and compensation of officers. In addition, the Company's rate varied from the prior year's as a result of the vesting of stock compensation where the tax deduction differed from the book expense, state taxes, changes in the valuation allowance against state net operating losses, and changes in state statutory rates. In addition, changes to the Company forecast for fiscal 2020 related to the implications of the coronavirus pandemic had the effect of increasing the effective tax rate for the quarter, as the Company's forecasted pre-tax book income decreased substantially from the prior year.

The income tax provision for the three months ended March 31, 2020 results in an effective tax rate of 40.9% which differs from the U.S. federal statutory rate of 21% primarily due to permanent book and tax deductible expense differences, state taxes, changes in the valuation allowance against state net operating losses, routine stock vestings and exercises, and changes in state apportionment and state statutory rates, and the impact of a lower forecasted income projection for the year due to concerns around the coronavirus pandemic and the impact on air travel.

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, 2019, the Company had aggregate federal and state net operating loss carryforwards of $478.2 million and $228.0 million, respectively, which expire in 2027-2037 and 2020-2039, respectively. Approximately $2.7 million of state net operating loss carryforwards are expiring in 2020.

Six Months Ended March 31, 2020 Compared to Six Months Ended March 31, 2019

We had operating income of $41.1 million in our six months ended March 31, 2020 compared to operating income of $73.6 million in our six months ended March 31, 2019. In our six months ended March 31, 2020, we had net income of $12.7 million compared to net income of $32.3 million in our six months ended March 31, 2019. Our operating results for the six months ended March 31, 2020 reflected a decrease in contract revenue primarily related to removal of five aircraft from our American Capacity Purchase Agreement and an increase in pass-through and other revenues primarily due to an increase in maintenance pass-through expense.

Our maintenance expense increased primarily due to more airframe C-Checks and engine heavy maintenance events due to timing of events. Our aircraft rent decreased in the six months ended March 31, 2020 compared to the same period in 2019 primarily as a result of purchasing ten CRJ-700 aircraft that were previously leased under our GECAS Lease Facility. We also had an increase in depreciation expense primarily due to the purchase of ten CRJ-700 aircraft that were previously leased under our GECAS Lease Facility.

Operating Revenues

	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019	Change	
Operating revenues ($ in thousands):				
Contract	$ 337,580	$ 340,220	$ (2,640)	(0.8)%
Pass-through and other	26,351	15,083	11,268	74.7%
Total operating revenues	$ 363,931	$ 355,303	$ 8,628	2.4%
Operating data:				
Available seat miles—ASMs (thousands)	5,347,325	5,363,185	(15,860)	(0.3)%
Block hours	223,866	227,030	(3,164)	(1.4)%
Revenue passenger miles—RPMs (thousands)	3,936,747	4,190,783	(254,036)	(6.1)%
Average stage length (miles)	595	583	12	2.1%
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.31	¢ 6.34	¢ (0.03)	(0.5)%
Passengers	6,535,550	7,104,062	(568,512)	(8.0)%

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

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

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

"CRASM" means contract revenue divided by ASMs.

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

Total operating revenue increased by $8.6 million, or 2.4%, to $363.9 million for our six months ended March 31, 2020 as compared to our six months ended March 31, 2019. Contract revenue decreased by $2.6 million, or 0.8%, to $337.6 million primarily due to a decrease in flying on our CRJ-900 fleet and removal of five aircraft from our American Capacity Purchase Agreement, offset by an increase in the United contract revenue as a result of changing the structure of our incentive reimbursement. Our block hours flown during our six months ended March 31, 2020 decreased 1.4% compared to the six months ended March 31, 2019 primarily due to decreased flying on our CRJ-900 and E-175 fleets. Our pass-through and other revenue increased during our six months ended March 31, 2020 by $11.3 million, or 74.7%, to $26.4 million primarily due to pass-through maintenance revenue related to our E-175 fleet.

Operating Expenses

	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 105,535	$ 102,611	$ 2,924	2.8%
Fuel	358	222	136	61.3%
Maintenance	122,430	85,182	37,248	43.7%
Aircraft rent	23,614	28,229	(4,615)	(16.3)%
Aircraft and traffic servicing	2,400	1,999	401	20.1%
General and administrative	27,496	25,686	1,810	7.0%
Depreciation and amortization	41,021	37,767	3,254	8.6%
Total operating expenses	$ 322,854	$ 281,696	$ 41,158	14.6%
Operating data:				
Available seat miles—ASMs (thousands)	5,347,325	5,363,185	(15,860)	(0.3)%
Block hours	223,866	227,030	(3,164)	(1.4)%
Average stage length (miles)	595	583	12	2.1%
Departures	118,160	120,759	(2,599)	(2.2)%

Flight Operations. Flight operations expense increased $2.9 million, or 2.8%, to $105.5 million for our six months ended March 31, 2020 compared to the same period in 2019. The increase was primarily driven by an increase in pilot and flight attendant wages.

Fuel. Fuel expense increased $0.1 million, or 61.3%, to $0.4 million for our six months ended March 31, 2020 compared to the same period in 2019. The increase was primarily driven by an increase in ferry flight fuel. All fuel costs related to flying under our capacity purchase agreements during our six months ended March 31, 2020 and 2019 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs increased $37.2 million, or 43.7%, to $122.4 million for our six months ended March 31, 2020 compared to the same period in 2019. This increase was primarily driven by an increase in engine overhaul expense, airframe C-Check expense, and labor and other expense. Total pass-through maintenance expenses reimbursed by our major airline partners increased by $10.3 million during our six months ended March 31, 2020.

The following table presents information regarding our maintenance costs during our six months ended March 31, 2020 and 2019 (in thousands):

	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019	Change	
Engine overhaul	$ 22,545	$ 8,230	$ 14,315	173.9%
Pass-through engine overhaul	2,555	1,189	1,366	114.9%
C-check	12,692	6,212	6,480	104.3%
Pass-through C-check	5,093	—	5,093	100.0%
Component contracts	19,082	18,373	709	3.9%
Rotable and expendable parts	14,866	14,777	89	0.6%
Other pass-through	8,848	5,025	3,823	76.1%
Labor and other	36,749	31,376	5,373	17.1%
Total	$ 122,430	$ 85,182	$ 37,248	43.7%

Aircraft Rent. Aircraft rent expense decreased $4.6 million, or 16.3%, to $23.6 million for our six months ended March 31, 2020 compared to the same period in 2019. The decrease is attributable to a $7.8 million decrease in aircraft lease expense as a result of purchasing ten CRJ-700 aircraft which were previously leased under the GECAS Lease Facility in June 2019, offset by a $3.2 million increase in engine rent due to additional leased engines.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense increased $0.4 million, or 20.1%, to $2.4 million for our six months ended March 31, 2020 compared to the same period in 2019. The increase is primarily due to an increase in interrupted trip expense, offset partially by pass-through regulatory charges. For our six months ended March 31, 2020 and 2019, 36.5% and 57.2%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense increased $1.8 million, or 7.0%, to $27.5 million for our six months ended March 31, 2020 compared to the same period in 2019. The increase is primarily due to an increase in pass-through insurance expenses and wage expense. For our six months ended March 31, 2020 and 2019, $9.3 million and $7.6 million, respectively, of our insurance and property tax expenses were reimbursed by our major airline partners.

