
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period-ended March 31, 2007
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-15495

Mesa Air Group, Inc.
(Exact name of registrant as specified in its charter)

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

410 North 44th Street, Suite 100,
Phoenix, Arizona
(Address of principal executive offices)

85-0302351
*(I.R.S. Employer
Identification No.)*

85008
(Zip code)

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

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 last 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

On May 1, 2007, the registrant had outstanding 31,410,065 shares of Common Stock.

TABLE OF CONTENTS
INDEX

	<u>Page No.</u>
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements:</u>
	<u>Condensed Consolidated Statements of Operations</u>
	<u>Condensed Consolidated Balance Sheets</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4.</u>	<u>Submission of Matters to Vote for Security Holders</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits</u>
<u>Signatures</u>	
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EXS-32.2</u>	

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
	(Unaudited)			
	(In thousands, except per share data)			
Operating revenues:				
Passenger	\$ 326,140	\$ 305,652	\$ 665,114	\$ 621,066
Freight and other	10,291	6,412	18,930	14,615
Gross operating revenues	336,431	312,064	684,044	635,681
Impairment of contract incentives	(25,324)	—	(25,324)	—
Net operating revenues	311,107	312,064	658,720	635,681
Operating expenses:				
Flight operations	95,107	90,833	191,829	180,697
Fuel	105,103	103,157	222,901	208,006
Maintenance	72,684	47,606	136,088	103,144
Aircraft and traffic servicing	23,914	18,310	45,289	34,520
Promotion and sales	1,807	882	3,380	1,654
General and administrative	16,208	14,515	33,670	32,906
Depreciation and amortization	10,255	8,824	20,965	18,007
Bankruptcy settlement	(1,473)	—	(2,093)	—
Impairment of long-lived assets	12,367	—	12,367	—
Total operating expenses	335,972	284,127	664,396	578,934
Operating (loss) income	(24,865)	27,937	(5,676)	56,747
Other income (expense):				
Interest expense	(9,490)	(8,710)	(20,160)	(18,296)
Interest income	3,902	2,600	8,446	5,598
Other expense	(8,108)	(13,229)	(7,972)	(14,326)
Total other expense	(13,696)	(19,339)	(19,686)	(27,024)
(Loss) income before taxes	(38,561)	8,598	(25,362)	29,723
Income tax (benefit) provision	(14,575)	3,310	(9,389)	11,443
Net (loss) income	\$ (23,986)	\$ 5,288	\$ (15,973)	\$ 18,280
Income (loss) per common share:				
Basic	\$ (0.75)	\$ 0.15	\$ (0.49)	\$ 0.58
Diluted	\$ (0.75)	\$ 0.14	\$ (0.49)	\$ 0.48

See accompanying notes to condensed consolidated financial statements.

MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2007</u>	<u>September 30,</u> <u>2006</u>
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,056	\$ 35,559
Marketable securities	141,495	186,764
Restricted cash	12,555	12,001
Receivables, net	60,136	47,382
Income tax receivable	539	615
Expendable parts and supplies, net	38,406	32,771
Prepaid expenses and other current assets	157,908	139,563
Deferred income taxes	4,505	4,115
Total current assets	<u>459,600</u>	<u>458,770</u>
Property and equipment, net	673,432	669,912
Lease and equipment deposits	22,869	27,389
Equity method investments	10,241	12,510
Other assets	38,085	69,632
Total assets	<u>\$ 1,204,227</u>	<u>\$ 1,238,213</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 34,059	\$ 29,659
Short-term debt	—	123,076
Accounts payable	73,303	56,097
Air traffic liability	5,347	6,677
Accrued compensation	4,469	4,545
Income taxes payable	113	1,008
Other accrued expenses	43,794	42,001
Total current liabilities	<u>161,085</u>	<u>263,063</u>
Long-term debt, excluding current portion	657,446	542,569
Deferred credits	101,315	101,723
Deferred income taxes	35,353	44,531
Other noncurrent liabilities	24,106	22,117
Total liabilities	<u>979,305</u>	<u>974,003</u>
Stockholders' equity:		
Preferred stock of no par value, 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 75,000,000 shares authorized; 30,705,950 and 33,904,053 shares issued and outstanding, respectively	126,386	149,701
Retained earnings	98,536	114,509
Total stockholders' equity	<u>224,922</u>	<u>264,210</u>

See accompanying notes to condensed consolidated financial statements.

MESA AIR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	March 31, 2007	March 31, 2006
	(Unaudited) (In thousands)	
Cash Flows from Operating Activities:		
Net (loss) income	\$ (15,973)	\$ 18,280
Adjustments to reconcile (loss) income to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	20,965	18,007
Impairment charges	37,691	—
Deferred income taxes	(9,568)	8,265
Unrealized (gain) loss on investment securities	4,776	962
Loss from equity method investment	3,579	—
Amortization of deferred credits	(6,397)	(5,688)
Amortization of restricted stock awards	707	589
Other	994	—
Gain (Loss) on Sale of Assets	(254)	—
Stock option expense	662	1,450
Excess tax benefit from stock compensation	—	(2,609)
Provision for obsolete expendable parts and supplies	—	(17)
Provision for doubtful accounts	773	540
Changes in assets and liabilities:		
Net (purchases) sales of investment securities	40,493	(40,274)
Receivables	(12,527)	8,496
Income tax receivables	76	(505)
Expendable parts and supplies	(5,610)	1,911
Prepaid expenses and other current assets	(18,345)	(8,469)
Contract incentive payments	—	(20,000)
Accounts payable	17,206	(7,025)
Income taxes payable	(895)	(254)
Other accrued liabilities	2,376	3,530
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	60,729	(22,811)
Cash Flows from Investing Activities:		
Capital expenditures	(13,468)	(9,164)
Proceeds from sale of flight equipment	24	16,034
Change in restricted cash	(554)	(2,824)
Equity method investment	(1,310)	—
Change in other assets	4,694	1,147
Net returns (payments) of lease and equipment deposits	4,520	1,356
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(6,094)	6,549
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(27,444)	(16,015)
Proceeds from exercise of stock options and issuance of warrants	148	5,565
Proceeds (payments) on financing rotatable inventory	—	(17,768)
Tax benefit-stock compensation	—	2,609
Common stock purchased and retired	(24,831)	(193)
Proceeds from receipt of deferred credits	5,989	1,917
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(46,138)	(23,885)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,497	(40,147)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	35,559	143,428
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 44,056</u>	<u>\$ 103,281</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	20,087	19,310
Cash paid for income taxes, net	1,000	6,618
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Short-term debt permanently financed 135,378 as long-term debt	135,378	—
Aircraft delivered under interim financing	23,644	27,516
Conversion of convertible debentures to common stock	—	62,278
Inventory and other credits received in conjunction with aircraft financing	1,000	4,604

See accompanying notes to condensed consolidated financial statements.

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Business and Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements of Mesa Air Group, Inc. ("Mesa" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been made. Operating results for the three and six month period ended March 31, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2006.

The accompanying condensed consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly-owned operating subsidiaries: Mesa Airlines, Inc. ("Mesa Airlines"), a Nevada corporation and certificated air carrier; Freedom Airlines, Inc. ("Freedom"), a Nevada corporation and certificated air carrier; Air Midwest, Inc. ("Air Midwest"), a Kansas corporation and certificated air carrier; Air Midwest, LLC, a Nevada limited liability company, MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development; Regional Aircraft Services, Inc. ("RAS") a California company; Mesa Air Group — Airline Inventory Management, LLC ("MAG-AIM"), an Arizona Limited Liability Company; Ritz Hotel Management Corp., a Nevada Corporation; Nilchii, Inc. ("Nilchii"), a Nevada corporation, Patar, Inc. ("Patar"), a Nevada corporation, Ping Shan, SRL ("Ping Shan"), a Barbados, West Indies based investment company, and MAGI Insurance, Ltd. ("MAGI"), a Barbados, West Indies based captive insurance company. Air Midwest, LLC was formed for the purpose of a contemplated conversion of Air Midwest from a corporation to a limited liability company (which has not yet occurred). MPD, Inc. provides pilot training in coordination with San Juan College in Farmington, New Mexico and with Arizona State University in Tempe, Arizona. RAS performs aircraft component repair and overhaul services. MAG-AIM purchases, distributes and manages the Company's inventory of rotatable and expendable spare parts. Ritz Hotel Management is a Phoenix area hotel property that is used for crew-in-training accommodations. MAGI is a captive insurance company established for the purpose of obtaining more favorable aircraft liability insurance rates. Ping Shan was established to invest in a Joint Venture in the People's Republic of China. Nilchii was established to invest in certain airline related businesses. Patar was established to invest in certain non-aviation related businesses. All significant intercompany accounts and transactions have been eliminated in consolidation.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force Issue No. 06-3 ("EITF 06-3"), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." EITF 06-3 applies to any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer. EITF 06-3 allows companies to present taxes either gross within revenue and expense or net. If taxes subject to this issue are significant, a company is required to disclose its accounting policy for presenting taxes and the amount of such taxes that are recognized on a gross basis. The Company adopted EITF 06-3 during the second quarter of 2007 by continuing to present such taxes on a net basis. These amounts are not material to the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2009. Management has not yet determined the impact of adopting this statement.

In September, 2006, the FASB issued FASB Staff Position (“FSP”) No. AUG AIR-1 “Accounting for Planned Major Maintenance Activities.” This position amends the existing major maintenance accounting guidance contained within the AICPA Industry Audit Guide “Audits of Airlines” and prohibits the use of the accrue in advance method of accounting for planned major maintenance activities for owned aircraft. The provisions of the announcement are applicable for fiscal years beginning after December 15, 2006. Mesa currently uses the direct expense method of accounting for planned major maintenance; therefore, the adoption of FSP No. AUG AIR-1 will not have an impact on the Company’s consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in financial statements. FIN 48 requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. Mesa will be required to adopt FIN 48 in the first quarter of fiscal year 2008. Management has not yet determined the impact on the Company’s consolidated financial statements.

2. Segment Reporting

Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information,” requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company’s chief operating decision maker in deciding the allocation of resources and assessing performance. The Company has three airline operating subsidiaries, Mesa Airlines, Freedom Airlines and Air Midwest, as well as various other subsidiaries organized to provide support for the Company’s airline operations. The Company has aggregated these subsidiaries into three reportable segments: Mesa Airlines/Freedom, Air Midwest/*go!* and Other. Operating revenues in the Other segment are primarily sales of rotatable and expendable parts to the Company’s operating subsidiaries and ground handling services performed by employees of RAS for Mesa Airlines.

Mesa Airlines and Freedom Airlines provide passenger service under revenue-guarantee contracts with United Airlines, Inc. (“United”), Delta Air Lines, Inc. (“Delta”) and US Airways, Inc. (“US Airways”). As of March 31, 2007, Mesa Airlines and Freedom Airlines operated a fleet of 181 aircraft — 61 CRJ 200s, 18 CRJ 700s, 38 CRJ 900s, 36 ERJ 120s and 28 Dash-8’s.

Air Midwest and Mesa Airlines, operating as *go!*, provide passenger service where revenue is derived from ticket sales either independently or through pro-rate agreements. Air Midwest provides passenger service under pro-rate contracts with US Airways, and Midwest Airlines, as well as independently under the brand name Mesa Airlines. As of March 31, 2007, Air Midwest operated a fleet of 20 Beechcraft 1900D turboprop aircraft. Mesa Airlines, operating as *go!*, provides independent inter-island Hawaiian passenger service. As of March 31, 2007, Mesa’s *go!* operation operated a fleet of five CRJ-200 aircraft. Air Midwest and Mesa, operating as *go!*, do not receive contractually-guaranteed revenue for their operations. Air Midwest LLC will be included in Air Midwest/*go!* when the contemplated conversion to a limited liability company occurs.

The Other reportable segment includes Mesa Air Group (the holding company), RAS, MPD, MAG-AIM, MAGI, Shan Yue, Ping Shan, Nilchii, Patar, and Ritz Hotel Management Corp. Activity in the Other category consists primarily of sales of rotatable and expendable parts and ground handling services to the Company’s operating subsidiaries, but also includes all administrative functions not directly attributable to any specific operating company. These administrative costs are allocated to the operating companies based upon specific criteria including headcount, available seat miles (“ASM’s”) and other operating statistics.

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Three Months Ended March 31, 2007 (000's)	Mesa/ Freedom	Air Midwest/ go!	Other	Eliminations	Total
Total net operating revenues	\$ 292,141	\$ 20,362	\$ 65,538	\$ (66,934)	\$ 311,107
Depreciation and amortization	8,526	641	1,088	—	10,255
Operating income (loss)	(18,874)	(6,040)	9,298	(9,249)	(24,865)
Interest expense	(7,289)	(0)	(2,347)	146	(9,490)
Interest income	2,781	42	1,225	(146)	3,902
Income (loss) before income tax	(27,688)	(5,997)	4,372	(9,248)	(38,561)
Income tax (benefit)	(10,465)	(2,266)	1,652	(3,496)	(14,575)
Total assets	1,395,118	19,441	536,066	(746,398)	1,204,227
Capital expenditures (including non-cash)	1,561	142	5,462	—	7,165

Three Months Ended March 31, 2006 (000's)	Mesa/ Freedom	Air Midwest/ go!	Other	Eliminations	Total
Total operating revenues	\$ 298,035	\$ 12,585	\$ 61,488	\$ (60,044)	\$ 312,064
Depreciation and amortization	7,897	31	896	—	8,824
Operating income (loss)	25,942	(1,298)	11,504	(8,211)	27,937
Interest expense	(6,395)	—	(2,460)	145	(8,710)
Interest income	2,258	3	484	(145)	2,600
Income (loss) before income tax	21,441	(1,905)	(2,727)	(8,211)	8,598
Income tax (benefit)	8,233	(712)	(1,050)	(3,161)	3,310
Total assets	1,343,416	7,425	413,218	(595,156)	1,168,903
Capital expenditures (including non-cash)	2,409	7	3,672	—	6,088

Six Months Ended March 31, 2007 (000's)	Mesa/ Freedom	Air Midwest/ go!	Other	Eliminations	Total
Total net operating revenues	\$ 620,328	\$ 41,157	\$ 121,985	\$ (124,750)	\$ 658,720
Depreciation and amortization	17,575	1,181	2,209	—	20,965
Operating income (loss)	3,817	(9,436)	16,765	(16,822)	(5,676)
Interest expense	(15,713)	(0)	(4,742)	295	(20,160)
Interest income	5,831	108	2,802	(295)	8,446
Income (loss) before income tax	(9,859)	(9,326)	10,644	(16,821)	(25,362)
Income tax (benefit)	(3,457)	(3,575)	4,116	(6,473)	(9,389)
Total assets	1,395,118	19,441	536,066	(746,398)	1,204,227
Capital expenditures (including non-cash)	28,325	383	8,972	—	37,680

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Six Months Ended March 31, 2006 (000's)	Mesa/ Freedom	Air Midwest/ go!	Other	Eliminations	Total
Total operating revenues	\$ 605,343	\$ 25,608	\$ 104,636	\$ (99,906)	\$ 635,681
Depreciation and amortization	15,374	57	2,576	—	18,007
Operating income (loss)	56,778	(2,504)	16,123	(13,650)	56,747
Interest expense	(12,680)	—	(5,906)	290	(18,296)
Interest income	5,314	8	566	(290)	5,598
Income (loss) before income tax	48,524	(3,105)	(2,046)	(13,650)	29,723
Income tax (benefit)	18,682	(1,196)	(788)	(5,255)	11,443
Total assets	1,343,416	7,425	413,218	(595,156)	1,168,903
Capital expenditures (including non-cash)	31,463	15	5,202	—	36,680

3. Marketable Securities

The Company has a cash management program which provides for the investment of excess cash balances primarily in short-term money market instruments, US Treasury securities, intermediate-term debt instruments, and common equity securities of companies operating in the airline industry.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. The Company currently has \$141.5 million in marketable securities that include US Treasury notes, government bonds and corporate bonds. These investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in the current period operations. Unrealized losses relating to trading securities held at March 31, 2007 and September 30, 2006, were (\$4.8) million and (\$0.3) million, respectively.

The Company has determined that investments in auction rate securities ("ARS") should be classified as short-term investments. ARS generally have long-term maturities; however, these investments have characteristics similar to short-term investments because at predetermined intervals, generally every 28 days, there is a new auction process. As such, the Company classifies ARS as short-term investments. The balance of marketable securities at March 31, 2007 and September 30, 2006 includes investments in ARS of \$0 and \$17.4 million, respectively.