Depreciation and Amortization. Depreciation and amortization expense increased $3.3 million, or 8.6%, to $41.0 million for our six months ended March 31, 2020 compared to the same period in 2019. The increase is primarily attributable to an increase in depreciation expense related to the purchase of ten CRJ-700 aircraft which were previously leased under the GECAS Lease Facility. The increase was also partially related to the purchase of spare engines and rotable inventory, partially offset by a decrease in aircraft improvement depreciation.

Other Expense

Other expense decreased $7.7 million, or 24.6%, to $23.6 million for our six months ended March 31, 2020, compared to the same period in 2019. The decrease is primarily a result of a decrease in interest expense due to lower interest rates on our new Spare Engine Facility and a decrease in outstanding aircraft principal balances. Additionally, we had one-time $3.6 million early termination fee related to our engine financing in the six months ended March 31, 2019.

Income Taxes

The income tax expense (benefit) totaled $4.8 million for the six months ended March 31, 2020 as compared to a tax expense (benefit) of $10.0 million for the six months ended March 31, 2019. The effective tax rate was 27.6% versus 23.7% in the prior year.

The effective tax rate for the six months ended March 31, 2020 was impacted by permanent difference between book and taxable income in the deductibility of meals, employer provided parking, and compensation of officers. The effective rate was also impacted by changes in the valuation allowance against state net operating losses, vesting and exercises of stock compensation, and changes in state apportionment and state statutory rates.

We file income tax returns in the US and in various state jurisdictions with varying statutes of limitations. We are generally no longer subject to income tax examination by tax authorities for years prior to 2016 and 2015 for federal and state purposes, respectively, with the exception of the examination of our net operating losses. The balance of unrecognized tax benefits is not anticipated to fluctuate significantly from fiscal 2019 to fiscal 2020. It is our policy to recognize interest expense and penalties related to uncertain income tax matters as a component of income tax expense.

Adjusted EBITDA and Adjusted EBITDAR

The following table presents a reconciliation of net income to estimated Adjusted EBITDA and Adjusted EBITDAR for the period presented (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Reconciliation:				
Net income	$ 1,885	$ 13,249	$ 12,670	$ 32,330
Income tax expense	1,307	4,086	4,842	10,035
Income before taxes	$ 3,192	$ 17,335	$ 17,512	$ 42,365
Adjustments (1)	—	3,616	—	3,616
Adjusted income before taxes	$ 3,192	$ 20,951	$ 17,512	$ 45,981
Interest expense	11,673	13,772	24,300	28,614
Interest income	(36)	(299)	(94)	(455)
Depreciation and amortization	20,469	19,276	41,021	37,767
Adjusted EBITDA	$ 35,298	$ 53,700	$ 82,739	$ 111,907
Aircraft rent	12,285	14,110	23,614	28,229
Adjusted EBITDAR	$ 47,583	$ 67,810	$ 106,353	$ 140,136

(1) We have added a non-GAAP adjustment for costs associated with loss on extinguishment of debt and write-off of associated financing fees. Our financial results reflect loss on extinguishment of debt of $3.6 million related to repayment of the Company's Spare Engine Facility for the three months and six months ended March 31, 2019. This loss includes a $1.9 million write-off of financing fees.

Liquidity and Capital Resources

As a result of the COVID-19 pandemic, we have taken, and are continuing to take, certain actions to increase liquidity and strengthen our financial position which include:

Reducing planned heavy engine and airframe maintenance events by approximately $3.7 million in the current fiscal year.

Working with major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.

Drew $23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.

One of our aircraft lenders has agreed to defer $28 million of principal debt payments with one of our aircraft lenders otherwise due beginning on March 19, 2020, to and including September 30, 2020. All Deferred Payments shall be due in a lump sum payment on September 30, 2020 per the letter agreement dated April 9, 2020. Although the agreement is to pay the full amount back on September 30, 2020, the Company is seeking more favorable repayment terms from the lender. There is no certainty on whether the repayment terms will be able to be modified.

In April 2020, we were granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. We received the first installment of $30.8 million in April 2020 and the remaining $61.6 million is scheduled to be paid to Mesa in four equal payments from June to September 2020.

The relief payments are conditioned on our agreement to refrain from conducting involuntary employee layoffs or furloughs through September 30, 2020. Other conditions include continuing essential air service as directed by the U.S. Department of Transportation and certain limitations on executive compensation.

The CARES Act also provides for up to $25 billion in secured loans to the airline industry. We have submitted an application for a loan under the loan program of $184 million for working capital, $568 million for financing new equipment and $252 million for financing existing equipment and are awaiting the outcome of the application process.

The CARES Act provides for deferred payment of the employer portion of social security taxes through the end of 2020. The Company expects to defer approximately $7.0 million with 50% of the deferred amount to be repaid on December 31, 2021 and the remaining 50% to be repaid on December 31, 2022.

These aforementioned reliefs from the CARES Act are expected to provide liquidity during the stay at home and recovery periods this year.

We expect to meet our cash needs for the next twelve months with cash and cash equivalents, financing arrangements, government assistance from the CARES Act, and cash flows from operations. As of March 31, 2020, we had $52 million in unrestricted liquidity. Additionally, we have five unencumbered CRJ-700 aircraft available for potential financing arrangements if needed.

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 to pay 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. In the near term, we expect to fund our primary cash requirements through cash generated from operations and cash and cash equivalents on hand. We also have the ability to utilize our credit and guaranty agreement (the "CIT Revolving Credit Facility") pursuant to which the CIT Lenders committed to lend to Mesa Airlines and Mesa Air Group—Airline Inventory Management, LLC, ("*MAG-AIM*") revolving loans in the aggregate principal amount of up to $35.0 million. As of March 31, 2020, $12.0 remains available until the facility matures on August 12, 2022.

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.

We believe that cash flow from operating activities coupled with existing cash and cash equivalents, short-term investments, existing credit facilities, financing arrangements and government assistance from the CARES Act, will be adequate to fund our operating and capital needs, as well as enable us to maintain compliance with our various debt agreements, through at least the next 12 months. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

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. Our capital expenditures, net of purchases of rotable spare parts and aircraft and spare engine financing for three months ending March 31,2020 is approximately 2.9% which is higher compared to our historical expense of approximately 1.2% to 1.5% of annual revenues due to expenses incurred related to aircraft enhancements. We expect to continue 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 March 31, 2020, our principal sources of liquidity were cash and cash equivalents of $52.4 million. In addition, we had restricted cash of $3.4 million as of March 31, 2020. Restricted cash includes certificates of deposit that secure letters of credit issued for particular airport authorities as required in certain lease agreements. Primary uses of liquidity are capital expenditures, and debt repayments. As of March 31, 2020, we had $168.2 million of short-term debt, excluding financing leases, and $619.8 million of long-term debt excluding financing leases.

Sources of cash for the six months ended March 31, 2020 were primarily cash flows from operations of $65.2 million. This positive cash flow was primarily driven by receipts from performance under our capacity purchase agreements.

Restricted Cash

As of March 31, 2020, we had $3.4 million in restricted cash. We have an agreement with a financial institution for a $6.0 million letter of credit facility and to issue letters of credit for landing fees, worker's compensation insurance and other business needs. Pursuant to the agreement, $3.5 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 March 31, 2020 and 2019 (in thousands):

	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019
Net cash provided by operating activities	$ 65,202	$ 69,770
Net cash used in investing activities	(24,773)	(18,491)
Net cash used in by financing activities	(57,090)	(77,024)
Net decrease in cash and cash equivalents	(16,661)	(25,745)
Cash and cash equivalents at beginning of period	72,501	107,134
Cash and cash equivalents at end of period	$ 55,840	$ 81,389

Net Cash Flow Provided By Operating Activities

During our six months ended March 31, 2020, we had cash flow provided by operating activities of $65.2 million. We had net income of $12.7 million adjusted for the following significant non-cash items: depreciation and amortization of $41.0 million, stock-based compensation of $2.5 million, deferred income taxes of $4.5 million, amortization of deferred credits of $(2.0) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of $2.1 million and $0.5 million loss on disposal of assets. We had a net change of $3.9 million within other net operating assets and liabilities largely driven by an increase in accrued liability during our six months ended March 31, 2020.

During our six months ended March 31, 2019, cash flow provided by operating activities of $69.8 million reflects our growth and execution of our strategic initiatives. We had net income of $32.3 million adjusted for the following significant non-cash items: depreciation and amortization of $37.8 million, stock-based compensation of $2.8 million, deferred income taxes of $10.0 million, amortization of unfavorable lease liabilities and deferred credits of $(5.7) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of $2.0 million, and loss on extinguishment of debt of $3.6 million. We had a net change of $(13.1) million within other net operating assets and liabilities largely driven by an increase in prepaid expenses and other current assets primarily due to aircraft lease payments during our six months ended March 31, 2019.

Net Cash Flows Used In Investing Activities

During our six months ended March 31, 2020, net cash flow used in investing activities totaled $(24.8) million. We invested $(3.6) million in aircraft improvements, $(7.6) million in inventory, $(1.7) million in miscellaneous projects and $(13.8) million in lease and equipment deposits offset by $2.0 million from return of lease and equipment deposits.

During our six months ended March 31, 2019, net cash flow used in investing activities totaled $(18.5) million. We invested $(34.3) million in six spare engines and aircraft improvements, and $(7.3) million in lease and equipment deposits offset by $3.0 million from return of lease and equipment deposits million in net equipment deposits, and $20.0 million from sales of investment securities.

Net Cash Flows Used In Financing Activities

During our six months ended March 31, 2020, net cash flow used in financing activities was $(57.1) million. We drew $23.0 million from our $35.0 million working capital draw loan for operational needs. We made $(79.4) million of principal repayments on long-term debt during the period. We incurred $(0.5) million of costs related to debt financing and $(0.2) million of costs related to the repurchase of shares of our common stock.

During our six months ended March 31, 2019, net cash flow used in financing activities was $(77.0) million. We received $91.2 million in proceeds from long-term debt related to spare aircraft engine financing. We made $(163.7) million of principal repayments on long-term debt during the period. We incurred $(2.5) million of costs related to debt financing, and $(1.7) million in debt prepayment costs.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (i) made guarantees, (ii) a retained or a contingent interest in transferred assets, (iii) an obligation under derivative instruments classified as equity or (iv) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development arrangements with the company.

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the Securities and Exchange Commission (the "SEC").

A majority of our leased aircraft are leased through trusts formed for the sole purpose of purchasing, financing and leasing aircraft to us. Because these are single-owner trusts in which we do not participate, we are not at risk for losses and we are not considered the primary beneficiary. We believe that our maximum exposure under the leases are the remaining lease payments and any return condition obligations.

Critical Accounting Policies and 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, which we discuss below.

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, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. Except with respect to our revenue recognition practices included in Note 2: "Summary of Significant Accounting Policies" in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q, there have been no changes to the critical accounting policies as explained in Part 1, Item 7 of the 2018 Form 10-K under the heading "Critical Accounting Policies."

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: "Summary of Significant Accounting Policies" 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 March 31, 2020, we had $533.1 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 $2.7 million in the twelve months ended March 31, 2020.

As of March 31, 2020, we had $272.4 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 March 31, 2020.

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. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become acceptable alternatives to LIBOR, or what effect these changes in views or alternatives may have on financial markets for LIBOR-linked financial instruments. 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 March 31, 2020, we had $533.1 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 capacity purchase agreements largely shelter us from volatility related to fuel prices, which are directly paid and supplied by our major airline 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

The Company is subject to two putative class action lawsuits alleging federal securities law violations in connection with its 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 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. We do not currently believe that this matter is likely to have a material adverse impact on our consolidated results of operations, cash flows, or our financial position. However, any litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could materially and adversely impact our business, results of operations, financial condition, and prospects.

In addition, from time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. Although the results of such litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on its business, operating results, financial condition or cash flows. Regardless of the outcome, any such litigation and claims can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

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, 2019, 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, 2019 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.

We have updated our existing risk factors to add the following risk factor related to recent developments. Except for the update set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

The outbreak and global spread of COVID-19 has resulted in a severe decline in demand for air travel which has adversely impacted the business of our airline partners, American Airlines, Inc. ("American") and United Airlines, Inc. ("United"), and in turn our business, operating results, financial condition and liquidity. The duration and severity of the COVID-19 pandemic, and similar public health threats that we may face in the future, could result in additional adverse effects on our business, operating results, financial condition and liquidity.

The COVID-19 outbreak, along with the measures governments and private organizations worldwide have implemented in an attempt to contain the spread of this pandemic, has resulted in a severe decline in demand for air travel, which has adversely affected the business of our major airline partners, American and United (the "Partners"), from whom we derive all of our operating revenue, and in turn has adversely affected our business, operations and financial condition to an unprecedented extent. Measures ranging from travel restrictions, "shelter in place" and quarantine orders, limitations on public gatherings to cancellation of public events and many others have resulted in a precipitous decline in demand for both business and leisure travel worldwide.