4. Restricted Cash

At March 31, 2007, the Company had \$12.6 million in restricted cash on deposit with two financial institutions. In September 2004, the Company entered into an agreement with a financial institution for a \$9.0 million letter of credit facility and to issue letters of credit for landing fees, workers' compensation insurance and other business needs. Pursuant to the agreement and amounts held on deposit, the Company had \$11.5 million of outstanding letters of credit at March 31, 2007. The Company also maintains \$5.0 million on deposit with another financial institution to collateralize its direct deposit payroll obligations.

5. Concentrations

The Company has code-share agreements with Delta Air Lines, US Airways and United Airlines. Approximately 98% of the Company's consolidated passenger revenue for the three month period ended March 31, 2007 was derived from these agreements. Accounts receivable from the Company's code-share partners were 42% and 45% of total gross accounts receivable at March 31, 2007 and September 30, 2006, respectively.

US Airways accounted for approximately 45% of the Company's total passenger revenue in the three month period ended March 31, 2007. A termination of the US Airways revenue-guarantee code-share agreements would

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

United Airlines accounted for approximately 35% of the Company's total passenger revenue in the three month period ended March 31, 2007. A termination of the United agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

Delta Air Lines accounted for approximately 18% of the Company's total passenger revenue in the three month period ended March 31, 2007. A termination of the Delta agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

The Company is currently engaged in a dispute with US Airways over fees payable pursuant to its Code Share and Revenue Sharing Agreement (the "Code Share Agreement"). The disagreement stems from payments due the Company from US Airways with respect to reimbursable operating costs and expenses relating to certain of the Company's CRJ-900 aircraft. The disputed amount that has not been paid by US Airways is \$6.9 million. The balance due at March 31, 2007 is \$6.9 million and increases by \$0.2 million per month during the term of the Code Share Agreement that the dispute remains unresolved. The Company believes that these reimbursable costs and expenses are in accordance with the terms and conditions of the Code Share Agreement and are immediately due and payable. The Company is currently working to amicably resolve this dispute in the near term prior to initiating litigation. If an amicable resolution cannot be reached, the Company is prepared to litigate its claim and believes it has a reasonable probability of succeeding in any such proceedings, although no assurances can be given in that regard.

6. Contract Incentives

In May 2005, the Company amended its code-sharing arrangement with United to allow the Company to put up to an additional 30 50-seat regional jet aircraft into the United Express system. The agreement with respect to the additional 30 50-seat regional jet aircraft expires in April 2010. Additionally, the expiration dates under the existing code-share agreement with respect to certain aircraft were extended. In connection with the amendment, the Company made three \$10 million payments to United in the first and second quarter of fiscal 2006. Amounts paid were recorded as a deferred charge and included in other assets on the balance sheet. The deferred charge was then being amortized over the term of the code-share agreement as a reduction of passenger revenue. The unamortized balance of these deferred charges were written off in the second quarter of 2007. See Note 14 regarding impairment.

7. Deferred Credits

Deferred credits consist of aircraft purchase incentives provided by the aircraft manufacturers and deferred gains on the sale and leaseback of interim financed aircraft. These incentives include credits that may be used to purchase spare parts, pay for training expenses or reduce other aircraft operating costs. These deferred credits and gains are amortized on a straight-line basis as a reduction of lease expense over the term of the respective leases.

8. Short-Term Debt

At September 30, 2006, the Company had \$123.1 million in notes payable to an aircraft manufacturer for five aircraft on interim financing. During the second quarter of 2007, the Company permanently financed these five aircraft as well as a sixth aircraft delivered during the first quarter of 2007 with \$135.0 million in long-term debt. Under interim financing arrangements, the Company takes delivery and title to the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, the Company reflects the aircraft and debt under interim financing on its balance sheet during the interim financing period. After taking delivery of the aircraft, it is the Company's intention to permanently finance the aircraft as an operating lease through a sale and leaseback transaction with an independent third-party lessor. Upon permanent financing, the proceeds are used to retire the notes payable to the manufacturer. Any gain

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

recognized on the sale and leaseback transaction is deferred and amortized over the life of the lease. The current interim financing agreement with the manufacturer provides for the Company to have a maximum of 15 aircraft on interim financing at a given time.

9. Notes Payable and Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2007	September 30, 2006
	(In thousands)	
Notes payable to bank, collateralized by the underlying aircraft, due 2019	\$ 319,614	\$ 329,478
Senior convertible notes due June 2023	37,834	37,834
Senior convertible notes due February 2024	100,000	100,000
Notes payable to manufacturer, principal and interest due monthly through 2011, interest at LIBOR plus 1.8% (7.2% at March 31, 2007), collateralized by the underlying aircraft	76,078	79,290
Note payable to financial institution due 2013, principal and interest due monthly at 7% per annum through 2008 converting to 12.5% thereafter, collateralized by the underlying aircraft	22,120	22,831
Notes payable to financial institution, principal and interest due monthly through 2022, interest at LIBOR plus 2.25% (7.6% at March 31, 2007), collateralized by the underlying aircraft	119,954	—
Notes payable to financial institution, principal and interest due monthly through 2012, interest at 8.3% per annum, collateralized by the underlying aircraft	14,920	—
Note payable to manufacturer, principal due semi-annually, interest at 7% due quarterly through 2007		1,792
Mortgage note payable to bank, principal and interest at 7 1/2% due monthly through 2009	860	882
Other	125	121
Total debt	691,505	572,228
Less current portion	(34,059)	(29,659)
Long-term debt	<u>\$ 657,446</u>	<u>\$ 542,569</u>

10. Earnings Per Share

The Company accounts for earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted net income per share reflects the potential dilution that could occur if outstanding stock options and warrants were exercised. In addition, dilutive convertible securities are

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

included in the denominator while interest on convertible debt, net of tax, is added back to the numerator. A reconciliation of the numerator and denominator used in computing net income (loss) per share is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Share calculation:				
Weighted average shares — basic	31,999	34,304	32,825	31,459
Effect of dilutive outstanding stock options and warrants	—	1,258	—	1,430
Effect of restricted stock	—	11	—	—
Effect of dilutive outstanding convertible debt	—	10,705	—	10,704
Weighted average shares — diluted	31,999	46,278	32,825	43,593
Adjustments to net income:				
Net (loss) income	\$ (23,986)	\$ 5,288	\$ (15,973)	\$ 18,280
Interest expense on convertible debt, net of tax	—	1,018	—	2,533
Adjusted net (loss) income	\$ (23,986)	\$ 6,306	\$ (15,973)	\$ 20,813

The effect of converting the senior convertible notes into 10.7 million shares of common stock in the three and six months ended March 31, 2007, respectively would have been antidilutive to the per share calculation. Accordingly, those convertible shares were excluded from the calculation of dilution.

Options to purchase 1,137,064 and 642,480 shares of common stock were outstanding during the three and six months ended March 31, 2007. Options to purchase 1,980,581 and 1,852,277 shares of common stock were excluded from the calculation of dilutive earnings per share for the three and six month periods ended March 31, 2007 because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been antidilutive. The remaining options outstanding during the three and six month periods ended March 31, 2007 of 419,425 and 459,280, respectively, were excluded from the calculation of dilutive earnings per share because the Company incurred a net loss during those periods and the effect of including those options would also have been antidilutive.

11. Stock Repurchase Program

The Company's Board of Directors has authorized the Company to purchase up to 19.4 million shares of the Company's outstanding common stock. As of March 31, 2007, the Company has acquired and retired approximately 13.7 million shares of its outstanding common stock at an aggregate cost of approximately \$91.5 million, leaving approximately 5.7 million shares available for purchase under the current Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

The Company repurchased the following shares for \$20.6 million during the three months ended March 31, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May yet be Purchased Under the Plan
Mar-07	2,692,174	\$ 7.64	13,652,939	5,769,322

Subsequent to the end of the second quarter of 2007 Mesa announced that its Board of Directors has authorized Mesa to repurchase up to an additional 10 million shares of its outstanding common stock. The 10.0 million shares

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

subject to the newly authorized repurchase program are in addition to the 5.7 million shares remaining under the prior repurchase programs.

12. Beechcraft 1900D Cost Reductions

In February 2002, the Company entered into an agreement with Raytheon Aircraft Company (the "Raytheon Agreement") to, among other things, reduce the operating costs of the Company's Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject to the terms and conditions contained therein, Raytheon agreed to provide up to \$5.5 million in annual operating subsidy payments to the Company contingent upon the Company remaining current on its payment obligations to Raytheon. The amount was subsequently reduced to \$5.3 million as a result of a reduction in the Company's fleet of B1900D aircraft. Approximately \$1.3 million was recorded as a reduction to expense during each of the three months ended March 31, 2007 and 2006. In return, the Company granted Raytheon a warrant to purchase up to 233,068 shares of the Company's common stock at a per share exercise price of \$10. The Company recorded the issuance of the warrant at a value of \$0.4 million within stockholders' equity as a debit and credit to common stock. The contra equity value of the warrant was amortized to expense over the vesting period of three years. Raytheon must pay a purchase price of \$1.50 per common share underlying the warrant. The warrant was exercisable at any time over a three-year period following its date of purchase. Raytheon is completely vested in the 233,068 shares of common stock underlying the warrant.

13. Bankruptcy Settlement

In the first half of fiscal 2007, the Company received approximately 41,000 shares of US Airways common stock from its bankruptcy claim against US Airways, Inc. prior to its merger with America West ("Pre-Merger US Airways"). The Company sold the stock and realized proceeds of \$2.1 million. In connection with an amendment to and assumption of our existing Delta Connection Agreement, we received a general unsecured claim of \$35.0 million as part of Delta's bankruptcy proceeding. The receipt of this \$35.0 million general unsecured claim is not included in the consolidated financial statements for the quarter ended March 31, 2007, but will be reflected in income in the future at its fair market value.

14. Impairment of Long-Lived Assets

In accordance with FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the second quarter of 2007 the Company evaluated two such cases. In each instance the gross undiscounted cash flows related to a long-term asset was computed and found to be less than the carrying value of the long-lived asset. The fair market value of the two assets was then determined and an impairment charge, equal to the excess of the carrying value over fair value, was recorded totaling \$37.7 million.

The first impairment charge, totaling \$31.7 million, related to the unamortized balance of a \$30.0 million nonrefundable cash incentive ("Incentive") paid to United in the first and second quarter of fiscal 2006, upon amending our code share agreement with United (the "Amendment"). The Amendment primarily allowed us to place 30 additional aircraft with United, bringing the total aircraft in the United code share to 70, and to extend the expiration dates under the existing code share agreement with respect to certain of the other aircraft. The Incentive was included in other assets and was being amortized as a reduction to revenue over the term of the amended code share agreement. Beginning with the second quarter of fiscal 2006 we began experiencing declining margins related to this code share and management initiated an operational analysis in the fourth quarter of fiscal 2006, which was completed in the second quarter of fiscal 2007. During the second quarter of fiscal 2007 the margins deteriorated further, resulting in management concluding that the Company will incur operating losses over the remaining term of the amended code share agreement. The analysis determined that these losses were due primarily to increases in (1) maintenance costs from certain contractual increases in maintenance support agreements that went into effect in the second quarter of fiscal 2007; (2) lower total completion factors primarily attributable to the locations from

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

which we operate the additional 30 aircraft added in the amended code share agreement, resulting in higher operational costs and higher labor costs resulting from employee turnover and; (3) other underlying costs increasing at greater rates than we had originally anticipated when we entered into the amended code share agreement. In order to determine whether or not this asset was impaired, we estimated the future gross undiscounted cash flows related to this code share agreement and found them to be less than the asset's unamortized balance. The fair value of the asset was determined to be zero. Accordingly, an impairment charge was taken for \$25.3 million. We expect the negative cash flows experienced in the second quarter of fiscal 2007 from this code share agreement to continue at this level and could worsen in the future. The largest single item affecting the cash flows from this code share agreement are the 30 incremental 50-seat regional jets the Company added in early fiscal 2006. In addition, leasehold improvements related to certain aircraft under the United code share agreement were evaluated for recoverability and were determined to be impaired and accordingly an impairment charge was taken for \$6.4 million. Management is evaluating various alternatives to address the situation, however there can be no assurance that we will be successful in our efforts.

The second impairment charge, totaling \$6.0 million related to the unamortized balance of leasehold improvements for 12 Dash 8-100 aircraft operating under one of our Delta code share agreements. During the second quarter of fiscal 2007, Delta exercised its right to reduce the number of aircraft in the code share agreement by notifying us of its intention to remove all 12 aircraft from service by September 2007. In order to determine whether or not this asset was impaired, we estimated the future gross undiscounted cash flows related to these aircraft and found them to be less than the leasehold improvements' unamortized balance. Accordingly, an impairment charge of \$6.0 million was taken. We expect the negative cash flows experienced during the second quarter of fiscal 2007 from this code share agreement to continue into the third and fourth quarter of fiscal 2007 when the aircraft are removed from service with Delta. At this time, unless alternative uses can be found for the aircraft, the Company anticipates that it will continue to incur the respective aircrafts' lease costs until the aircraft are scheduled to be returned to their respective lessors in the first and second quarters of fiscal 2008. In addition to the negative operational cash flows we expect to incur additional costs for early termination with the respective lessors. These costs will be recognized when the aircraft are no longer in service. Management is evaluating various alternative uses for the aircraft, including additional flying or subleasing the aircraft to other lessors, however there can be no assurance that we will be successful in our efforts.

15. Equity Method Investment

In fiscal 2006, the Company participated with a private equity fund in making an investment in the common stock and notes of a closely held airline related business (the "Investee"). The Company, through its subsidiary Nilchii, invested \$15 million, which represents approximately 20% and 12% of the Investee's common stock and notes, respectively.

The Company accounts for its investment using the equity method of accounting. Under the equity method, the Company adjusts the carrying amount of its investment for its share of the earnings or losses of the Investee subsequent to the date of investment and reports the recognized earnings or losses in income. The Company's share of the Investee's losses subsequent to the date of investment has exceeded the carrying value of the common stock investment, which has been reduced to zero. In accordance with EITF Issue No. 99-10, "Percentage Used to Determine the Amount of Equity Method Losses," the Company recognized equity method losses based on the ownership level of the Investee common stock held by the Company until the carrying value of its investment in the common stock was reduced to zero, then by the ownership level of the Investee notes held by the Company. During the second quarter of fiscal 2007, the Company recorded equity method losses from this investment of \$3.6 million.

The Investee notes held by the Company bear interest at 17%. At March 31, 2007, the Company has a receivable for and has recorded interest income related to these notes in the amount of \$1.8 million.

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the second quarter of fiscal 2007 we placed \$1.3 million on deposit pursuant to a subscription agreement in a limited partnership. Upon closing, the Company will account for this investment using the equity method of accounting.

16. Stock-Based Compensation

Stock based compensation expense is calculated by estimating the fair value of stock options at the time of grant and amortized over the stock options' vesting period.

The following amounts were recognized for stock-based compensation (in thousands):

	Three Months Ended March 31, 2007 (In thousands)	Six Months Ended March 31, 2007 (In thousands)
General and administrative expenses:		
Stock options expense	\$ 310	\$ 662
Restricted stock expense	358	707
Total	<u>\$ 668</u>	<u>\$ 1,369</u>

17. Commitments and Contingencies

As of March 31, 2007, the Company had firm orders with Bombardier Aerospace, Inc. for two CRJ-700 aircraft and two CRJ-900 which can be converted to CRJ-700s. In conjunction with this purchase agreement, Mesa had \$16.0 million on deposit with Bombardier Regional Aircraft Division that was included in lease and equipment deposits at September 30, 2006. The remaining deposits are expected to be returned upon completion of permanent financing on each of the last four aircraft.

The Company accrues for potential income tax contingencies when it is probable that a liability has been incurred and the amount of the contingency can be reasonably estimated. The Company's accrual for income tax contingencies is adjusted for changes in circumstances and additional uncertainties, such as amendments to existing tax law, both legislated and concluded through the various jurisdictions' tax court systems. At March 31, 2007, the Company had an accrual for income tax contingencies of approximately \$2.9 million. If the amounts ultimately settled are greater than the accrued contingencies, the Company would record additional income tax expense in the period in which the assessment is determined. To the extent amounts are ultimately settled for less than the accrued contingencies, or the Company determines that a liability is no longer probable, the liability is reversed as a reduction of income tax expense in the period the determination is made.

The Company also has long-term contracts for the performance of engine maintenance and rotatable spare parts. A description of each of these contracts is as follows:

During the second quarter of fiscal 2007, the Company entered into a memorandum of understanding ("MOU") with Delta's Technical Operations division ("DTO") for its previously uncovered General Electric Aircraft Engines ("GE") engines. The MOU requires a monthly payment based upon the prior month's flight hours incurred by the covered engines. The hourly rate increases over time based upon the engine overhaul costs that are expected to be incurred in that year and is subject to escalation based on changes in certain price indices. Maintenance expense is recognized based upon the product of flight hours flown and the rate in effect for the period.

In January 1997, the Company entered into a 10-year engine maintenance contract with GE for certain of its CRJ-200 aircraft engines. The agreement was subsequently amended in the first quarter of fiscal 2003. The amended contract requires a monthly payment based upon the prior month's flight hours incurred by the covered engines. The hourly rate increases over time based upon the engine overhaul costs that are expected to be incurred in that year and is subject to escalation based on changes in certain price indices. Maintenance expense is recognized

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

based upon the product of flight hours flown and the rate in effect for the period. The contract also provides for a fixed number of engine overhauls per year. To the extent that the number of actual overhauls is less than the fixed number, GE is required to issue to Mesa a credit for the number of events less than the fixed number multiplied by an agreed upon price. To the extent that the number of actual overhauls is greater than the fixed number, Mesa is required to pay GE for the number of events greater than the fixed number multiplied by the same agreed upon price. Any adjustment payments or credits are recognized in the period they occur.

In April 1997, the Company entered into a 10-year engine maintenance contract with Pratt & Whitney Canada Corp. ("PWC") for its Dash-8 aircraft. The contract requires Mesa to pay PWC for the engine overhaul upon completion of the maintenance based upon a fixed dollar amount per flight hour. The rate under the contract is subject to escalation based on changes in certain price indices.

In April 2000, the Company entered into a 10-year engine maintenance contract with Rolls-Royce Allison ("Rolls-Royce") for its ERJ aircraft. The contract requires Mesa to pay Rolls-Royce for the engine overhaul upon completion of the maintenance based upon a fixed dollar amount per flight hour. The rate per flight hour is based upon certain operational assumptions and may vary if the engines are operated differently than these assumptions. The rate is also subject to escalation based on changes in certain price indices. The agreement with Rolls-Royce also contains a termination clause and look back provision to provide for any shortfall between the cost of maintenance incurred by the provider and the amount paid up to the termination date by the Company and includes a 15% penalty on such amount. The Company does not anticipate an early termination under the contract.

In May 2002, the Company entered into a six-year fleet management program with PWC to provide maintenance for the Company's Beechcraft 1900D turboprop engines. The contract requires a monthly payment based upon flight hours incurred by the covered aircraft. The hourly rate is subject to annual adjustment based on changes in certain price indices and is guaranteed to increase by no less than 1.5% per year. Pursuant to the agreement, the Company sold certain assets of its Desert Turbine Services unit, as well as all spare PT6 engines to PWC for \$6.8 million, which approximated the net book value of the assets. Pursuant to the agreement, the Company provided a working capital loan to PWC for the same amount, which is to be repaid through a reduced hourly rate being charged for maintenance. The agreement covers all of the Company's Beechcraft 1900D turboprop aircraft and engines. The agreement also contains a termination clause and look back provision to provide for any shortfall between the cost of maintenance incurred by the provider and the amount paid up to the termination date by the Company and provides for return of a pro-rated share of the prepaid amount upon early termination. The Company does not anticipate an early termination under the contract.

In August 2005, the Company entered into a ten-year agreement with AAR Corp. (the "AAR Agreement") for the management and repair of certain of the Company's CRJ-200, -700, -900 and ERJ-145 aircraft rotatable spare parts inventory. Under the agreement, the Company sold certain existing spare parts inventory to AAR for \$39.6 million in cash and \$21.5 million in notes receivable (discounted to \$18.8 million) to be paid over four years. The AAR agreement was contingent upon the Company terminating an agreement for the Company's CRJ-200 aircraft rotatable spare parts inventory with GE Commercial Aviation Services ("GECAS") and including these rotatables in the arrangement. The Company terminated the GECAS agreement and finalized the AAR agreement in November 2005. Upon entering into the agreement, the Company received \$22.8 million (\$23.8 million less \$1 million deposit that was retained by AAR), which was recorded as a deposit at September 30, 2005, pending the termination of the GECAS agreement. An additional \$15.8 million was received in the quarter ended December 31, 2005. Under the agreement, the Company is required to pay AAR a monthly fee based upon flight hours for access to and maintenance and servicing of the inventory. The agreement also contains certain minimum monthly payments that Mesa must make to AAR. Based on this arrangement, the Company accounts for the transaction as a service agreement and an operating lease of rotatable spare parts with AAR. The sale of the rotatable spare parts resulted in a gain of \$2.1 million, which has been deferred and is being recognized over the term of the agreement. At termination, the Company may elect to purchase the covered inventory at fair value, but is not contractually obligated to do so.

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 2006, the Company entered into a separate two-year agreement with AAR for the management and repair of the Company's CRJ-200 aircraft rotatable spare parts inventory associated with its *go!* operations. Under this agreement, the Company transferred certain existing spare parts inventory to AAR for \$1.2 million in cash. AAR was required to purchase an additional \$2.9 million in rotatable spare parts to support the agreement. Under the agreement, the Company is required to pay AAR a monthly fee based upon flight hours for access to and maintenance of the inventory. At termination, the Company has guaranteed the fair value of the underlying rotatables. Based on this arrangement, the Company accounts for the transaction as a financing arrangement, thus recording both the rotatable spare parts inventory as an asset and the related payable to AAR as a liability.

During the second quarter of fiscal 2007, the Company amended a five-year heavy equipment maintenance agreement with a vendor. The agreement provides a rebate based upon annual volumes up to \$10.0 million over the next five years. The agreement also includes penalties in the event our annual volumes fall below certain levels. The maximum penalty possible would be \$19.0 million if our annual volumes were zero for all five years. Rebates of approximately \$1.0 million have been included in the current quarter.

In February 2006, Hawaiian Airlines, Inc. ("Hawaiian") filed a complaint against the Company in the United States Bankruptcy Court for the District of Hawaii (the "Bankruptcy Court") alleging that the Company breached the terms of a Confidentiality Agreement entered into in April 2004 with the Trustee in Hawaiian's bankruptcy proceedings. Hawaiian's complaint alleges, among other things, that the Company breached the Confidentiality Agreement by (a) using the evaluation material to obtain a competitive advantage over Hawaiian, through the development and implementation of a business plan to compete with Hawaiian in the inter-island market, and (b) failing to return or destroy any evaluation materials after being notified by Hawaiian on or about May 12, 2004 that the Company had not been selected as a potential investor for a transaction with Hawaiian. Hawaiian, in its complaint, seeks unspecified damages, requests that the Company turn over to Hawaiian any evaluation material in the Company's possession, custody or control (the "Turnover Claim"), and an injunction preventing the Company from providing inter-island transportation services in the State of Hawaii for a period of two years from the date of such injunctive relief.

The Company vigorously denies Hawaiian's allegations and requests for relief contained in its complaint. The Company filed both an answer and an antitrust counterclaim against Hawaiian in response to its complaint. In May 2006, the Company filed a motion to dismiss the Turnover Claim contained in Hawaiian's complaint, but the Bankruptcy Court denied that motion. On December 8, 2006 the Bankruptcy Court, based on constitutional access to the courts, also granted Hawaiian's motion for summary judgment against the Company on its antitrust counterclaim. The Company does not believe that either of these decisions has a material impact on the Company's position in the lawsuit. Finally, in October 2006, the Bankruptcy Court denied Hawaiian's effort to enjoin the Company's *go!* operation from selling tickets claiming that *go!*'s entry into the inter-island air transport business was based on trade secrets furnished to Mesa during the Hawaiian bankruptcy. The Court found no such misuse of confidential information and rejected Hawaiian's motion for a preliminary injunction.

In June 2006, Hawaiian requested a preliminary injunction to prevent the Company from issuing new airline tickets for the Hawaiian inter-island market for a period of one year. In this request, Hawaiian alleges that initial discovery conducted reveals that the Company breached the Confidentiality Agreement. The Court has recently denied Hawaiian's request for a preliminary injunction. The case will be tried in September 2007.

On October 13, 2006, Aloha Airlines filed suit against Mesa Air Group and two of its Hawaii based employees (individual defendants subsequently dismissed without prejudice). The complaint was filed in State Court in Hawaii and contains 11 counts and seeks damages and injunctive relief. The Company believes the purpose of the complaint is to blunt Mesa's entry into the Hawaii inter-island market segment. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of Hawaii antitrust and unfair competition law. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

MESA AIR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In 1992, The Supreme Court of the United States decided Morales v. TWA, in which it construed the Airline Deregulation Act as prohibiting any state court, under any state law legal theory, from adjudicating issues which implicated an air carrier's pricing (or other service) practices. Accordingly, an airline's pricing decisions can be attacked only under federal laws. In response to the complaint, Mesa filed a motion on December 8, 2006 seeking dismissal of all claims based upon Hawaii Statutory Law that rest on Mesa's alleged below-cost pricing. Following the filing of Mesa's Motion to Dismiss, Aloha, on January 10, 2007, voluntarily chose to dismiss the action filed in State Court, and simultaneously filed a new complaint in the United States District Court for the District of Hawaii (filed on January 9, 2007). Aloha's federal complaint abandoned claims regarding below-cost pricing under Hawaii's Statutory Law and instead asserted claims under contract and federal antitrust law. On March 19, 2007, the US District Court denied Mesa's motion to dismiss the contract claims under the authority of Morales and its progeny. Mesa has asked the District Court to certify that ruling for immediate appellate review.

Mesa denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy. The case is in its early stages and has been set for trial in April 2008.

The Company is also involved in various legal proceedings 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.

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

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and the related notes thereto, and the Selected Financial Data and Operating Data contained elsewhere herein.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain statements including, but not limited to, information regarding the replacement, deployment, and acquisition of certain numbers and types of aircraft, and projected expenses associated therewith; costs of compliance with Federal Aviation Administration regulations and other rules and acts of Congress; the passing of taxes, fuel costs, inflation, and various expenses to the consumer; the relocation of certain operations of Mesa; the resolution of litigation in a favorable manner and certain projected financial obligations. These statements, in addition to statements made in conjunction with the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions, are forward-looking statements within the meaning of the Safe Harbor provision of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or the future financial performance of Mesa and only reflect management's expectations and estimates. The following is a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements: changing business conditions in certain market segments and industries; changes in Mesa's code-sharing relationships; the inability of Delta Air Lines, US Airways or United Airlines to pay their obligations under the code-share agreements; an increase in competition along the routes Mesa operates or plans to operate; material delays in completion by the manufacturer of the ordered and yet-to-be delivered aircraft; availability and cost of funds for financing new aircraft; changes in general economic conditions; changes in fuel price; changes in regional economic conditions; Mesa's relationship with employees and the terms of future collective bargaining agreements; the impact of current and future laws; additional terrorist attacks; Congressional investigations, and governmental regulations affecting the airline industry and Mesa's operations; bureaucratic delays; amendments to existing legislation; consumers unwilling to incur greater costs for flights; our ability to operate our new Hawaiian airline service profitably; unfavorable resolution of legal proceedings involving Hawaiian Airlines and Aloha Airlines regarding our Hawaiian operation; unfavorable resolution of negotiations with municipalities for the leasing of facilities; and risks associated with the outcome of litigation. One or more of these or other factors may cause Mesa's actual results to differ materially from any forward-looking statement. Mesa is not undertaking any obligation to update any forward-looking statements contained in this Form 10-Q.

All references to "we," "our," "us," or "Mesa" refer to Mesa Air Group, Inc. and its predecessors, direct and indirect subsidiaries and affiliates.

GENERAL

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the related notes thereto, contained elsewhere in this Form 10-Q.

Executive Overview and Summary Financial Results

The second quarter of fiscal year 2007 was a difficult quarter for us resulting in a loss of \$24.0 million or \$0.54 per diluted share compared with net income of \$5.3 million and \$0.14 per diluted share in the second quarter of fiscal 2006. Total gross revenue increased \$24.4 million or 7.8% to \$336.4 million on 3.8% more capacity over the same period in the preceding year. Due to certain impairment charges reflected against revenue discussed below, our

net revenues were \$311.1 million for the second fiscal quarter representing a decrease of \$1.0 million or 0.3% below that of the preceding year. Our fleet has grown from 180 as of March 31, 2006, to 201 as of March 31, 2007. The results for the second quarter of fiscal 2007 reflected a number of significant non-cash charges totaling \$45.7 million comprised of impairment charges (\$37.7 million), unrealized losses on investment securities (\$4.5 million), and equity method losses (\$3.6 million). These amounts were partially offset by \$12.2 million debt conversion costs taken in the second quarter of fiscal 2006. The impairment charges are discussed below.

Excluding the impairment charges associated with certain assets related to the Delta and United code share agreements, operational challenges associated with the effects of inclement weather and air traffic control in our United Express operations resulted in a total completion factor well below that of our other operations, adversely affecting operating income as revenue was reduced and many of our expenses were not fully reimbursed. These operational challenges had the greatest effect on Mesa's 50-seat United Express operations.

Our maintenance expenses increased during the quarter on a year over year and sequential basis due primarily to a new power-by-the-hour engine memorandum of understanding covering all of our previously uncovered General Electric engines, contractual increases in our existing power-by-the-hour engine agreement with General Electric, and increased volume due to higher than anticipated usage in our United Express operations as well as contractual increases in our auxiliary power unit ("APU") overhauls.

During the current quarter, United assumed responsibility for a portion of our United Express fuel purchases. As a result going forward, our revenues, as well as our fuel expenses related thereto, will be reduced by approximately 4.3 million gallons of fuel per quarter. Due to the pass-through feature of our contracts, this will not impact our income from operations.

In accordance with FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company continually considers events or changes in circumstances that indicate the carrying amount of a long-term asset may not be recoverable. During the second quarter of 2007 the Company evaluated two such cases. In each instance the gross undiscounted cash flows related to a long-term asset was computed and found to be less than the carrying value of the long-lived asset. The fair market value of the two assets was then determined and an impairment charge, equal to the excess of the carrying value over fair value, was recorded totaling \$37.7 million.

The first impairment charge, totaling \$31.7 million, related to the unamortized balance of a \$30.0 million nonrefundable cash incentive ("Incentive") paid to United in the first and second quarter of fiscal 2006 upon amending our code share agreement with United (the "Amendment"). The Amendment primarily allowed us to place 30 additional aircraft with United, bringing the total aircraft in the United code share to 70, and to extend the expiration dates under the existing code share agreement with respect to certain of the other aircraft. The Incentive was included in other assets and was being amortized as a reduction to revenue over the term of the amended code share agreement. Beginning with the second quarter of fiscal 2006 we began experiencing declining margins related to this code share and management initiated an operational analysis in the fourth quarter of fiscal 2006, which was completed in the second quarter of fiscal 2007. During the second quarter of fiscal 2007 the margins deteriorated further, resulting in management concluding that the Company will incur operating losses over the remaining term of the amended code share agreement. The analysis determined that these losses were due primarily to increases in (1) maintenance costs from certain contractual increases in maintenance support agreements that went into effect in the second quarter of fiscal 2007; (2) lower total completion factors primarily attributable to the locations from which we operate the additional 30 aircraft added in the amended code share agreement, resulting in higher operational costs and higher labor costs resulting from employee turnover and; (3) other underlying costs increasing at greater rates than we had originally anticipated when we entered into the amended code share agreement. In order to determine whether or not this asset was impaired, we estimated the future gross undiscounted cash flows related to this code share agreement and found them to be less than the asset's unamortized balance of \$25.3 million. The fair value of the asset was determined to be zero. Accordingly, an impairment charge was taken for \$25.3 million. We expect the negative cash flows experienced in the second quarter of fiscal 2007 from this code share agreement to continue at this level and could worsen in the future. The largest single item affecting the cash flows from this code share agreement are the 30 incremental 50-seat regional jets the Company added in early fiscal 2006. In addition, leasehold improvements related to certain aircraft under the United code share agreement were evaluated for recoverability and were determined to be impaired and accordingly an impairment charge was taken for

\$6.4 million. Management is evaluating various alternatives to address the situation, however there can be no assurance that we will be successful in our efforts.