In response to this material deterioration in demand, both American and United made significant cuts in capacity in their domestic and international schedules in April and announced their expectations regarding making further reductions in May and plans to proactively evaluate and cancel flights on a rolling 90-day basis until they see signs of a recovery in demand. These capacity reductions have impacted flights operated by the Company. The initiatives and measures put in place to limit the spread of the virus has and will continue to have a materially adverse impact on our business. The Company further reports that, beginning in March 2020, it has experienced a material decline in demand in block hours from both of its major airline partners, American and United Airlines, Inc. ("United" and together with American, the "Partners") resulting from the spread of the COVID-19 virus. As a result of this decline in demand and the subsequent capacity reductions by the Company's Partners, the Company operated 10,297 block hours in April 2020, a 72.4% drop from April 2019. The Company also anticipates similar schedule reductions will likely continue into the second quarter of 2020 and may continue throughout the remainder of 2020 and into 2021.

As a result of the foregoing, the Company has implemented cost saving initiatives, including reducing employee-related costs through voluntary unpaid leaves, compensation reductions for Executive level employees, a company-wide hiring freeze, and delaying non-essential heavy maintenance expense and reducing or suspending discretionary spending, We have also taken steps to increase liquidity and strengthen our financial position, including reducing planned heavy engine and airframe maintenance, working with major partners and OEMs to delay the timing of the delivery of our future aircraft and spare engine deliveries, and drew $23 million under our previously undrawn revolving credit facility. While the severity, magnitude and duration of the COVID-19 pandemic remain uncertain, there can be no assurance that these actions will be sufficient to sustain our business operations through this pandemic.

We have taken and intend to take additional actions to improve our financial position, including measures to improve liquidity, such as obtaining financial assistance under the CARES Act. In April 2020, we were granted $92.5 million in emergency relief through the Payroll Support Program of the CARES Act. We received the first installment of $30.8 million in late April 2020 and expect to receive the remaining $61.6 million in four equal installments from June to September 2020. In connection with the financial assistance we have received and expect to receive under this legislation, we will be required to comply with certain provisions of the CARES Act, including the requirement that funds provided pursuant to the Payroll Support Program be used exclusively for the continuation of payment of employee wages, salaries and benefits; the requirement against involuntary furloughs and reductions in employee pay rates and benefits through September 2020; the requirement of continuing essential air service; restrictions on share repurchases and dividends; and limits on the payment of certain executive compensation. The substance and duration of these restrictions may materially affect our operations, and we may not be successful in managing these impacts.

The full extent of the ongoing impact of COVID-19 on our future operational and financial performance will depend on future developments, many of which are outside our control, including the effectiveness of the mitigation strategies discussed above, the severity, magnitude, duration and spread of COVID-19, including any recurrence of the pandemic, and related travel advisories and restrictions, the impact of COVID-19 on overall long-term demand for air travel, the impact on demand and capacity which could result from government mandates on air service including, for instance, any requirement for passengers to wear masks while traveling or have their temperature checked or have administered other tests or examinations prior to entering an airport or boarding an airplane, or which would limit the number of seats that can be occupied on an aircraft to allow for social distancing, the impact of COVID-19 on the financial health and operations of our Partners and future governmental actions, all of which are highly uncertain and cannot be predicted.

In addition, an outbreak of another disease or similar public health threat, or fear of such an event, that affects travel demand, travel behavior or travel restrictions could adversely impact our business, financial condition and operating results. Outbreaks of other diseases could also result in increased government restrictions and regulation, such as those actions described above or otherwise, which could adversely affect our operations.

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

None.

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	Payroll Support Program Agreement between The Department of the Treasury and Mesa Airlines, Inc., dated as of April 16, 2020
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase 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.

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: May 11, 2020

By: /s/ Michael J. Lotz

Michael J. Lotz
President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

PAYROLL SUPPORT PROGRAM AGREEMENT

Recipient: Mesa Airlines, Inc. 410 N. 44th Street Suite I 100 Phoenix, AZ 85018

PSP Participant Number: PSA-2004031028 **Employer Identification Number:** 85-0444800 **DUNS Number:** -------

Amount of Initial Payroll Support Payment: $30,822,581.79

The Department of the Treasury (Treasury) hereby provides Payroll Support (as defined herein) under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief, and Economic Security Act. The Signatory Entity named above, on behalf of itself and its Affiliates (as defined herein), agrees to comply with this Agreement and applicable Federal law as a condition of receiving Payroll Support. The Signatory Entity and its undersigned authorized representatives acknowledge that a materially false, fictitious, or fraudulent statement (or concealment or omission of a material fact) in connection with this Agreement may result in administrative remedies as well as civil and/or criminal penalties.

The undersigned hereby agree to the attached Payroll Support Program Agreement.

Department of the Treasury
Authorized Representative: Brent McIntosh
Title: Under Secretary for International Affairs
Date: 4/20/2020

Mesa Airlines, Inc.
First Authorized Representative:
Title: President and CFO
Date: 4-16-20

Mesa Airlines, Inc.
Second Authorized Representative:
Title: EVP & General Counsel
Date: 4/16-20

0MB Approved No. 1505-0263

Expiration Date: 09/30/2020

PAYROLL SUPPORT PROGRAM AGREEMENT
INTRODUCTION

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act or Act) directs the Department of the Treasury (Treasury) to provide Payroll Support (as defined herein) to passenger air carriers, cargo air carriers, and certain contractors that must be exclusively used for the continuation of payment of Employee Salaries, Wages, and Benefits (as defined herein). The Act permits Treasury to provide Payroll Support in such form, and on such terms and conditions, as the Secretary of the Treasury determines appropriate, and requires certain assurances from the Recipient (as defined herein).

This Payroll Support Program Agreement, including the application and all supporting documents submitted by the Recipient and the Payroll Support Certification attached hereto (collectively, Agreement), memorializes the binding terms and conditions applicable to the Recipient.

DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings, unless the context clearly requires otherwise. In addition, this Agreement shall be construed in a manner consistent with any public guidance Treasury may from time to time issue regarding the implementation of Division A, Title IV, Subtitle B of the CARES Act.

Act or CARES Act means the Coronavirus Aid, Relief, and Economic Security Act (Pub. L. No. 116-136).

Additional Payroll Support Payment means any disbursement of Payroll Support occurring after the first disbursement of Payroll Support under this Agreement.

Affiliate means any Person that directly or indirectly controls, is controlled by, or is under common control with, the Recipient. For purposes of this definition, "control" of a Person shall mean having the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person, whether by ownership of voting equity, by contract, or otherwise.

Benefits means, without duplication of any amounts counted as Salary or Wages, pension expenses in respect of Employees, all expenses for accident, sickness, hospital, and death benefits to Employees, and the cost of insurance to provide such benefits; any Severance Pay or Other Benefits payable to Employees pursuant to a bona fide voluntary early retirement program or voluntary furlough; and any other similar expenses paid by the Recipient for the benefit of Employees, including any other fringe benefit expense described in lines 10 and 11 of Financial Reporting Schedule P-6, Form 41, as published by the Department of Transportation, but excluding any Federal, state, or local payroll taxes paid by the Recipient.