The second impairment charge, totaling \$6.0 million related to the unamortized balance of leasehold improvements for 12 Dash 8-100 aircraft operating under one of our Delta code share agreement. During the second quarter of fiscal 2007, Delta exercised its right to reduce the number of aircraft in the code share agreement by notifying us of its intention to remove all 12 aircraft from service by September 2007. In order to determine whether or not this asset was impaired, we estimated the future gross undiscounted cash flows related to these aircraft and found them to be less than the leasehold improvements' unamortized balance of \$6.0 million. Based on the nature of these leasehold improvements the fair value of the leasehold improvements was determined to be zero. Accordingly, an impairment charge was taken for 6.0 million. We expect the negative cash flows experienced during the second quarter of fiscal 2007 from this code share agreement to continue into the third and fourth quarter of fiscal 2007 when the aircraft are removed from service with Delta. At this time, unless alternative uses can be found for the aircraft, the Company anticipates that it will continue to incur the respective aircrafts' lease costs until the aircraft are scheduled to be returned to their respective lessors in the first and second quarters of fiscal 2008. In addition to the negative operational cash flows we expect to incur additional costs for early termination with the respective lessors. These costs will be recognized when the aircraft are no longer in service. Management is evaluating various alternative uses for the aircraft, including additional flying or subleasing the aircraft to other lessors, however there can be no assurance that we will be successful in our efforts.

Our gross operating revenues were \$684.0 million for the six months ended March 31, 2007, an increase of \$48.4 million or 7.6% over the same period in the preceding year. Due to certain impairment charges reflected against revenue discussed above, our net revenues were \$658.7 million for the six months ended March 31, 2007 representing an increase of \$23.0 million or 3.6% above that of the preceding year. The net loss for the first six months of fiscal 2007 was \$16.0 million or \$0.49 per diluted share compared with net income of \$18.3 million and \$0.48 per diluted share in the first six months of fiscal 2006. The year over year variances for the first six months of 2007 versus 2006 are largely explained above, except for a \$2.1 million decrease in operating costs resulting from a bankruptcy settlement in the first half of fiscal 2007.

The new CRJ-900s are expected to begin service in November 2007. We began removing the twelve Dash-8 aircraft in April 2007 and expect to have all twelve Dash-8's removed from service by August 2007.

Our joint venture agreement with Shenzhen Airlines to operate regional jets throughout China is progressing, with plans to send the initial aircraft by the end of summer.

Code-Share Agreements

The Company has reached an agreement with Delta Air Lines ("Delta") under its Delta Connection Agreements ("DCA") to remove twelve Dash-8 aircraft operated under the DCA by Mesa's subsidiary Freedom Airlines. Mesa's recently announced expanded code share agreement with Delta to operate 14 CRJ-900 regional jet aircraft ("Expansion DCA") will remain in place. After service begins pursuant to the Expansion DCA and the amended DCA, the Mesa regional jet fleet flying for Delta will consist of 14 CRJ-900s and 36 ERJ-145s.

Fleet

Aircraft in operation at March 31, 2007:

Type of Aircraft	
CRJ-200/100 Regional Jet	61
CRJ-700 Regional Jet	18
CRJ-900 Regional Jet	38
Embraer 145 Regional Jet	36
Beechcraft 1900D	20
Dash-8	28
Total	201

Approximately 98% of our consolidated passenger revenues for the quarter ended March 31, 2007 were derived from operations associated with code-share agreements. Our subsidiaries have code-share agreements with US Airways, Delta Air Lines, Midwest Airlines and United Airlines. The remaining passenger revenues are derived from our independent operations, go! and Mesa Airlines.

The following tables set forth quarterly comparisons for the periods indicated below:

OPERATING DATA

	Three Months Ended		Six Months Ended	
	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06
Passengers	3,970,948	3,441,501	7,952,239	6,930,917
Available seat miles (000's)	2,267,858	2,185,602	4,618,546	4,493,686
Revenue passenger miles (000's)	1,675,132	1,599,381	3,387,796	3,254,882
Load factor	73.90%	73.20%	73.40%	72.40%
Yield per revenue passenger mile (cents)	20.2	19.5	20.3	19.5
Revenue per available seat mile (cents)	14.9	14.3	14.9	14.1
Operating cost per available seat mile (cents)	14.3	13	14.2	12.9
Operating cost per available seat mile, excluding fuel (cents)	9.7	8.3	9.3	8.3
Average stage length (miles)	361	403	365	405
Number of operating aircraft in fleet	199	180	199	180
Gallons of fuel consumed	53,011,214	50,359,903	109,817,761	101,713,317
Block hours flown	156,457	135,408	313,797	277,599
Departures	109,991	91,533	219,794	186,964

CONSOLIDATED FINANCIAL DATA

	Three Months Ended				Six Months Ended			
	31-Mar-07		31-Mar-06		31-Mar-07		31-Mar-06	
	Costs per ASM (cents)	% of Total Revenues	Costs per ASM (cents)	% of Total Revenues	Costs per ASM (cents)	% of Total Revenues	Costs per ASM (cents)	% of Total Revenues
Flight operations	4.2	31.00%	4.2	29.10%	4.2	29.12%	4.0	28.40%
Fuel	4.6	34.00%	4.7	33.10%	4.8	33.84%	4.6	32.70%
Maintenance	3.2	23.00%	2.2	15.30%	2.9	20.66%	2.3	16.20%
Aircraft and traffic servicing	1.1	8.00%	0.8	5.90%	1.0	6.88%	0.8	5.40%
Promotion and sales	0.1	1.00%	—	0.30%	0.1	0.51%	—	0.30%
General and administrative	0.7	5.00%	0.7	4.70%	0.7	5.11%	0.7	5.20%
Depreciation and amortization	0.5	3.00%	0.4	2.80%	0.5	3.18%	0.4	2.80%
Bankruptcy settlement	(0.1)	0.00%	—	(0.20)%	—	(3.2)%	—	0.00%
Impairment and restructuring charges (credits)	0.5	4.00%	—	0.00%	0.3	1.88%	—	0.00%
Total operating expenses	14.8	108.00%	13.0	91.00%	14.4	100.36%	12.9	91.10%
Interest expense	(0.4)	(3.00)%	0.4	2.80%	(0.4)	(3.06)%	0.4	2.90%
Interest income	0.2	1.00%	0.1	1.00%	0.2	1.28%	0.1	0.88%
Other income (expense)	(0.4)	(3.00)%	(0.6)	(0.40)%	(0.2)	(1.21)%	(0.3)	(2.25)%

Note: numbers in table may not recalculate due to rounding

FINANCIAL DATA BY OPERATING SEGMENT

	Three Months Ended March 31, 2007 (000's)				
	Mesa/Freedom	Air Midwest /go!	Other	Elimination	Total
	Total operating revenues	\$ 292,141	\$ 20,362	\$ 65,538	\$ (66,934)
Total operating expenses	311,016	26,402	56,240	(57,686)	335,972
Operating income (loss)	\$ (18,875)	\$ (6,040)	\$ 9,298	\$ (9,248)	\$ (24,865)

	Three Months Ended March 31, 2006 (000's)				
	Mesa/Freedom	Air Midwest /go!	Other	Elimination	Total
	Total operating revenues	\$ 298,035	\$ 12,585	\$ 61,488	\$ (60,044)
Total operating expenses	272,093	13,883	49,984	(51,833)	284,127
Operating income (loss)	\$ 25,942	\$ (1,298)	\$ 11,504	\$ (8,211)	\$ 27,937

	Six Months Ended March 31, 2007 (000's)				
	Mesa/Freedom	Air Midwest /go!	Other	Elimination	Total
	Total operating revenues	\$ 620,328	\$ 41,157	\$ 121,985	\$ (124,750)
Total operating expenses	616,512	50,593	105,221	(107,930)	664,396
Operating income (loss)	\$ 3,816	\$ (9,436)	\$ 16,764	\$ (16,820)	\$ (5,676)

	Six Months Ended March 31, 2006 (000's)				
	Mesa/Freedom	Air Midwest /go!	Other	Elimination	Total
	Total operating revenues	\$ 605,343	\$ 25,608	\$ 104,636	\$ (99,906)
Total operating expenses	548,565	28,112	88,513	(86,256)	578,934
Operating income (loss)	\$ 56,778	\$ (2,504)	\$ 16,123	\$ (13,650)	\$ 56,747

RESULTS OF OPERATIONS

For the three months ended March 31, 2007 versus the three months ended March 31, 2006

Operating Revenues

In the three months ended March 31, 2007, gross operating revenue increased by \$24.3 million or 7.8% from \$312.1 million in the three months ended March 31, 2006 to \$336.4 million. The increase in revenue is primarily attributable to a \$19.4 million increase in contract revenue at Mesa/Freedom, driven by higher activity-based revenue as a result of the increased number of aircraft in service with our code-share partners. In addition, Air Midwest/go! revenue increased \$7.8 million primarily due to a \$4.5 million increase in prorate revenue and a \$2.0 million increase in Essential Air Service revenue. Due to certain impairment charges reflected against revenue discussed above, our net revenues were \$311.1 million for the second fiscal quarter representing a decrease of \$0.9 million or .3% below that of the preceding year.

Operating Expenses

Flight Operations

In the three months ended March 31, 2007, flight operations expense increased \$4.3 million, or 4.7%, to \$95.1 million from \$90.8 million for the three months ended March 31, 2006. On an ASM basis in the three months ended March 31, 2007, flight operations expense of \$0.042 per ASM remained unchanged from the three months ended March 31, 2006. The increase is due primarily to incremental aircraft leases associated with additional Delta Dash-8's at Mesa/Freedom and CRJ-200s at *go!* and increased lodging expenses due to the startup of our Delta Dash-8 operation in JFK.

Fuel

In the three months ended March 31, 2007, fuel expense increased \$1.9 million, or 1.9%, to \$105.1 million from \$103.2 million for the three months ended March 31, 2006. On an ASM basis, fuel expense decreased 1.8% to \$0.046 per ASM in the three months ended March 31, 2007 compared to \$0.047 per ASM in the three months ended March 31, 2006. Overall consumption of fuel increased by 2.7 million gallons or 5.3% in the three months ended in March 31, 2007 to 53.0 million gallons from 50.3 million gallons in the three months ended March 31, 2006; resulting in a \$5.3 million expense increase due to volume. The additional fuel expense was mainly driven by the addition of *go!* and the increase in flights flown for Delta. These increases were offset by a 3.2% reduction in our "into-plane" fuel cost in the three months ended March 31, 2007 to \$1.98 per gallon from \$2.05 per gallon in the three months ended March 31, 2006. However, total gallons would have increased more in line with the increase in block hours, which increased 15.5% in the three months ended March 31, 2007, except that United, beginning in January 2007 in the Chicago O'Hare station, began purchasing its own fuel which reduced Mesa's fuel expense and revenue by 4.25 million gallons or approximately \$8.4 million, respectively.

Maintenance Expense

In the three months ended March 31, 2007, maintenance expense increased \$25.1 million, or 52.7%, to \$72.7 million from \$47.6 million for the three months ended March 31, 2006. Maintenance expense increased primarily due to (1) higher engine overhaul costs driven by a new power-by-the-hour engine agreement covering all of our previously uncovered GE engines and contractual rate increases, (2) high costs related to airframe checks which did not occur in the three months ended March 31, 2006, and (3) increased material/repair services expense primarily for engine components and landing gear overhauls. Maintenance expense at Air Midwest/*go!* increased \$2.0 million year over year. On an ASM basis, maintenance expense increased 47.1% to \$0.032 per ASM in the three months ended March 31, 2007 from \$0.022 per ASM in the three months ended March 31, 2006.

Aircraft and Traffic Servicing

In the three months ended March 31, 2007, aircraft and traffic servicing expense increased by \$5.6 million, or 30.6%, to \$23.9 million from \$18.3 million for the three months ended March 31, 2006. On an ASM basis, aircraft and traffic servicing expense increased 25.9% to \$0.011 per ASM in the three months ended March 31, 2007 from

\$0.008 per ASM in the three months ended March 31, 2006. Aircraft and traffic servicing expense in the Mesa/Freedom segment increased \$3.1 million, which included a \$1.3 million increase in station rents and a \$2.2 million increase in passenger related costs, primarily landing fees. These increases were primarily a result of moving into higher cost East Coast cities for United and Delta. These costs are reimbursed by our code-share partners. Aircraft and traffic servicing expense in the Air Midwest/ go! segment increased \$2.5 million primarily due to the start up of go!

Promotion and Sales

In the three months ended March 31, 2007, promotion and sales expense increased by \$0.9 million, or 105%, to \$1.8 million from \$0.9 million for the three months ended March 31, 2006. The increase is primarily due to promotional expenses at go!.

General and Administrative

In the three months ended March 31, 2007, general and administrative expense increased \$1.7 million, or 11.7%, to \$16.2 million from \$14.5 million for the three months ended March 31, 2006 due primarily to increased workers compensation costs.

Depreciation and Amortization

In the three months ended March 31, 2007, depreciation and amortization expense increased \$1.4 million, or 16.2%, to \$10.3 million from \$8.8 million for the three months ended March 31, 2006. The increase is primarily due to the addition of 3 CRJ-700 aircraft during the second quarter of 2007. Depreciation and amortization for Air Midwest/go! increased \$0.6 million primarily due to the launch of go! and the depreciation of certain assets acquired to support go!'s operations.

Bankruptcy Settlement

In the three months ended March 31, 2007, the Company received approximately 28,000 shares which it sold for \$1.5 million. This benefit was recorded as a settlement of its US Airways related bankruptcy claim. There were no such settlements in the three months ended March 31, 2006.

Interest Expense

In the three months ended March 31, 2007, interest expense increased \$0.8 million, or 9.0%, to \$9.5 million from \$8.7 million for the three months ended March 31, 2006. The net increase in interest expense is primarily due to additional debt associated with the addition of 3 CRJ-700 aircraft during the second quarter of 2007.

Interest Income

In the three months ended March 31, 2007, interest income increased \$1.3 million to \$3.9 million from \$2.6 million for the three months ended March 31, 2006. The increase is due to increases in the rates of return on our cash and marketable securities portfolio.

Other Expense

In the three months ended March 31, 2007, other expense decreased \$5.1 million or 38.7% to \$8.1 million from \$13.2 million for the three months ended March 31, 2006. This decrease is due primarily to a \$12.2 million reduction in debt conversion costs offset by increases of \$4.6 million in unrealized losses on investment securities and \$3.5 million from equity method losses. The equity method losses were due primarily to the investee recording noncash accounting charges.

Income Taxes

In the second quarter of fiscal 2007 we recorded a tax benefit of \$14.6 million compared to income tax expense of \$3.3 million in the second quarter of fiscal 2006. The effective tax rates of 37.8% and 38.5%, respectively, are higher than the statutory rate due to varying state income tax rates and non-deductible permanent differences.

RESULTS OF OPERATIONS

For the six months ended March 31, 2007 versus the six months ended March 31, 2006

Operating Revenues

In the six months ended March 31, 2007, gross operating revenue increased by \$48.3 million or 7.6% from \$635.7 million in the six months ended March 31, 2006 to \$684.0 million. The increase in revenue is primarily attributable to a \$40.3 million increase in contract revenue for Mesa/Freedom, driven primarily by higher activity-based revenue as a result of the increased number of aircraft in service with our code-share partners. Air Midwest/*go!* revenue increased \$15.5 million primarily due to a \$10.9 million increase in prorate revenue and a \$3.3 million increase in Essential Air Service revenue due to additional EAS cities. Due to certain impairment charges reflected against revenue as discussed above, our net revenues were \$658.7 million for the six months ended March 31, 2007 representing an increase of \$23.0 million or 3.6% above that of the preceding year.

Operating Expenses

Flight Operations

In the six months ended March 31, 2007, flight operations expense increased \$11.1 million, or 6.2%, to \$191.8 million from \$180.7 million for the six months ended March 31, 2006. On an ASM basis in the six months ended March 31, 2007, flight operations expense increased 3.3% to \$0.042 per ASM compared to \$0.040 per ASM in the six months ended March 31, 2006. The increase is primarily due to increased aircraft lease expenses associated with additional Delta Dash-8's at Mesa/Freedom and CRJ-200s at *go!* and increased lodging expenses due to the startup of our Delta Dash-8 operation in JFK.

Fuel

In the six months ended March 31, 2007, fuel expense increased \$14.9 million, or 7.2%, to \$222.9 million from \$208.0 million for the six months ended March 31, 2006. On an ASM basis, fuel expense increased 4.3% to \$0.048 per ASM in the six months ended March 31, 2007 compared to \$0.046 per ASM in the six months ended March 31, 2006. This increased volume was mainly driven by the addition of *go!* and the increase in flights flown for Delta by Mesa/Freedom. These increases were partially offset by a slight reduction in our "into-plane" fuel cost in the six months ended March 31, 2007 versus that of the preceding year. However, total gallons would have increased more in line with the increase in block hours, which increased 13.0% in the six months ended March 31, 2007, except that United, beginning in January 2007 in the Chicago O'Hare airport, began purchasing its own fuel and reduced Mesa/Freedom's fuel expense and revenue by 4.25 million gallons or \$8.4 million, respectively.

Maintenance Expense

In the six months ended March 31, 2007, maintenance expense increased \$33.0 million, or 31.9%, to \$136.1 million from \$103.1 million for the six months ended March 31, 2006. Maintenance expense increased primarily due to (1) high cost airframe checks, (2) increased material repair/services, (3) increased base maintenance expense related to increased costs to support our JFK and Dulles operations, and (4) higher engine overhaul costs driven by contractual rate increases and a new power-by-the-hour engine agreement covering all of our previously uncovered GE engines. Maintenance expense at Air Midwest/*go!* increased \$3.3 million year over year. On an ASM basis, maintenance expense increased 28.4% to \$0.029 per ASM in the six months ended March 31, 2007 from \$0.023 per ASM in the six months ended March 31, 2006.

Aircraft and Traffic Servicing

In the six months ended March 31, 2007, aircraft and traffic servicing expense increased by \$10.8 million, or 31.2%, to \$45.3 million from \$34.5 million for the six months ended March 31, 2006. On an ASM basis, aircraft and traffic servicing expense increased 27.7% to \$0.010 per ASM in the six months ended March 31, 2007 from \$0.008 per ASM in the six months ended March 31, 2006. Aircraft and traffic servicing expense in the Mesa/Freedom segment increased \$6.7 million, which included an increase in station rents and an increase in passenger related costs, primarily landing fees. These increases were primarily the result of moving into higher cost East Coast cities for United and Delta. These costs are largely reimbursed by our code-share partners. Aircraft and traffic servicing expense in the Air Midwest/ go! segment increased \$4.2 million primarily due to the start up of go!

Promotion and Sales

In the six months ended March 31, 2007, promotion and sales expense increased by \$1.7 million, or 104.4%, to \$3.4 million from \$1.7 million for the six months ended March 31, 2006. The increase is primarily due to promotional expenses at go!

General and Administrative

In the six months ended March 31, 2007, general and administrative expense was comparable to the same period in 2006 increasing \$0.8 million, or 2.3%, to \$33.7 million from \$32.9 million due primarily to increases related to workers compensation.

Depreciation and Amortization

In the six months ended March 31, 2007, depreciation and amortization expense increased \$3.0 million, or 16.4%, to \$21.0 million from \$18.0 million for the six months ended March 31, 2006. The increase is primarily due to the addition of 3 CRJ-700 aircraft during the second quarter of 2007. Depreciation and amortization for Air Midwest /go! increased \$1.3 million primarily due to the launch of go! and the depreciation of certain assets acquired to support go!'s operations .

Bankruptcy Settlement

In the six months ended March 31, 2007, the Company received approximately 41,000 shares of US Airways stock which it sold for \$2.1 million. This benefit was recorded as a settlement of its US Airways related bankruptcy claim. There were no such settlements in the six months ended March 31, 2006.

Interest Expense

In the six months ended March 31, 2007, interest expense increased \$1.9 million, or 10.2%, to \$20.2 million from \$18.3 million for the six months ended March 31, 2006. The net increase in interest expense is primarily due to additional debt associated with the addition of 3 CRJ-700 aircraft during the second quarter of 2007.

Interest Income

In the six months ended March 31, 2007, interest income increased \$2.8 million to \$8.4 million from \$5.6 million for the six months ended March 31, 2006. The increase is due to increases in the rates of return on our cash and marketable securities portfolio.

Other Expense

In the six months ended March 31, 2007, other expense decreased \$6.3 million or 44.4% to \$8.0 million from \$14.3 million for the six months ended March 31, 2006. This decrease is due primarily to a \$12.2 million reduction in debt conversion costs offset by increases of \$4.6 million in unrealized losses on investment securities and \$3.5 million from equity method losses. The equity method losses were due primarily to the investee recording noncash accounting charges.

Income Taxes

In the six months ended March 31, 2007 we recorded a tax benefit of \$9.4 million compared to income tax expense of \$11.4 million in the six months ended March 31, 2006. The effective tax rates of 37.0% and 38.5%, respectively differ from the statutory rate due to varying state income taxes and to non-deductible permanent differences.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

At March 31, 2007, we had cash, cash equivalents, and marketable securities (including restricted cash) of \$198.1 million, compared to \$234.3 million at September 30, 2006. Our cash and cash equivalents and marketable securities are intended to be used for working capital, capital expenditures, acquisitions, and to fund our obligations with respect to regional jet deliveries.

Sources of cash for the six months ended March 31, 2007 were due primarily to cash flow from operations before changes in assets and liabilities of \$38.0 million. Changes in assets and liabilities added \$22.7 million in positive cash flow to obtain \$60.7 million in cash provided by operating activities. The \$23.5 million was due primarily to proceeds from sales of investment securities, and an increase in accounts payable offset by an increase in receivables, prepaid expenses and expendable parts.

Cash used in operating activities was \$6.1 million due primarily to capital expenditures of \$13.5 million related to the expansion of our regional jet fleet and related provisioning of rotatable inventory to support the additional jets and an additional equity method investment of \$1.3 million. These amounts were offset by returns of deposits previously paid on leases and equipment and a decrease in other assets.

Cash used in financing activities were \$46.1 million due primarily to net paydowns on long-term debt totaling \$27.4 million and \$24.8 million in common stock repurchased by the Company.

As of March 31, 2007, we had net receivables of approximately \$60.1 million (net of an allowance for doubtful accounts of \$1.8 million), compared to receivables of approximately \$47.4 million (net of an allowance for doubtful accounts of \$1.6 million) as of September 30, 2006. The amounts due consist primarily of receivables due from our code-share partners, subsidy payments due from Raytheon, Federal excise tax refunds on fuel, insurance proceeds, manufacturers credits and passenger ticket receivables due through the Airline Clearing House. Accounts receivable from our code-share partners was 42.0% of total gross accounts receivable at March 31, 2007.

Sources of cash for the six months ended March 31, 2006 were due primarily to cash flow from operations before changes in assets and liabilities of \$39.8 million. Changes in assets and liabilities used \$62.6 million in negative cash flow to obtain \$22.8 million in cash used by operating activities. The \$62.6 million was due primarily to purchases of investment securities and incentive payments made in connection with the United amendment. Cash provided by investing activities was \$6.5 million due primarily to proceeds from the sale of flight equipment offset by capital expenditures and an increase in restricted cash. Cash flows used in financing activities totaling \$23.9 million consisted primarily of principal payments on long-term debt and payments made to finance our rotatable inventory.

Subsequent to the end of the second quarter of 2007 Mesa announced that its Board of Directors has authorized Mesa to repurchase up to an additional 10 million shares of its outstanding common stock. The 10 million shares subject to the newly authorized repurchase program are in addition to the 5.7 million shares remaining under the prior repurchase programs.

Operating Leases

We have significant long-term lease obligations primarily relating to our aircraft fleet. These leases are classified as operating leases and are therefore excluded from our consolidated balance sheets. At March 31, 2007, we leased 157 aircraft with remaining lease terms ranging from one to 18.3 years. Future minimum lease payments due under all long-term operating leases were approximately \$2.1 billion at March 31, 2007.

3.625% Senior Convertible Notes due 2024

In February 2004, we completed the private placement of senior convertible notes due 2024, which resulted in gross proceeds of \$100.0 million (\$97.0 million, net). Cash interest is payable on the notes at the rate of 2.115% per year on the aggregate amount due at maturity, payable semiannually in arrears on February 10 and August 10 of each year, beginning August 10, 2004, until February 10, 2009. After that date, we will not pay cash interest on the notes prior to maturity, and the notes will begin accruing original issue discount at a rate of 3.625% until maturity. On February 10, 2024, the maturity date of the notes, the principal amount of each note will be \$1,000. The aggregate amount due at maturity, including interest accrued from February 10, 2009, will be \$171.4 million. Each of our wholly owned domestic subsidiaries guarantees the notes on an unsecured senior basis. The notes and the note guarantees are senior unsecured obligations and rank equally with our existing and future senior unsecured indebtedness. The notes and the note guarantees are junior to the secured obligations of our wholly owned subsidiaries to the extent of the collateral pledged.

The notes were sold at an issue price of \$583.40 per note and are convertible into shares of our common stock at a conversion rate of 40.3737 shares per note, which equals a conversion price of \$14.45 per share. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert their notes only if: (i) after March 31, 2004, the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) on or prior to February 10, 2019, the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specified corporate transactions occur. These notes are not yet convertible. We may redeem the notes, in whole or in part, beginning on February 10, 2009, at a redemption price equal to the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the notes may require us to repurchase the notes on February 10, 2009 at a price of \$583.40 per note plus accrued and unpaid cash interest, if any, on February 10, 2014 at a price of \$698.20 per note plus accrued and unpaid cash interest, if any, and on February 10, 2019 at a price of \$835.58 per note plus accrued and unpaid cash interest, if any.

6.25% Senior Convertible Notes Due 2023

In June 2003, we completed the private placement of senior convertible notes due 2023, which resulted in gross proceeds of \$100.1 million (\$96.9 million net). Cash interest is payable on the notes at the rate of 2.4829% per year on the aggregate amount due at maturity, payable semiannually in arrears on June 16 and December 16 of each year, beginning December 16, 2003, until June 16, 2008. After that date, we will not pay cash interest on the notes prior to maturity, and the notes will begin accruing original issue discount at a rate of 6.25% until maturity. On June 16, 2023, the maturity date of the notes, the principal amount of each note will be \$1,000. The aggregate amount due at maturity, including interest accrued from June 16, 2008, will be \$252 million. Each of our wholly owned domestic subsidiaries guarantees the notes on an unsecured senior basis. The notes and the note guarantees are senior unsecured obligations and rank equally with our existing and future senior unsecured indebtedness. The notes and the note guarantees are junior to the secured obligations of our wholly owned subsidiaries to the extent of the collateral pledged.

The notes were sold at an issue price of \$397.27 per note and are convertible into shares of our common stock at a conversion rate of 39.727 shares per note, which equals a conversion price of \$10 per share. This conversion rate is subject to adjustment in certain circumstances. Holders of the notes may convert their notes only if: (i) the sale price of our common stock exceeds 110% of the accreted conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding quarter; (ii) prior to June 16, 2018, the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specified corporate transactions occur. These notes became convertible in 2003. The Company may redeem the notes, in whole or in part, beginning on June 16, 2008, at a redemption price equal to the issue price, plus accrued original issue discount, plus any accrued and unpaid cash interest. The holders of the notes may require the Company to repurchase the notes on June 16, 2008 at a price of \$397.27 per note plus accrued and unpaid cash interest, if any, on June 16, 2013 at a price of \$540.41 per note plus accrued and unpaid cash interest, if any, and on June 16, 2018 at a price of \$735.13 per note plus accrued and unpaid cash interest, if any.

In fiscal 2006, holders of \$156.8 million in aggregate principal amount at maturity (\$62.3 million carrying amount) of these senior convertible notes due 2023 converted their notes into shares of Mesa common stock. In connection with these conversions, we issued an aggregate of 6.2 million shares of Mesa common stock and also paid approximately \$11.3 million in debt conversion costs to these noteholders. We also wrote off \$1.8 million in debt issue costs related to these notes.

Interim and Permanent Aircraft Financing Arrangements

At September 30, 2006, the Company had an aggregate of \$123.1 million in notes payable to an aircraft manufacturer for five aircraft on interim financing. During the second quarter of 2007, the Company permanently financed these five aircraft as well as a sixth aircraft delivered during the first quarter of 2007 with \$135.0 million in long-term debt. Under interim financing arrangements, we take delivery and title of the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, we reflect the aircraft and debt under interim financing on our balance sheet during the interim financing period. After taking delivery of the aircraft, it is our practice and our intention to subsequently enter into a sale and leaseback transaction with an independent third-party lessor. Upon permanent financing, the proceeds from the sale and leaseback transaction are used to retire the notes payable to the aircraft manufacturer. Any gain recognized on the sale and leaseback transaction is deferred and amortized over the life of the lease. These interim financing agreements typically have a term of six months and provide for monthly interest only payments at LIBOR plus three percent. The current interim financing agreement with the manufacturer provides for us to have a maximum of 15 aircraft on interim financing at any one time.

Other Indebtedness and Obligations

In October 2004, the Company permanently financed five CRJ-900 aircraft with \$118.0 million in debt. The debt bears interest at the monthly LIBOR plus three percent and requires monthly principal and interest payments.

In January and March 2004, the Company permanently financed five CRJ-700 and six CRJ-900 aircraft with \$254.7 million in debt. The debt bears interest at the monthly LIBOR plus three percent and requires monthly principal and interest payments.

In December 2003, we assumed \$24.1 million of debt in connection with our purchase of two CRJ-200 aircraft in the Midway Chapter 7 bankruptcy proceedings. The debt, due in 2013, bears interest at the rate of 7% per annum through 2008, converting to 12.5% thereafter, with principal and interest due monthly.

As of March 31, 2007, we had \$12.6 million in restricted cash on deposit collateralizing various letters of credit outstanding and the ACH funding of our payroll.

Contractual Obligations

As of March 31, 2007, we had \$691.5 million of long-term debt (including current maturities). This amount consisted of \$552.7 million in notes payable related to owned aircraft, \$137.8 million in aggregate principal amount of our senior convertible notes due 2023 and 2024 and \$1.0 million in other miscellaneous debt.

The following table sets forth our cash obligations (including principal and interest) as of March 31, 2007.

Obligations	Payment Due by Period						Total
	2007	2008	2009	2010	2011	Thereafter	
	(In thousands)						
Long-term debt:							
Note payable related to CRJ700s and 900s(1)	\$ 23,310	\$ 46,086	\$ 45,206	\$ 44,320	\$ 43,395	\$ 297,553	\$ 499,870
2003 senior convertible debt notes (assuming no conversions)	1,182	2,365	—	—	—	95,234	98,781
2004 senior convertible debt notes (assuming no conversions)	1,813	3,625	1,813	—	—	171,409	178,660
Senior CR7 CR9	6,848	13,699	13,702	13,706	13,709	134,542	196,205
Subordinate CR7 CR9	1,359	2,719	2,719	2,719	5,698	3,619	18,833
Notes payable related to B1900Ds	5,969	11,938	11,938	28,858	24,978	8,965	92,646
Note payable related to CRJ200s(1)	1,500	3,000	3,000	3,000	3,000	14,952	28,452
Mortgage note payable	54	109	824	—	—	—	987
Other	25	25	25	25	25	25	150
Total long-term debt	42,061	83,565	79,226	92,627	90,805	726,299	1,114,585
Payments under operating leases:							
Cash aircraft rental payments(1)	101,200	216,084	192,163	185,402	190,281	1,244,395	2,129,524
Lease payments on equipment and operating facilities	677	1,392	962	947	956	1,198	6,132
Total lease payments	101,877	217,476	193,124	186,349	191,237	1,245,593	2,135,655
Future aircraft acquisition costs(2)	50,000	0	0	50,000	0	0	100,000
Rotable inventory financing commitments	291	563	540	2,241	0	0	3,634

- (1) Aircraft ownership costs, including depreciation and interest expense on owned aircraft and rental payments on operating leased aircraft, of aircraft flown pursuant to our guaranteed-revenue agreements are reimbursed by the applicable code-share partner.
- (2) Represents the estimated cost of commitments to acquire CRJ-900 aircraft.