Corporate Officer means, with respect to the Recipient, its president; any vice president in charge of a principal business unit, division, or function (such as sales, administration or finance); any other officer who performs a policy-making function; or any other person who performs similar policy making function for the Recipient. Executive officers of subsidiaries or parents of the Recipient may be deemed Corporate Officers of the Recipient if they perform such policy-making functions for the Recipient.

Employee means an individual who is employed by the Recipient and whose principal place of employment is in the United States (including its territories and possessions), including salaried, hourly, full-time, part-time, temporary, and leased employees, but excluding any individual who is a Corporate Officer or independent contractor.

Involuntary Termination or Furlough means the Recipient terminating the employment of one or more Employees or requiring one or more Employees to take a temporary suspension or unpaid leave for any reason, including a shut-down or slow-down of business; provided, however, that an Involuntary Termination or Furlough does not include a Permitted Termination or Furlough.

Maximum Awardable Amount means the amount determined by the Secretary with respect to the Recipient pursuant to section 4113(a)(l), (2), or (3) (as applicable) of the CARES Act.

Payroll Support means funds disbursed by the Secretary to the Recipient under this Agreement, including the first disbursement of Payroll Support and any Additional Payroll Support Payment.

Permitted Termination or Furlough means, with respect to an Employee, (1) a voluntary furlough, voluntary leave of absence, voluntary resignation, or voluntary retirement, (2) termination of employment resulting from such Employee's death or disability, or (3) the Recipient terminating the employment of such Employee for cause or placing such Employee on a temporary suspension or unpaid leave of absence for disciplinary reasons, in either case, as reasonably determined by the Recipient acting in good faith.

Person means any natural person, corporation, limited liability company, partnership, joint venture, trust, business association, governmental entity, or other entity.

Recipient means, collectively, the Signatory Entity; its Affiliates that are air carriers as defined in 49 U.S.C. § 40102; and their respective heirs, executors, administrators, successors, and assigns.

Salary means, without duplication of any amounts counted as Benefits, a predetermined regular payment, typically paid on a weekly or less frequent basis but which may be expressed as an hourly, weekly, annual or other rate, as well as cost-of-living differentials, vacation time, paid time off, sick leave, and overtime pay, paid by the Recipient to its Employees, but excluding any Federal, state, or local payroll taxes paid by the Recipient.

Secretary means the Secretary of the Treasury.

Severance Pay or Other Benefits means any severance payment or other similar benefits, including cash payments, health care benefits, perquisites, the enhancement or acceleration of the payment or vesting of any payment or benefit or any other in-kind benefit payable (whether in lump sum or over time, including after March 24, 2022) by the Recipient to a Corporate Officer or Employee in connection with any termination of such Corporate Officer's or Employee's employment (including, without limitation, resignation, severance, retirement, or constructive termination), which shall be determined and calculated in respect of any Employee or Corporate Officer of the Recipient in the manner prescribed in 17 CFR 229.402(j) (without regard to its limitation to the five most highly compensated executives and using the actual date of termination of employment rather than the last business day of the Recipient's last completed fiscal year as the trigger event).

Signatory Entity means the passenger air carrier, cargo air carrier, or contractor that has entered into this Agreement.

Taxpayer Protection Instruments means warrants, options, preferred stock, debt securities, notes, or other financial instruments issued by the Recipient to Treasury as compensation for the Payroll Support under this Agreement, if applicable.

Total Compensation means compensation including salary, wages, bonuses, awards of stock, and any other financial benefits provided by the Recipient or an Affiliate, as applicable, which shall be determined and calculated for the 2019 calendar year or any applicable 12-month period in respect of any Employee or Corporate Officer of the Recipient in the manner prescribed under paragraph e.5 of the award term in 2 CFR part 170, App. A, but excluding any Severance Pay or Other Benefits in connection with a termination of employment.

Wage means, without duplication of any amounts counted as Benefits, a payment, typically paid on an hourly, daily, or piecework basis, including cost-of-living differentials, vacation, paid time off, sick leave, and overtime pay, paid by the Recipient to its Employees, but excluding any Federal, state, or local payroll taxes paid by the Recipient.

PAYROLL SUPPORT PAYMENTS

1. Upon the execution of this Agreement by Treasury and the Recipient, the Secretary shall approve the Recipient's application for Payroll Support.

2. The Recipient may receive Payroll Support in multiple payments up to the Maximum Awardable Amount, and the amounts (individually and in the aggregate) and timing of such payments will be determined by the Secretary in his sole discretion. The Secretary may, in his sole discretion, increase or reduce the Maximum Awardable Amount (a) consistent with section 4113(a) of the CARES Act and (b) on a pro rata basis in order to address any shortfall in available funds, pursuant to section 4113(c) of the CARES Act.

3. The Secretary may determine in his sole discretion that any Payroll Support shall be conditioned on, and subject to, such additional terms and conditions (including the receipt of, and any terms regarding, Taxpayer Protection Instruments) to which the parties may agree in writing.

TERMS AND CONDITIONS

Retaining and Paying Employees

4. The Recipient shall use the Payroll Support exclusively for the continuation of payment of Wages, Salaries, and Benefits to the Employees of the Recipient.

a. Furloughs and Layoffs. The Recipient shall not conduct an Involuntary Termination or Furlough of any Employee between the date of this Agreement and September 30, 2020.

b. Employee Salary, Wages, and Benefits

1. Salary and Wages. Except in the case of a Permitted Termination or Furlough, the Recipient shall not, between the date of this Agreement and September 30, 2020, reduce, without the Employee's consent, (A) the pay rate of any Employee earning a Salary, or (B) the pay rate of any Employee earning Wages.

11. Benefits. Except in the case of a Permitted Termination or Furlough, the Recipient shall not, between the date of this Agreement and September 30, 2020, reduce, without the Employee's consent, the Benefits of any Employee; provided, however, that for purposes of this paragraph, personnel expenses associated with the performance of work duties, including those described in line 10 of Financial Reporting Schedule P-6, Form 41, as published by the Department of Transportation, may be reduced to the extent the associated work duties are not performed.

Dividends and Buybacks

5. Through September 30, 2021, neither the Recipient nor any Affiliate shall, in any transaction, purchase an equity security of the Recipient or of any direct or indirect parent company of the Recipient that, in either case, is listed on a national securities exchange.

6. Through September 30, 2021, the Recipient shall not pay dividends, or make any other capital distributions, with respect to the common stock (or equivalent equity interest) of the Recipient.

Limitations on Certain Compensation

7. Beginning March 24, 2020, and ending March 24, 2022, the Recipient and its Affiliates shall not pay any of the Recipient's Corporate Officers or Employees whose Total Compensation exceeded $425,000 in calendar year 2019 (other than an Employee whose compensation is determined through an existing collective bargaining agreement entered into before March 27, 2020):

a. Total Compensation which exceeds, during any 12 consecutive months of such two year period, the Total Compensation the Corporate Officer or Employee received in calendar year 2019; or

b. Severance Pay or Other Benefits in connection with a termination of employment with the Recipient which exceed twice the maximum Total Compensation received by such Corporate Officer or Employee in calendar year 2019.