Maintenance Commitments

During the second quarter of fiscal 2007, the Company entered into a memorandum of understanding (“MOU”) with Delta’s Technical Operations division (“DTO”) for its previously uncovered General Electric Aircraft Engines (“GE”) engines. The MOU requires a monthly payment based upon the prior month’s flight hours incurred by the covered engines. The hourly rate increases over time based upon the engine overhaul costs that are expected to be incurred in that year and is subject to escalation based on changes in certain price indices. Maintenance expense is recognized based upon the product of flight hours flown and the rate in effect for the period.

In January 1997, the Company entered into a 10-year engine maintenance contract with GE for certain of our CRJ-200 aircraft engines. The agreement was subsequently amended in the first quarter of fiscal 2003. The amended contract requires a monthly payment based upon the prior month’s flight hours incurred by the covered engines. The hourly rate increases over time based upon the engine overhaul costs that are expected to be incurred in that year and is subject to escalation based on changes in certain price indices. The contract also provides for a fixed number of engine overhauls per year. To the extent that the number of actual overhauls is less than the fixed number, GE is required to issue a credit to us for the number of events less than the fixed number multiplied by an agreed upon price. To the extent that the number of actual overhauls is greater than the fixed number, we are required to pay GE for the number of events greater than the fixed number multiplied by the same agreed upon price.

In April 1997, we entered into a 10-year engine maintenance contract with Pratt & Whitney Canada Corp. (“PWC”) for our Dash 8-200 aircraft. The contract requires us to pay PWC for the engine overhaul upon completion of the maintenance based upon a fixed dollar amount per flight hour. The rate under the contract is subject to escalation based on changes in certain price indices.

In April 2000, we entered into a 10-year engine maintenance contract with Rolls-Royce Allison (“Rolls-Royce”) for its ERJ aircraft. The contract requires us to pay Rolls-Royce for the engine overhaul upon completion of the maintenance based upon a fixed dollar amount per flight hour. The rate per flight hour is based upon certain operational assumptions and may vary if the engines are operated differently than these assumptions. The rate is also subject to escalation based on changes in certain price indices. The agreement with Rolls-Royce also contains a termination clause and look back provision to provide for any shortfall between the cost of maintenance incurred by the provider and the amount paid up to the termination date by us and includes a 15% penalty on such amount. We do not anticipate an early termination under the contract.

In May 2002, we entered into a new six-year fleet management program with PWC to provide maintenance for our Beechcraft 1900D turboprop engines. The contract requires a monthly payment based upon flight hours incurred by the covered aircraft. The hourly rate is subject to annual adjustment based on changes in certain price indices and is guaranteed to increase by no less than 1.5% per year. Pursuant to the agreement, we sold certain assets of our Desert Turbine Services unit, as well as all spare PT6 engines to PWC for \$6.8 million, which approximated the net book value of the assets. Pursuant to the agreement, we provided a working capital loan to PWC for the same amount, which is to be repaid through a reduced hourly rate being charged for maintenance. The agreement covers all of our Beechcraft 1900D turboprop aircraft and engines. The agreement also contains a termination clause and look back provision to provide for any shortfall between the cost of maintenance incurred by the provider and the amount paid up to the termination date by us and provides for return of a pro-rated share of the prepaid amount upon early termination. We do not anticipate an early termination under the contract.

In August 2005, the Company entered into a ten-year agreement with AAR Corp. (the “AAR Agreement”), for the management and repair of certain of the Company’s CRJ-200, -700, -900 and ERJ-145 aircraft rotatable spare parts inventory. Under the agreement, the Company sold certain existing spare parts inventory to AAR for \$39.6 million in cash and \$21.5 million in notes receivable (discounted to \$18.8 million) to be paid over four years. The AAR agreement was contingent upon the Company terminating an agreement for the Company’s CRJ-200 aircraft rotatable spare parts inventory with GE Capital Aviation Services (“GECAS”) and including these rotables in the arrangement. The Company terminated the GECAS agreement and finalized the AAR agreement in November 2005. Upon entering into the agreement, the Company received \$22.8 million (\$23.8 million less \$1 million deposit that was retained by AAR), which was recorded as a deposit at September 30, 2005, pending the termination of the GECAS agreement. An additional \$15.8 million was received in the quarter ended March 31, 2006. Under the agreement, the Company is required to pay AAR a monthly fee based upon flight hours for access to and maintenance and servicing of the inventory. The agreement also contains certain minimum monthly payments that Mesa must make to AAR. Based on this arrangement, the Company accounts for the transaction as a service agreement and an operating lease of rotatable spare parts with AAR. The sale of the rotatable spare parts resulted in a gain of \$2.1 million, which has been deferred and is being recognized over the term of the agreement. At termination, the Company may elect to purchase the covered inventory at fair value, but is not contractually obligated to do so.

In June 2006, the Company entered into a separate two-year agreement with AAR for the management and repair of the Company’s CRJ-200 aircraft rotatable spare parts inventory associated with its *go!* operations. Under this agreement, the Company transferred certain existing spare parts inventory to AAR for \$1.2 million in cash. AAR was required to purchase an additional \$2.9 million in rotatable spare parts to support the agreement. Under the agreement, the Company is required to pay AAR a monthly fee based upon flight hours for access to and maintenance of the inventory. At termination, the Company has guaranteed the fair value of the underlying rotables. Based on this arrangement, the Company accounts for the transaction as a financing arrangement, thus recording both the rotatable spare parts inventory as an asset and the related payable to AAR as a liability.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. In connection with the preparation of these financial statements, we are required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, the allowance for doubtful accounts, medical claims reserve, valuation of assets held for sale and costs to return aircraft and a valuation allowance for certain deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Such historical experience and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations. The impact of these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. The discussion below is not intended to be a comprehensive list of our accounting policies. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements for the year ended September 30, 2006, which contains accounting policies and other disclosures required by accounting principles generally accepted in the United States of America.

Revenue Recognition

The US Airways, United and Delta regional jet code-share agreements are revenue-guarantee flying agreements. Under a revenue-guarantee arrangement, the major airline generally pays a fixed monthly minimum amount, plus certain additional amounts based upon the number of flights flown and block hours performed. The contracts also include reimbursement of certain costs incurred by us in performing flight services. These costs, known as "pass-through costs," may include aircraft ownership costs, passenger and hull insurance, aircraft property taxes as well as, fuel, landing fees and catering. The contracts also include a profit component that may be determined based on a percentage of revenue on the Mesa flown flights, a profit margin on certain reimbursable costs as well as a profit margin based on certain operational benchmarks. We recognize revenue under our revenue-guarantee agreements when the transportation is provided. The majority of the revenue under these contracts is known at the end of the accounting period and is booked as actual. We perform an estimate of the profit component based upon the information available at the end of the accounting period. All revenue recognized under these contracts is presented at the gross amount billed.

Under the Company's revenue-guarantee agreements with US Airways, United and Delta, the Company is reimbursed under a fixed rate per block-hour plus an amount per aircraft designed to reimburse the Company for certain aircraft ownership costs. In accordance with Emerging Issues Task Force Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease," the Company has concluded that a component of its revenue under the agreement discussed above is rental income, inasmuch as the agreement identifies the "right of use" of a specific type and number of aircraft over a stated period of time. The amount deemed to be rental income during the quarters ended March 31, 2007 and 2006 was \$65.3 million and \$56.5 million, respectively, and has been included in passenger revenue on the Company's consolidated statements of operations.

In connection with providing service under the Company's revenue-guarantee agreement with Pre-Merger US Airways, the Company's fuel reimbursement was capped at \$0.85 per gallon. Under this agreement, the Company had the option to purchase fuel from a subsidiary of US Airways at the capped rate. As a result, amounts included in revenue for fuel reimbursement and expense for fuel cost may not represent market rates for fuel for the Company's Pre-Merger US Airways flying. The Company purchased 9.4 million gallons of fuel under this arrangement in the quarter ended March 31, 2006. This agreement ended May 31, 2006.

The US Airways and Midwest Airlines B1900D turboprop code-share agreements are pro-rate agreements. Under a prorated agreement, we receive a percentage of the passenger's fare based on a standard industry formula

that allocates revenue based on the percentage of transportation provided. Revenue from our pro-rate agreements and our independent operation is recognized when transportation is provided. Tickets sold but not yet used are included in air traffic liability on the condensed consolidated balance sheets.

We also receive subsidies for providing scheduled air service to certain small or rural communities. Such revenue is recognized in the period in which the air service is provided. The amount of the subsidy payments is determined by the United States Department of Transportation on the basis of its evaluation of the amount of revenue needed to meet operating expenses and to provide a reasonable return on investment with respect to eligible routes. EAS rates are normally set for two-year contract periods for each city.

Allowance for Doubtful Accounts

Amounts billed by the Company under revenue guarantee arrangements are subject to our interpretation of the applicable code-share agreement and are subject to audit by our code-share partners. Periodically our code-share partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon Mesa prevailing under audit, but also upon the financial well-being of the code-share partner. As such, we periodically review amounts past due and record a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was \$1.8 million and \$1.6 million at March 31, 2007 and September 30, 2006, respectively. If our actual ability to collect these receivables and the actual financial viability of its partners is materially different than estimated, the Company's estimate of the allowance could be materially understated or overstated. The Company is currently engaged in a dispute with US Airways over fees payable pursuant to its Code Share and Revenue Sharing Agreement (the "Code Share Agreement"). The disagreement stems from payments due the Company from US Airways with respect to reimbursable operating costs and expenses relating to certain of the Company's CRJ-900 aircraft. The disputed amount that has not been paid by US Airways is \$6.9 million. The balance due at March 31, 2007 is \$6.9 million and increases by \$0.2 million per month during the term of the Code Share Agreement and the dispute remains unresolved. The Company believes that these reimbursable costs and expenses are in accordance with the terms and conditions of the Code Share Agreement and are immediately due and payable. The Company is currently working to amicably resolve this dispute in the near term prior to initiating litigation. If an amicable resolution cannot be reached, the Company is prepared to litigate its claim and believes it has a reasonable probability of succeeding in any such proceedings, although no assurances can be given in that regard.

Aircraft Leases

The majority of the Company's aircraft are leased from third parties. In order to determine the proper classification of a lease as either an operating lease or a capital lease, the Company must make certain estimates at the inception of the lease relating to the economic useful life and the fair value of an asset as well as select an appropriate discount rate to be used in discounting future lease payments. These estimates are utilized by management in making computations as required by existing accounting standards that determine whether the lease is classified as an operating lease or a capital lease. All of the Company's aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the terms of the related leases. Additionally, operating leases are not reflected in the Company's condensed consolidated balance sheet and accordingly, neither a lease asset nor an obligation for future lease payments is reflected in the Company's condensed consolidated balance sheet.

Accrued Health Care Costs

We are self-insured up to a cap for health care costs and as such, a reserve for the cost of claims that have not been paid as of the balance sheet date is estimated. Our estimate of this reserve is based upon historical claim experience and upon the recommendations of our health care provider. At March 31, 2007 and September 30, 2006, we accrued \$2.7 million and \$2.6 million, respectively, for the cost of future health care claims. If the ultimate development of these claims is significantly different than those that have been estimated, the accrual for future health care claims could be materially overstated or understated.

Accrued Worker's Compensation Costs

We are self-insured up to a cap for worker's compensation claims and as such, a reserve for the cost of claims that have not been paid as of the balance sheet date is estimated. Our estimate of this reserve is based upon historical claim experience and upon the recommendations of our third-party administrator. At March 31, 2007 and September 30, 2006, we accrued \$3.3 million and \$3.4 million, respectively, for the cost of worker's compensation claims. If the ultimate development of these claims is significantly different than those that have been estimated, the accrual for future worker's compensation claims could be materially overstated or understated.

Long-lived Assets, Aircraft and Parts Held for Sale

Property and equipment are stated at cost and depreciated over their estimated useful lives to their estimated salvage values using the straight-line method. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may be impaired. Under the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company records an impairment loss if the undiscounted future cash flows are found to be less than the carrying amount of the asset. If an impairment loss has occurred, a charge is recorded to reduce the carrying amount of the asset to fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell see Note 14 on impairments.

Valuation of Deferred Tax Assets

The Company records deferred tax assets for the value of benefits expected to be realized from the utilization of alternative minimum tax credit carryforwards and state and federal net operating loss carryforwards. We periodically review these assets for realizability based upon expected taxable income in the applicable taxing jurisdictions. To the extent we believe some portion of the benefit may not be realizable, an estimate of the unrealized portion is made and an allowance is recorded. At March 31, 2007, we had a valuation allowance of \$0.6 million for certain state net operating loss carryforwards because we believe we will not be able to generate sufficient taxable income in these jurisdictions in the future to realize the benefits of these recorded deferred tax assets. We believe the Company will generate sufficient taxable income in the future to realize the benefits of its other deferred tax assets. This belief is based upon the Company having had pretax income in fiscal 2006, 2005 and 2004 and we have taken steps to minimize the financial impact of its unprofitable subsidiaries. Realization of these deferred tax assets is dependent upon generating sufficient taxable income prior to expiration of any net operating loss carryforwards. Although realization is not assured, management believes it is more likely than not that the remaining, recorded deferred tax assets will be realized. If the ultimate realization of these deferred tax assets is significantly different from our expectations, the value of its deferred tax assets could be materially overstated.

AIRCRAFT

The following table lists the aircraft owned and leased by the Company for scheduled operations as of March 31, 2007:

Type of Aircraft	Number of Aircraft				Operating on Mar. 31, 2007	Passenger Capacity
	Owned	Interim Financing	Leased	Total		
CRJ-200/100 Regional Jet	2	—	59	61	61	50
CRJ-700 Regional Jet	8	—	10	18	18	66
CRJ-900 Regional Jet	14	—	24	38	38	86
Embraer 145 Regional Jet	—	—	36	36	36	50
Beechcraft 1900D	20	—	—	20	20	19
Dash-8	—	—	28	28	28	37
Embraer EMB-120	—	—	0	0	0	30
Total	44	0	157	201	201	

Fleet Plans

CRJ Program

As of March 31, 2007, we operated 117 Canadair Regional Jets (61 CRJ-200/100, 18 CRJ-700 and 38 CRJ-900s).

In January 2004, we exercised options to purchase 20 CRJ-900 aircraft (seven of which can be converted to CRJ-700 aircraft). As of March 31, 2007, we have taken delivery of 13 CRJ-900 aircraft and three CRJ-700 aircraft. In April 2007, we accepted delivery of two more CRJ-700 aircraft. The delivery dates for the remaining two CRJ-900s (which can be converted to CRJ-700s) has not been finalized.

ERJ Program

As of March 31, 2007, we operated 36 Embraer 145 aircraft. We acquired all 36 ERJ-145s through a June 1999 agreement with Empresa Brasileira de Aeronautica S.A. ("Embraer"). We also have options for 25 additional aircraft. In September 2006, our contract with Embraer was amended to extend the option exercise date to August 2007 for deliveries beginning in January 2009.

Beechcraft 1900D

As of March 31, 2007, we owned 34 Beechcraft 1900D aircraft and were operating 20 of these aircraft. We lease four of our Beechcraft 1900D to Gulfstream International Airlines, a regional turboprop air carrier based in Ft. Lauderdale, Florida and lease an additional ten Beechcraft 1900D aircraft to Big Sky Transportation Co., a regional turboprop carrier based in Billings, Montana ("Big Sky").

Dash-8

As of March 31, 2007, we operated 28 Dash-8 aircraft. In the fourth quarter of fiscal 2006, we took delivery of four Dash-8 aircraft and placed them into revenue service during the first quarter of fiscal 2007. As discussed in Note 14 on impairment we will ground these aircraft by September 2008. Losses will be incurred as each aircraft is returned for early termination penalties, lease settle up and other charges.

Aircraft Financing Relationships with the Manufacturer

At September 30, 2006, the Company had \$123.1 million in notes payable to an aircraft manufacturer for five aircraft on interim financing. During the second quarter of 2007, the Company permanently financed these five aircraft as well as a six aircraft delivered during the first quarter of 2007 with \$135.0 million in long-term debt. Under interim financing arrangements, the Company takes delivery and title to the aircraft prior to securing permanent financing and the acquisition of the aircraft is accounted for as a purchase with debt financing. Accordingly, the Company reflects the aircraft and debt under interim financing on its balance sheet during the interim financing period. After taking delivery of the aircraft, it is the Company's intention to permanently finance the aircraft as an operating lease through a sale and leaseback transaction with an independent third-party lessor. Upon permanent financing, the proceeds are used to retire the notes payable to the manufacturer. Any gain recognized on the sale and leaseback transaction is deferred and amortized over the life of the lease. The current interim financing agreement with the manufacturer provides for the Company to have a maximum of 15 aircraft on interim financing at a given time.

Item 3. *Qualitative and Quantitative Disclosure about Market Risk.*

There were no material changes in the Company's market risk from September 30, 2006 to March 31, 2007.

Item 4. *Controls and Procedures.*

In accordance with Rule 13a-15(b) of 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 Company's management evaluated, with the participation of the Company's principal executive officer and principal financial officer, the effectiveness

of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). Disclosure controls and procedures are defined as those controls and other procedures of an issuer that are designed to ensure that the information required to be disclosed by the issuer in the reports it files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation of these disclosure controls and procedures, the Company's chairman of the board and chief executive officer and the Company's executive vice president and chief financial officer have concluded that the disclosure controls and procedures were effective as of the date of such evaluation to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this *Quarterly Report on Form 10-Q* was being prepared. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting except for certain turnover in senior accounting and finance positions during the current quarter. These positions were backfilled with a combination of permanent employees, consultants and contractors.

* * *

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings.*

In February 2006, Hawaiian Airlines, Inc. ("Hawaiian") filed a complaint against the Company in the United States Bankruptcy Court for the District of Hawaii (the "Bankruptcy Court") alleging that the Company breached the terms of a Confidentiality Agreement entered into in April 2004 with the Trustee in Hawaiian's bankruptcy proceedings. Hawaiian's complaint alleges, among other things, that the Company breached the Confidentiality Agreement by (a) using the evaluation material to obtain a competitive advantage over Hawaiian, through the development and implementation of a business plan to compete with Hawaiian in the inter-island market, and (b) failing to return or destroy any evaluation materials after being notified by Hawaiian on or about May 12, 2004 that the Company had not been selected as a potential investor for a transaction with Hawaiian. Hawaiian, in its complaint, seeks unspecified damages, requests that the Company turn over to Hawaiian any evaluation material in the Company's possession, custody or control (the "Turnover Claim"), and an injunction preventing the Company from providing inter-island transportation services in the State of Hawaii for a period of two years from the date of such injunctive relief.

The Company vigorously denies Hawaiian's allegations and requests for relief contained in its complaint. The Company filed both an answer and an antitrust counterclaim against Hawaiian in response to its complaint. In May 2006, the Company filed a motion to dismiss the Turnover Claim contained in Hawaiian's complaint, but the Bankruptcy Court denied that motion. On December 8, 2006 the Bankruptcy Court, based on constitutional access to the courts, also granted Hawaiian's motion for summary judgment against the Company on its antitrust counterclaim. The Company does not believe that either of these decisions has a material impact on the Company's position in the lawsuit. Finally, in October 2006, the Bankruptcy Court denied Hawaiian's effort to enjoin the Company's *go!* operation from selling tickets claiming that *go!*'s entry into the inter-island air transport business was based on trade secrets furnished to Mesa during the Hawaiian bankruptcy. The Court found no such misuse of confidential information and rejected Hawaiian's motion for a preliminary injunction.

In June 2006, Hawaiian requested a preliminary injunction to prevent the Company from issuing new airline tickets for the Hawaiian inter-island market for a period of one year. In this request, Hawaiian alleges that initial discovery conducted reveals that the Company breached the Confidentiality Agreement. The Court has recently denied Hawaiian's request for a preliminary injunction. The case will be tried in September 2007.

On October 13, 2006, Aloha Airlines filed suit against Mesa Air Group and two of its Hawaii based employees (individual defendants subsequently dismissed without prejudice). The complaint was filed in state court in Hawaii and contains 11 counts and seeks damages and injunctive relief. The clear purpose of the complaint is to blunt Mesa's entry into the Hawaii inter-island market segment. Aloha alleges that Mesa's inter-island air fares are below cost and that Mesa is, therefore, violating specific provisions of Hawaii antitrust and unfair competition law. Aloha also alleges breach of contract and fraud by Mesa in connection with two confidentiality agreements, one in 2005 and the other in 2006.

In 1992, The Supreme Court of the United States decided *Morales v. TWA*, in which it construed the Airline Deregulation Act as prohibiting any state court, under any state law legal theory, from adjudicating issues which implicated an air carrier's pricing (or other service) practices. Accordingly, an airline's pricing decisions can be attacked only under federal laws. In response to the complaint, Mesa filed a motion on December 8, 2006 seeking dismissal of all claims based upon Hawaii Statutory Law that rest on Mesa's alleged below-cost pricing. Following the filing of Mesa's Motion to Dismiss, Aloha, on January 10, 2007, voluntarily chose to dismiss the action filed in State Court, and simultaneously filed a new complaint in the United States District Court for the District of Hawaii (filed on January 9, 2007). Aloha's federal complaint abandoned claims regarding below-cost pricing under Hawaii's Statutory Law and instead asserted claims under contract and federal antitrust law. On March 19, 2007, the US District Court denied Mesa's motion to dismiss the contract claims under the authority of *Morales* and its progeny. Mesa has asked the District Court to certify that ruling for immediate appellate review.

Mesa also denies any improper use of the data furnished by Aloha while Mesa was considering a bid for Aloha during its bankruptcy. The case is in its early stages and has been set for trial in April 2008.

As part of Delta's bankruptcy, on March 13, 2007, the Company announced that it reached an agreement with Delta for an amendment to and assumption of its existing Delta Connection Agreement ("Amended DCA"), as well as for a new code share agreement to operate 14 CRJ-900 regional jet aircraft ("Expansion DCA"). After service begins pursuant to the Expansion DCA and the Amended DCA, the Mesa regional jet fleet flying for Delta will consist of 14 CRJ-900s and 36 ERJ-145s.

Expansion DCA

The Expansion DCA authorizes Mesa to operate 14 CRJ-900 regional jet aircraft as a Delta Connection Carrier for a term of up to ten (10) years. This new service is expected to begin in September 2007. The compensation structure for the Expansion DCA will be similar to the structure in the existing Delta Connection agreement, except in the following areas:

- * The CRJ-900 aircraft will be owned by Delta and leased to Mesa for a nominal amount.
- * No mark-up or incentive compensation will be paid on fuel costs above a certain level or on fuel provided by Delta.

Amended DCA

The Amended DCA provides for, among other things:

- * Adding six (6) additional ERJ-145 aircraft to the scope of existing DCA for up to three (3) years beginning immediately.
- * Commencing in August 2008, the removal of eight (8) of the original thirty (30) ERJ-145 aircraft at a rate of three (3) aircraft per month.
- * Mesa receiving a general unsecured claim of \$35 million as part of Delta's bankruptcy proceedings in connection with the amendment. Such claim is in full and final satisfaction of any and all claims Mesa may have against Delta for pre-petition debt.

We are involved in various legal proceedings and FAA civil action proceedings that the Company does not believe will have a material adverse effect upon the Company's business, financial condition or results of operations, although no assurance can be given to the ultimate outcome of any such proceedings.

Item 1.A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, "Item 1.A. Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2006, which could materially affect our business, financial condition or future results. We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment and new risk facts emerge from time to time. Management cannot predict such new risk factors, nor can we assess the impact, if any, of such new risk factors, nor can we assess the impact, if any, of such new risk factors on our business or to the extent to which any factor or combination of factors may impact our business. There have not been any material changes during the quarter ended March, 2007 from the risk factors disclosed in the above-mentioned Form 10-K for the year ended September 30, 2006 except as provide below:

If we experience a lack of labor availability or strikes, it could result in a decrease of revenues due to the cancellation of flights.

The operation of our business is significantly dependent on the availability of qualified employees, including, specifically, flight crews, mechanics and avionics specialists. Historically, regional airlines have periodically experienced high pilot turnover as a result of air carriers operating larger aircraft hiring their commercial pilots. Further, the addition of aircraft, especially new aircraft types, can result in pilots upgrading between aircraft types and becoming unavailable for duty during the required extensive training periods. There can be no assurance that we will be able to maintain an adequate supply of qualified personnel or that labor expenses will not increase.

At March 31, 2007, we had approximately 5,124 employees, approximately 2,813 of whom are members of labor unions, including ALPA and the AFA. Our collective bargaining agreement with ALPA becomes amendable in September 2007 and our collective bargaining agreement with the AFA became amendable in June 2006 and the Company is in the early stages of negotiations with its flight attendants. The inability to negotiate acceptable contracts with existing unions as agreements become amendable or with new unions could result in work stoppages by the affected workers, lost revenues resulting from the cancellation of flights and increased operating costs as a result of higher wages or benefits paid to union members. We cannot predict which, if any, other employee groups may seek union representation or the outcome or the terms of any future collective bargaining agreement and therefore the effect, if any, on our business financial condition and results of operations. If negotiations with unions over collective bargaining agreements prove to be unsuccessful, following specified "cooling off" periods, the unions may initiate a work action, including a strike, which could have a material adverse effect on our business, financial condition and results of operations.

The Company is currently observing increased pilot turnover, pilot turnover at times is a significant issue among regional carriers when major carriers are hiring experienced commercial pilots away from regional carriers. The addition of aircraft, especially new aircraft types, can result in pilots upgrading between aircraft types and becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover and unavailability will not be a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that sufficient numbers of new pilots will be available to support any future growth. Currently the Company is observing an approximate 34.0% year over year increase in pilot turnover. The Company is currently observing the highest turnover among its pilots serving in the United Express system. We believe the operational challenges unique to the United Express system, particularly the schedules developed by United and difficulties experienced during irregular operations are driving this trend. While the Company is taking steps to address increased turnover, no assurances can be made that adequate replacement pilots can be retained and trained in a timely manner or that the Company will have sufficient staffing to cover Company flight operations.

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

(A) None

(B) None

(C) The Company's Board of Directors authorized the Company to purchase up to 19.4 million shares of the Company's outstanding common stock. As of March 31, 2007, the Company has acquired and retired approximately 13.7 million shares of its outstanding common stock at an aggregate cost of approximately \$91.5 million, leaving approximately 5.7 million shares available for purchase under existing Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

The Company repurchased the following shares for \$20.6 million during the three months ended March 31, 2007:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan</u>	<u>Maximum Number of Shares That May yet be Purchased Under the Plan</u>
Mar-07	2,692,174	\$ 7.64	13,652,939	5,769,322

Item 3. Defaults upon Senior Securities.

Not applicable

Item 4. Submission of Matters to vote for Security Holders.

The Company held its Annual Meeting of Stockholders on February 6, 2007, at which the stockholders re-elected eight directors, ratified the appointment of Deloitte & Touche LLP as the Company's registered independent public accountants for 2007, and ratified and approved the Company's amended and restated Director Incentive

Plan. Abstentions are included in the determination of the number of shares represented for a quorum and have the same effect as “no” votes in determining whether proposals are approved. To the extent applicable for each individual proposal, broker non-votes are counted for the purpose of determining the presence of or absence of a quorum but are not counted for determining the number of votes cast for or against the proposal.

Results of the voting in connection with each issue were as follows:

Election of Directors	For	Withhold
Jonathan G. Ornstein	27,188,371	3,304,804
Daniel J. Altobello	27,161,555	3,331,620
Robert Beleson	29,038,581	1,454,594
Carlos Bonilla	28,924,472	1,568,703
Joseph L. Manson	17,501,181	12,991,994
Peter F. Nostrand	28,924,980	1,568,195
Maurice A. Parker	28,679,318	1,813,857
Richard R. Thayer	29,033,312	1,459,863

Ratification of Deloitte & Touche LLP as the Company’s independent registered public accountants:

For	Against	Abstain
30,193,100	283,770	16,305

Proposal to ratify and adopt the Company’s amended and restated Director Incentive Plan:

For	Against	Abstain
21,116,716	1,636,387	61,478

Item 5. Other Information.

The Company has reached an agreement with Delta Air Lines (“Delta”) under its Delta Connection Agreements (“DCA”) to remove twelve Dash-8 aircraft operated under the DCA by Mesa’s subsidiary Freedom Airlines. Mesa’s recently announced expanded code share agreement with Delta to operate 14 CRJ-900 regional jet aircraft (“Expansion DCA”) will remain in place. After service begins pursuant to the Expansion DCA and the amended DCA, the Mesa regional jet fleet flying for Delta will consist of 14 CRJ-900s and 36 ERJ-145s.

The new CRJ-900s are expected to begin service in November 2007. We began removing the twelve Dash-8 aircraft in April 2007 and expect to have all twelve Dash-8’s removed from service by September 2007.

Item 6. Exhibits.

Exhibit Number	Description	Reference
10.1	Amendment Number One to Delta Connection Agreement dated as of March 13, 2007, between Freedom Airlines, Inc. and Delta Air Lines, Inc.	*
10.2	Delta Connection Agreement dated as of March 13, 2007 between Freedom Airlines, Inc. and Delta Air Lines, Inc. (certain portions deleted pursuant to confidentiality treatment request)	*
31.1	Certification Pursuant to Rule 13a- 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended	*
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended	*
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	*

* Filed herewith

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.

By: /s/ GEORGE MURNANE III

George Murnane III
Executive Vice President and CFO

Dated: May 15, 2007

Index to Exhibits

Exhibits:

Exhibit 10.1	Amendment Number One to Delta Connection Agreement dated as of March 13, 2007, between Freedom Airlines, Inc. and Delta Air Lines, Inc.
Exhibit 10.2	Delta Connection Agreement dated as of March 13, 2007 between Freedom Airlines, Inc. and Delta Air Lines, Inc. (certain portions deleted pursuant to confidentiality treatment request)
Exhibit 31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended
Exhibit 31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended
Exhibit 32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**AMENDMENT NUMBER ONE to
DELTA CONNECTION
AGREEMENT**

This Amendment Number One (this "Amendment"), dated as of the 13th day of March, 2007, to the Delta Connection Agreement dated and effective May 3, 2005 (the "Agreement"), is among Delta Air Lines, Inc., 1030 Delta Boulevard, Atlanta, Georgia 30320 ("Delta"), Freedom Airlines, Inc. ("Operator"), a wholly-owned subsidiary of Mesa Air Group, Inc. holding a certificate of Public Convenience and Necessity issued by the Federal Aviation Administration ("FAA"), whose principal address is 410 North 44th Street, Suite 700, Phoenix, Arizona 85008 and Mesa Air Group, Inc. ("Parent"), parent company and sole shareholder of Operator, whose principal address is 410 North 44th Street, Suite 700, Phoenix, Arizona 85008.

WHEREAS, Delta, Operator and Parent are parties to the Agreement; and

WHEREAS, the parties desire to amend the Agreement to temporarily add an additional six (6) Embraer ERJ 145 aircraft to the Aircraft to be operated by Operator pursuant to the terms of the Agreement; and

WHEREAS, the parties desire to amend the Agreement to permanently remove eight (8) Embraer ERJ 145 aircraft from the Aircraft operated by Operator pursuant to the terms of the Agreement.

NOW, THEREFORE, for and in consideration of the mutual undertakings set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Delta, Operator and Parent, intending to be legally bound, hereby agree as follows:

1. **Defined Terms.** All terms capitalized used, but not defined, herein shall have the meaning ascribed to such terms in the Agreement.

2. **Temporary Addition of Six Aircraft.**

A. Commencing in March 2007 (the "Commencement Date"), six (6) "white tailed" ERJ145 aircraft (the "Temporary Additional Aircraft") shall be added to the scope of the Agreement as "Aircraft" in accordance with the in-service dates set forth on Appendix 1 attached hereto and incorporated herein; provided, however, such Temporary Additional Aircraft shall only be within the scope of the Agreement and operate Delta Connection Flights for a period of two (2) years beginning on the Commencement Date (the "Initial Term"), provided, further, that Operator shall have the right (the "Extension Option") to extend the Initial Term for an additional 12-month period (the "Extension Term"),

subject to the terms and conditions hereof, by providing Delta with written notice at least one hundred eighty (180) days prior to the expiration of the Initial Term.