8. Beginning March 24, 2020, and ending March 24, 2022, the Recipient and its Affiliates shall not pay any of the Recipient's Corporate Officers or Employees whose Total Compensation exceeded $3,000,000 in calendar year 2019 Total Compensation in excess of the sum of:

a. $3,000,000; and

b. 50 percent of the excess over $3,000,000 of the Total Compensation received by such Corporate Officer or Employee in calendar year 2019.

9. For purposes of determining applicable amounts under paragraphs 7 and 8 with respect to any Corporate Officer or Employee who was employed by the Recipient or an Affiliate for less than all of calendar year 2019, the amount of Total Compensation in calendar year 2019 shall mean such Corporate Officer's or Employee's Total Compensation on an annualized basis.

Continuation of Service

10. If the Recipient is an air carrier, until March 1, 2022, the Recipient shall comply with any applicable requirement issued by the Secretary of Transportation under section 4114(b) of the CARES Act to maintain scheduled air transportation service to any point served by the Recipient before March 1, 2020.

Effective Date

11. This Agreement shall be effective as of the date of its execution by both parties.

Reporting and Auditing

12. Until the calendar quarter that begins after the later of March 24, 2022, and the date on which no Taxpayer Protection Interest is outstanding, not later than 45 days after the end of each of the first three calendar quarters of each calendar year and 90 days after the end of each calendar year, the Signatory Entity, on behalf of itself and each other Recipient, shall certify to Treasury that it is in compliance with the terms and conditions of this Agreement and provide a report containing the following:

a. the amount of Payroll Support funds expended during such quarter;

b. the Recipient's financial statements (audited by an independent certified public accountant, in the case of annual financial statements); and

c. a copy of the Recipient's IRS Form 941 filed with respect to such quarter; and

d. a detailed summary describing, with respect to the Recipient, (a) any changes in Employee headcount during such quarter and the reasons therefor, including any Involuntary Termination or Furlough, (b) any changes in the amounts spent by the Recipient on Employee Wages, Salary, and Benefits during such quarter, and (c) any changes in Total Compensation for, and any Severance Pay or Other Benefits in connection with the termination of, Corporate Officers and Employees subject to limitation under this Agreement during such quarter; and the reasons for any such changes.

13. If the Recipient or any Affiliate, or any Corporate Officer of the Recipient or any Affiliate, becomes aware of facts, events, or circumstances that may materially affect the Recipient's compliance with the terms and conditions of this Agreement, the Recipient or Affiliate shall promptly provide Treasury with a written description of the events or circumstances and any action taken, or contemplated, to address the issue.

14. In the event the Recipient contemplates any action to commence a bankruptcy or insolvency proceeding in any jurisdiction, the Recipient shall promptly notify Treasury.

15. The Recipient shall:

a. Promptly provide to Treasury and the Treasury Inspector General a copy of any Department of Transportation Inspector General report, audit report, or report of any other oversight body, that is received by the Recipient relating to this Agreement.

b. Immediately notify Treasury and the Treasury Inspector General of any indication of fraud, waste, abuse, or potentially criminal activity pertaining to the Payroll Support.

c. Promptly provide Treasury with any information Treasury may request relating to compliance by the Recipient and its Affiliates with this Agreement.

16. The Recipient and Affiliates will provide Treasury, the Treasury Inspector General, and such other entities as authorized by Treasury timely and unrestricted access to all documents, papers, or other records, including electronic records, of the Recipient related to the Payroll Support, to enable Treasury and the Treasury Inspector General to make audits, examinations and otherwise evaluate the Recipient's compliance with the terms of this Agreement. This right also includes timely and reasonable access to the Recipient's and its Affiliates' personnel for the purpose of interview and discussion related to such documents. This right of access shall continue as long as records are required to be retained.

Recordkeeping and Internal Controls

17. If Treasury notifies the Recipient that the first disbursement of Payroll Support to the Recipient under this Agreement is the Maximum Awardable Amount (subject to any pro rata reductions and as determined by the Secretary as of the date of such disbursement), the Recipient shall maintain the Payroll Support funds in a separate account over which Treasury shall have a perfected security interest to continue the payment of Wages, Salary, and Benefits to the Employees. For the avoidance of doubt, regardless whether the first disbursement of Payroll Support to the Recipient under this Agreement is the Maximum Awardable Amount, if the Recipient is a debtor as defined under 11 U.S.C. § 101(13), the Payroll Support funds, any claim or account receivable arising under this Agreement, and any segregated account holding funds received under this Agreement shall not constitute or become property of the estate under 11 U.S.C. § 541.

18. The Recipient shall expend and account for Payroll Support funds in a manner sufficient to:

a. Permits the preparation of accurate, current, and complete quarterly reports as required under this Agreement.

b. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used as required under this Agreement.

19. The Recipient shall establish and maintain effective internal controls over the Payroll Support; comply with all requirements related to the Payroll Support established under applicable Federal statutes and regulations; monitor compliance with Federal statutes, regulations, and the terms and conditions of this Agreement; and take prompt corrective actions in accordance with audit recommendations. The Recipient shall promptly remedy any identified instances of noncompliance with this Agreement.

20. The Recipient and Affiliates shall retain all records pertinent to the receipt of Payroll Support and compliance with the terms and conditions of this Agreement (including by suspending any automatic deletion functions for electronic records, including e-mails) for a period of three years following the period of performance. Such records shall include all information necessary to substantiate factual representations made in the Recipient's application for Payroll Support, including ledgers and sub-ledgers, and the Recipient's and Affiliates' compliance with this Agreement. While electronic storage of records (backed up as appropriate) is preferable, the Recipient and Affiliates may store records in hardcopy (paper) format. The term "records" includes all relevant financial and accounting records and all supporting documentation for the information reported on the Recipient's quarterly reports.

21. If any litigation, claim, investigation, or audit relating to the Payroll Support is started before the expiration of the three-year period, the Recipient and Affiliates shall retain all records described in paragraph 20 until all such litigation, claims, investigations, or audit findings have been completely resolved and final judgment entered or final action taken.

Remedies

22. If Treasury believes that an instance of noncompliance by the Recipient or an Affiliate with (a) this Agreement, (b) sections 4114 or 4116 of the CARES Act, or (c) the Internal Revenue Code of 1986 as it applies to the receipt of Payroll Support has occurred, Treasury may notify the Recipient in writing of its proposed determination of noncompliance, provide an explanation of the nature of the noncompliance, and specify a proposed remedy. Upon receipt of such notice, the Recipient shall, within seven days, accept Treasury's proposed remedy, propose an alternative remedy, or provide information and documentation contesting Treasury's proposed determination. Treasury shall consider any such submission by the Recipient and make a final written determination, which will state Treasury's findings regarding noncompliance and the remedy to be imposed.

23. If Treasury makes a final determination under paragraph 22 that an instance of noncompliance has occurred, Treasury may, in its sole discretion, withhold any Additional Payroll Support Payments; require the repayment of the amount of any previously disbursed Payroll Support, with appropriate interest; require additional reporting or monitoring; initiate suspension or debarment proceedings as authorized under 2 CFR Part 180; terminate this Agreement; or take any such other action as Treasury, in its sole discretion, deems appropriate.

24. Treasury may make a final determination regarding noncompliance without regard to paragraph 22 if Treasury determines, in its sole discretion, that such determination is necessary to protect a material interest of the Federal Government. In such event, Treasury shall notify the Recipient of the remedy that Treasury, in its sole discretion, shall impose, after which the Recipient may contest Treasury's final determination or propose an alternative remedy in writing to Treasury. Following the receipt of such a submission by the Recipient, Treasury may, in its sole discretion, maintain or alter its final determination.

25. Any final determination of noncompliance and any final determination to take any remedial action described herein shall not be subject to further review. To the extent permitted by law, the Recipient waives any right to judicial review of any such determinations and further agrees not to assert in any court any claim arising from or relating to any such determination or remedial action.

26. Instead of, or in addition to, the remedies listed above, Treasury may refer any noncompliance or any allegations of fraud, waste, or abuse to the Treasury Inspector General.

27. Treasury, in its sole discretion, may grant any request by the Recipient for termination of this Agreement, which such request shall be in writing and shall include the reasons for such termination, the proposed effective date of the termination, and the amount of any unused Payroll Support funds the Recipient requests to return to Treasury. Treasury may, in its sole discretion, determine the extent to which the requirements under this Agreement may cease to apply following any such termination.

28. If Treasury determines that any remaining portion of the Payroll Support will not accomplish the purpose of this Agreement, Treasury may terminate this Agreement in its entirety to the extent permitted by law.

Debts

29. Any Payroll Support in excess of the amount which Treasury determines, at any time, the Recipient is authorized to receive or retain under the terms of this Agreement constitutes a debt to the Federal Government.

30. Any debts determined to be owed by the Recipient to the Federal Government shall be paid promptly by the Recipient. A debt is delinquent if it has not been paid by the date specified in Treasury's initial written demand for payment, unless other satisfactory arrangements have been made. Interest, penalties, and administrative charges shall be charged on delinquent debts in accordance with 31 U.S.C. § 3717, 31 CFR 901.9, and paragraphs 31 and 32. Treasury will refer any debt that is more than 180 days delinquent to Treasury's Bureau of the Fiscal Service for debt collection services.

31. Penalties on any debts shall accrue at a rate of not more than 6 percent per year or such other higher rate as authorized by law.

32. Administrative charges relating to the costs of processing and handling a delinquent debt shall be determined by Treasury.

33. The Recipient shall not use funds from other federally sponsored programs to pay a debt to the government arising under this Agreement.

Protections for Whistleblowers

34. In addition to other applicable whistleblower protections, in accordance with 41 U.S.C. § 4712, the Recipient shall not discharge, demote, or otherwise discriminate against an Employee as a reprisal for disclosing information to a Person listed below that the Employee reasonably believes is evidence of gross mismanagement of a Federal contract or grant, a gross waste of Federal funds, an abuse of authority relating to a Federal contract or grant, a substantial and specific danger to public health or safety, or a violation of law, rule, or regulation related to a Federal contract (including the competition for or negotiation of a contract) or grant:

a. A Member of Congress or a representative of a committee of Congress;

b. An Inspector General;

c. The Government Accountability Office;

d. A Treasury employee responsible for contract or grant oversight or management;

e. An authorized official of the Department of Justice or other law enforcement agency;

f. A court or grand jury; or

g. A management official or other Employee of the Recipient who has the responsibility to investigate, discover, or address misconduct.

Lobbying

35. The Recipient shall comply with the provisions of 31 U.S.C. § 1352, as amended, and with the regulations at 31 CFR Part 21.

Non-Discrimination

36. The Recipient shall comply with, and hereby assures that it will comply with, all applicable Federal statutes and regulations relating to nondiscrimination including:

a. Title VI of the Civil Rights Act of 1964 (42 U.S.C. § 2000d et seq.), including Treasury's implementing regulations at 31 CFR Part 22;

b. Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. §794);

c. The Age Discrimination Act of 1975, as amended (42 U.S.C. §§ 6101-6107), including Treasury's implementing regulations at 31 CFR Part 23 and the general age discrimination regulations at 45 CFR Part 90; and

d. The Air Carrier Access Act of 1986 (49 U.S.C. § 41705).

Additional Reporting

37. Within seven days after the date of this Agreement, the Recipient shall register in SAM.gov, and thereafter maintain the currency of the information in SAM.gov until at least March 24, 2022. The Recipient shall review and update such information at least annually after the initial registration, and more frequently if required by changes in the Recipient's information. The Recipient agrees that this Agreement and information related thereto, including the Maximum Awardable Amount and any executive total compensation reported pursuant to paragraph 38, may be made available to the public through a U.S. Government website, including SAM.gov.

38. For purposes of paragraph 37, the Recipient shall report total compensation as defined in paragraph e.5 of the award term in 2 CFR part 170, App. A for each of the Recipient's five most highly compensated executives for the preceding completed fiscal year, if:

a. the total Payroll Support is $25,000 or more;

b. in the preceding fiscal year, the Recipient received:

1. 80 percent or more of its annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance as defined at 2 CFR 170.320 (and subcontract); and

11. $25,000,000 or more in annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance as defined at 2 CFR 170.320 (and subcontracts); and

c. the public does not have access to information about the compensation of the executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. To determine if the public has access to the compensation information, the Recipient shall refer to U.S. Securities and Exchange Commission total compensation filings at http://www.sec.gov/answers/execomp.htm.

39. The Recipient shall report executive total compensation described in paragraph 38:

a. as part of its registration profile at https://www.sam.gov; and

b. within five business days after the end of each month following the month in which this Agreement becomes effective, and annually thereafter.

40. The Recipient agrees that, from time to time, it will, at its own expense, promptly upon reasonable request by Treasury, execute and deliver, or cause to be executed and delivered, or use its commercially reasonable efforts to procure, all instruments, documents and information, all in form and substance reasonably satisfactory to Treasury, to enable Treasury to ensure compliance with, or effect the purposes of, this Agreement, which may include, among other documents or information, (a) certain audited financial statements of the Recipient, (b) documentation regarding the Recipient's revenues derived from its business as a passenger or cargo air carrier or regarding the passenger air carriers for which the Recipient provides services as a contractor (as the case may be), and (c) the Recipient's most recent quarterly Federal tax returns. The Recipient agrees to provide Treasury with such documents or information promptly.

41. If the total value of the Recipient's currently active grants, cooperative agreements, and procurement contracts from all Federal awarding agencies exceeds $10,000,000 for any period before termination of this Agreement, then the Recipient shall make such reports as required by 2 CFR part 200, Appendix XII.

<u>Other</u>

42. The Recipient acknowledges that neither Treasury, nor any other actor, department, or agency of the Federal Government, shall condition the provision of Payroll Support on the Recipient's implementation of measures to enter into negotiations with the certified bargaining representative of a craft or class of employees of the Recipient under the Railway Labor Act (45 U.S.C. 151 et seq.) or the National Labor Relations Act (29 U.S.C. 151 et seq.), regarding pay or other terms and conditions of employment.

43. Notwithstanding any other provision of this Agreement, the Recipient has no right to, and shall not, transfer, pledge, mortgage, encumber, or otherwise assign this Agreement or any Payroll Support provided under this Agreement, or any interest therein, or any claim, account receivable, or funds arising thereunder or accounts holding Payroll Support, to any party, bank, trust company, or other Person without the express written approval of Treasury.

44. The Signatory Entity will cause its Affiliates to comply with all of their obligations under or relating to this Agreement.

45. Unless otherwise provided in guidance issued by Treasury or the Internal Revenue Service, the form of any Taxpayer Protection Instrument held by Treasury and any subsequent holder will be treated as such form for purposes of the Internal Revenue Code of 1986 (for example, a Taxpayer Protection Instrument in the form of a note will be treated as indebtedness for purposes of the Internal Revenue Code of 1986).

46. This Agreement may not be amended or modified except pursuant to an agreement in writing entered into by the Recipient and Treasury, except that Treasury may unilaterally amend this Agreement if required in order to comply with applicable Federal law or regulation.

47. Subject to applicable law, Treasury may, in its sole discretion, waive any term or condition under this Agreement imposing a requirement on the Recipient or any Affiliate.

48. This Agreement shall bind and inure to the benefit of the parties and their respective heirs, executors, administrators, successors, and assigns.

49. The Recipient represents and warrants to Treasury that this Agreement, and the issuance and delivery to Treasury of the Taxpayer Protection Instruments, if applicable, have been duly authorized by all requisite corporate and, if required, stockholder action, and will not result in the violation by the Recipient of any provision of law, statute, or regulation, or of the articles of incorporation or other constitutive documents or bylaws of the Recipient, or breach or constitute an event of default under any material contract to which the Recipient is a party.

50. The Recipient represents and warrants to Treasury that this Agreement has been duly executed and delivered by the Recipient and constitutes a legal, valid, and binding obligation of the Recipient enforceable against the Recipient in accordance with its terms.

51. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute a single contract.

52. The words "execution," "signed," "signature," and words of like import in any assignment shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act. Notwithstanding anything herein to the contrary, delivery of an executed counterpart of a signature page of this Agreement by electronic means, or confirmation of the execution of this Agreement on behalf of a party by an email from an authorized signatory of such party, shall be effective asdelivery of a manually executed counterpart of this Agreement.

53. The captions and paragraph headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

54. This Agreement is governed by and shall be construed in accordance with Federal law. Insofar as there may be no applicable Federal law, this Agreement shall be construed in accordance with the laws of the State of New York, without regard to any rule of conflicts of law (other than section 5-1401 of the New York General Obligations Law) that would result in the application of the substantive law of any jurisdiction other than the State of New York.

55. Nothing in this Agreement shall require any unlawful action or inaction by either party.

56. The requirement pertaining to trafficking in persons at 2 CFR 175.15(b) is incorporated herein and made applicable to the Recipient.

57. This Agreement, together with the attachments hereto, including the Payroll Support Certification and any attached terms regarding Taxpayer Protection Instruments, constitute the entire agreement of the parties relating to the subject matter hereof and supersede any previous agreements and understandings, oral or written, relating to the subject matter hereof. There may exist other agreements between the parties as to other matters, which are not affected by this Agreement and are not included within this integration clause.

58. No failure by either party to insist upon the strict performance of any provision of this Agreement or to exercise any right or remedy hereunder, and no acceptance of full or partial Payroll Support (if applicable) or other performance by either party during the continuance of any such breach, shall constitute a waiver of any such breach of such provision.

ATTACHMENT

Payroll Support Program Certification of Corporate Officer of Recipient

PAYROLL SUPPORT PROGRAM CERTIFICATION OF CORPORATE OFFICER OF RECIPIENT

In connection with the Payroll Support Program Agreement (Agreement) between Mesa Airlines, Inc. and the Department of the Treasury (Treasury) relating to Payroll Support being provided by Treasury to the Recipient under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief and Economic Security Act, I hereby certify under penalty of perjury to the Treasury that all of the following are true and correct.
Capitalized terms used but not defined herein have the meanings set forth in the Agreement.

(1) I have the authority to make the following representations on behalf of myself and the Recipient. I understand that these representations will be relied upon as material in the decision by Treasury to provide Payroll Support to the Recipient.

(2) The information and certifications provided by the Recipient in an application for Payroll Support, and in any attachments or other information provided by the Recipient to Treasury related to the application, are true and correct and do not contain any materially false, fictitious, or fraudulent statement, nor any concealment or omission of any material fact.

(3) The Recipient has the legal authority to apply for the Payroll Support, and it has the institutional, managerial, and financial capability to comply with all obligations, terms, and conditions set forth in the Agreement and any attachment thereto.

(4) The Recipient and any Affiliate will give Treasury, Treasury's designee or the Treasury Office of Inspector General (as applicable) access to, and opportunity to examine, all documents, papers, or other records of the Recipient or Affiliate pertinent to the provision of Payroll Support made by Treasury based on the application, in order to make audits, examinations, excerpts, and transcripts.

(5) No Federal appropriated funds, including Payroll Support, have been paid or will be paid, by or on behalf of the Recipient, to any person for influencing or attempting to influence an officer or employee of an agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(6) If the Payroll Support exceeds $100,000, the Recipient shall comply with the disclosure requirements in 31 CFR Part 21 regarding any amounts paid for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the Payroll Support.

I acknowledge that a materially false, fictitious, or fraudulent statement (or concealment or omission of a material fact) in this certification, or in the application that it supports, may be the subject of criminal prosecution and also may subject me and the Recipient to civil penalties and/or administrative remedies for false claims or otherwise.

Corporate Officer of Signatory Entity	Second Authorized Representative
Name: MICHAEL LOTZ	Name: Brian S Gillman
Title: PRESIDENT AND CFO	Title: EVP & General Counsel
Date: 4-16-20	Date: 4-16-20

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: May 11, 2020

/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, Michael J. Lotz, 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: May 11, 2020

/s/ MICHAEL J. LOTZ
Michael J. Lotz
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 March 31, 2020 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: May 11, 2020

/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, Michael J. Lotz, 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 March 31, 2020 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: May11, 2020	/s/ MICHAEL J. LOTZ
	Michael J. Lotz
	President and Chief Financial Officer