B. If Operator affirmatively exercises the Extension Option, during the Extension Term Operator shall only be compensated for the Direct Costs as relates to the operation of the Temporary Additional Aircraft and shall not be entitled to any Base Mark-Up, Monthly Incentive Compensation or Semi-Annual Incentive Compensation in connection therewith. In addition, during the Extension Term, the Delta Connection Flights operated with the Temporary Additional Aircraft shall not be included in Operator's calculation of the Actual Margin pursuant to Section 3(F) of the Agreement.

C. Operator and Parent, jointly and severally, represent and warrant to Delta that the Temporary Additional Aircraft have been maintained in accordance with Operator's FAA approved maintenance program, and are fully operable, are able to begin operating under the terms of the Agreement as amended hereby, and are not subject to any unusual or extraordinary repair or maintenance requirements.

D. Delta shall compensate Operator for operating the Temporary Additional Aircraft pursuant to the terms and conditions of the Agreement.

3. Restatement of Term and Removal of Eight Aircraft.

A. The first sentence of Section 11(A) of the Agreement is hereby deleted in its entirety and replaced with the following sentence:

This Agreement is effective as of the Effective Date and shall terminate on the twelfth (12th) anniversary of the Effective Date (such period, and any extension or renewal thereof, the "Term") unless terminated earlier in accordance with the terms of this Agreement or the mutual agreement of the parties.

B. Commencing in August 2008 with three (3) Aircraft and proceeding at the rate of three (3) Aircraft per month thereafter, a total of eight (8) of the original thirty (30) Aircraft shall be removed from the scope of the Agreement.

4. Bankruptcy Proceedings.

A. Delta is a debtor and debtor-in-possession in a case filed pursuant to Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the Bankruptcy Court (the "Delta Case"), which is jointly administered by the Bankruptcy Court along with the Chapter 11 cases of certain of Delta's subsidiaries (together with Delta, the "Debtors"). Parent and/or Operator (collectively, the "Company") asserts that it has or will have a claim or claims in the Delta Case for pre-petition debt, including without limitation (a) claims arising out of or relating in any way to the Agreement as amended by this Amendment, and (b) claims included in any proof of claim filed by Company in the Delta

Case (the "Claim"). In connection therewith, Delta and the Company further agree as follows:

(1) Upon Delta's assumption of the Agreement as amended by this Amendment, the parties agree as follows: The value of the Claim is Thirty-Five Million and 00/100 Dollars (\$35,000,000.00) (the "Liquidated Claim Amount") notwithstanding anything to the contrary in any proof of claim filed by Company. In full and final satisfaction of the Claim, the Liquidated Claim Amount will be allowed as a general unsecured pre-petition claim in the Delta Case, and the Debtors will not contest the Liquidated Claim Amount. If a proof of claim has been filed or is subsequently filed by Company, Company agrees that Delta may object to any amount claimed in excess of the Liquidated Claim Amount. Company shall not contest any such objection or the Bankruptcy Court's disallowance of the excess claim amount. It is expressly understood and agreed by Company that Company may seek satisfaction of the Claim only as set forth in this paragraph, and that in no event will the Debtors, their estates or any persons who are employed or otherwise associated with the Debtors be liable to Company in any other way whatsoever with respect to the Claim.

(2) Upon Delta's assumption of the Agreement as amended by this Amendment, Delta's obligation to (a) cure any existing default or loss to Company under the Agreement, or (b) take any other action required under the Bankruptcy Code as a condition precedent to the assumption of contracts, shall each be deemed to have been satisfied in full.

(3) Notwithstanding anything herein to the contrary, the limitations in sub-paragraphs 4.A.(1) and 4.A.(2) of this Amendment will not prevent the Company from additionally being permitted to assert a claim for, and being paid on such claim if successful in its assertion, as an expense of administration, (a) any amounts that accrue or have accrued post-petition in the ordinary course under the Agreement, or (b) any amounts it may become owed as an administrative claim by reason of any post-assumption rejection or breach of the Agreement.

B. Company consents to Delta's assignment of the Agreement and that certain Delta Connection Agreement of even date herewith by and among Delta, Operator and Parent (the "CRJ900 Delta Connection Agreement") (including any applicable licenses therein) to the reorganized entity upon Delta's assumption of the Agreement.

C. Company shall affirmatively support, in a manner not inconsistent with the Bankruptcy Code, including, without limitation, section 1125 of the Bankruptcy Code, Delta's restructuring activities and its chapter 11 plan of reorganization in connection with the implementation of this Amendment. In furtherance of the above, Company shall not assign, offer, sell, contract to sell, sell any option or contract to purchase, grant any option, right or warrant to purchase, lend, pledge or hypothecate or otherwise transfer or dispose of, directly or indirectly, the Claim or any portion thereof.

5. Reimbursement Agreement.

A. Each of the parties hereto acknowledges and agrees that the certain Reimbursement Agreement dated and effective as of May 3, 2005 by and among Delta, Operator and Parent (the "Reimbursement Agreement") is hereby terminated and of no further force and effect with no liability thereunder owing from any party thereto to any other party thereto.

B. As a result of the termination of the Reimbursement Agreement, (i) the text of Section 11(D)(2) of the Agreement is hereby deleted in its entirety and replaced with the words "[Intentionally Omitted.]" and (ii) the words ", together with the Reimbursement Agreement," are hereby deleted from Section 20(D) of the Agreement.

6. Conditions to Effectiveness. The effectiveness of this Amendment shall be subject to and conditioned upon the United States Bankruptcy Court for the Southern District of New York, which is administering Delta's case under Chapter 11 Case No. 05-17923 (ASH), (the "Bankruptcy Court") having entered one or more orders (collectively, the "Approval Order") authorizing Delta to assume the Agreement as amended by this Amendment and perform its obligations and exercise its rights under the Agreement and the CRJ900 Delta Connection Agreement and to execute and deliver the other instruments and documents contemplated hereby and to perform its obligations and consummate the transactions contemplated hereby and thereby. Any motion for rehearing or reconsideration of the Approval Order shall have been denied. If the Approval Order shall have been appealed, either (i) no stay of the Approval Order shall be in effect or (ii) if such a stay has been granted by a court of competent jurisdiction, then (x) the stay shall have been dissolved or (y) a final order of a court having jurisdiction to hear such appeal shall have affirmed the Approval Order and the time allowed to appeal from such affirmance or to seek review or rehearing thereof shall have expired and no further hearing, appeal or petition for certiorari can be taken or granted.

7. Miscellaneous.

A. This Amendment, together with the Appendices attached hereto, and the CRJ900 Delta Connection Agreement constitute the entire understanding of the parties with respect to the subject matter hereof, and any other prior or contemporaneous agreements, whether written or oral, are expressly superseded hereby.

B. The Amendment may be executed in any number of counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument.

C. Except as specifically stated herein, all other terms and conditions of the Agreement shall remain in full force and effect.

{signatures on following page}

IN WITNESS WHEREOF, the parties have executed this Amendment by their undersigned duly authorized representatives:

Mesa Air Group, Inc.

By: _____
Name: _____
Title: _____

Delta Air Lines, Inc.

By: _____
Name: _____
Title: _____

Freedom Airlines, Inc.

By: _____
Name: _____
Title: _____

APPENDIX 1
IN-SERVICE SCHEDULE

<u>In-Service Date</u>	<u>Number of Aircraft</u>
March 7, 2007	1
May 20, 2007	2
August, 15, 2007	1
August 23, 2007	2

***TEXT OMITTED AND FILED SEPARATELY
CONFIDENTIAL TREATMENT REQUESTED
UNDER 17C.F.R. SECTION 200.80(B)(4),
200.83 AND 240.24b-2**

Execution Copy.

**DELTA CONNECTION
AGREEMENT**

This Delta Connection Agreement (this "Agreement"), dated as of the 13th day of March, 2007 (the "Agreement Date"), is between Delta Air Lines, Inc., whose principal address is 1030 Delta Boulevard, Atlanta, Georgia 30320 ("Delta"), Freedom Airlines, Inc., or any other operating carrier proposed by Mesa and agreed to by Delta ("Operator"), a wholly-owned subsidiary of Mesa Air Group, Inc. holding a certificate of Public Convenience and Necessity issued by the Federal Aviation Administration ("FAA"), whose principal address is 410 North 44" Street, Suite 700, Phoenix, Arizona 85008 and Mesa Air Group, Inc. ("Parent"), parent company and sole shareholder of Operator, whose principal address is 410 North 44" Street, Suite 700, Phoenix, Arizona 85008.

WHEREAS, Delta operates the Delta Connection program; and

WHEREAS, Operator desires for Delta to perform and provide various marketing, schedule and fare related, and other services for Operator in connection with the Delta Connection program; and

WHEREAS, Delta is willing to perform and provide various marketing, schedule and fare related, and other services for Operator in connection with the Delta Connection program; and

WHEREAS, this Agreement will enhance the ability of Operator and Delta to serve the public and the communities that they serve or may choose to serve.

NOW, THEREFORE, for and in consideration of the foregoing premises and the mutual undertakings set for herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Delta, Parent and Operator, intending to be legally bound, hereby agree to enter into this Agreement as follows:

ARTICLE 1. FARES AND RULES PUBLICATION.

A. Delta Connection Program and Appointment of Delta as Agent. Operator hereby appoints Delta as its agent to publish its fares, schedules and related information under Delta's two letter flight designator code in city pairs specified by Delta on the fourteen (14) 76-seat CRJ-900 regional jet aircraft set forth on Exhibit A attached hereto (collectively, the "Aircraft"), and Delta hereby accepts such appointment. Delta hereby grants Operator the authority to operate as a Delta Connection Carrier, and Operator hereby accepts such grant, to conduct air transportation operating the Aircraft utilizing certain services together with certain trademarks and service marks owned by Delta or which Delta has the right to use, all as provided herein. The parties acknowledge and agree that one (1) of the fourteen Aircraft shall be used as an operational spare. From time to time, Operator may require an additional Aircraft removed from service for heavy maintenance and the parties shall mutually agree on such removal times so as to minimize the impact on the scheduling of the Aircraft.

Subject to (i) Delta delivering, or causing to be delivered, the Aircraft at least [*] days prior to the applicable scheduled in-service dates (except for the first Aircraft which Mesa and Delta will mutually agree upon an advanced delivery date which in any event shall be no more than [*] days prior to the scheduled in-service date for such Aircraft) and (ii) the execution of lease agreements as contemplated in Section 28 hereof, Operator shall place each of the Aircraft into Delta Connection service by the applicable in-service date set forth on Exhibit A hereto.

B. Fares, Rules and Seat Inventory. Delta, in its sole discretion, shall establish and publish all fares and related tariff rules for all seats, cargo and freight on the Aircraft, including fares and rules for local traffic in the city pairs served by such Aircraft. In addition, Delta will control all seat inventory and revenue management decisions for the Aircraft.

C. Schedules Publication. Delta, in its sole discretion, shall establish and publish all schedules for the Aircraft, including city-pairs served, frequencies, and timing of scheduled departures. Where practical, Delta will collaborate with Operator to determine mutually optimal schedules. Operator shall operate the Aircraft in the city pairs designated by Delta, subject to the frequency, scheduling and other requirements established by Delta from time to time. In addition, it is agreed and understood that Delta may utilize and schedule any of the Aircraft to perform various charter operations on behalf of Delta as can be reasonably accommodated by Operator.

Delta will make commercially reasonable efforts to notify Operator of schedule times, frequencies and related information for the Aircraft as sufficiently in advance of the schedule publication date so that the information can be properly disseminated to Operator for pilot and flight attendant staffing, and related operational requirements. Additionally, Delta will make commercially reasonable efforts to make reasonable accommodation for Operator's operational needs including without limitation, crew overnights and maintenance requirements for the Aircraft.

In the event Delta changes the hub location served by the Aircraft (or Delta and Operator mutually agree to increase the number of maintenance facility bases used to support the Aircraft),

* **Confidential Treatment Requested**

Delta shall provide Operator with [*] days prior written notice of such change and Delta and Operator shall meet as soon as practicably possible to revise the "Base Rate Costs" (as defined in Article 3 below) associated with any change in maintenance base facility rent and associated commercially reasonable wind-down and start-up expenses incurred by Operator in connection with relocating an existing maintenance base facility, if necessary, as a result of such change. In the event Delta opens or closes a non-hub station served or to be served by Operator, Delta shall provide Operator with [*] days prior written notice of such opening or closing unless such station is staffed by, or to be staffed by, Operator, in which case Delta shall provide Operator with [*] days prior written notice of such opening or closing

Notwithstanding any other provisions of this Agreement, Delta shall not change the hub location served by Operator to any of the following airports: [*].

ARTICLE 2. EXCLUSIVITY.

A. Operator agrees that, except as otherwise directed or approved in writing by Delta, in Delta's sole discretion, (i) the Aircraft may be used only to provide the air services contemplated by this Agreement (the "Delta Connection Flights") and (ii) the Aircraft may not be used by Operator for any other purpose including, without limitation, flying for any other airline, providing charter services other than pursuant to Section 1(C) hereof, or on Operator's own behalf.

B. [*], notwithstanding anything herein to the contrary, except as otherwise directed or approved in writing by Delta, in Delta's sole discretion, during the Term (including any renewals or extensions thereof) of this Agreement neither Operator, nor any affiliate of Operator, shall operate more than [*] flights per day for any third party or under any air carrier's flight designator code into or out of [*] and any other airport which has on average [*] or more flights per day that are operated by Delta or one or more Delta Connection operators under the 'DL' flight designator code (each, a "Restricted Airport"). In the event that Operator or an affiliate of Operator is operating [*] or more flights for another airline at a location prior to such location qualifying as a Restricted Airport hereunder, the prohibition in the previous sentence shall not apply with respect to such operations.

C. During the Term of this Agreement, except as otherwise directed or approved in writing by Delta, in Delta's sole discretion, neither Operator, nor any affiliate of Operator, shall operate more than [*] flights per day under its own flight designator code into or out of [*] or any Restricted Airport. In the event that Operator or an affiliate of Operator is operating [*] or more flights under its own flight designator code into or out of a location prior to such location qualifying as a Restricted Airport hereunder, the prohibition in the previous sentence shall not apply with respect to such operations.

D. Neither Operator, nor any affiliate of Operator, shall use any of the services, facilities or equipment provided by Delta, or an affiliate of Delta, to Operator in connection with the Aircraft or the Delta Connection Flights outside the scope of this Agreement without the prior written consent of Delta. With respect to any ancillary

* **Confidential Treatment Requested**

facilities or equipment used by Operator, or an affiliate of Operator, in connection with providing the services contemplated by this Agreement, such use for the benefit of Delta shall have priority over any other use contemplated by Operator, or any affiliate of Operator. With respect to facilities, equipment owned, leased or otherwise used by Operator in connection with providing services contemplated by this Agreement, Delta shall have the right to designate from time to time which property shall be used to carry out Operator's obligations under this Agreement.

ARTICLE 3. COMPENSATION.

A. Base Compensation.

In exchange for the flying and operation of the Aircraft, Delta shall pay Operator one hundred percent (100%) of the "Base Rate Costs" and the "Pass Through Costs" (each as such term is defined below, and collectively, the "Direct Costs") and one hundred percent (100%) of the "Reimbursable Costs" (as such term is defined below), in each case, as relates to the operation of the Delta Connection Flights. It is understood that Direct Costs and Reimbursable Costs shall be based on market-based, direct operating costs and generally accepted accounting principles ("GAAP"), and specifically exclude any pre-paid expenses except as expressly provided herein. In addition, in any month in which Operator achieves a completion rate for the Delta Connection

Flights of at least [*], Delta shall pay Operator a mark-up (the "Base Mark-up") of [*]percent ([*]%) of such Direct Costs incurred during such month, subject to certain limitations and adjustments set forth below. Any Delta Connection Flight operated with no revenue passengers or not completed within [*] of its scheduled arrival time shall be deemed not completed for purposes of this Agreement, unless operated at the direction of Delta. [*]. If Delta requests Operator to cancel one or more Delta Connection Flights, Operator shall comply with any such request within the time period reasonably requested by Delta. In the event Operator does not cancel any such Delta Connection Flights, or does not cancel such Delta Connection Flights within the time period reasonably requested by Delta (each, an "Operator Non-Cancelled Flight"), each such Operator Non-Cancelled Flight, for purposes of this Agreement, shall not be regarded as a completed flight, nor included as a Disproportionate Cancellation, and Delta shall not be obligated to pay Operator any Base Compensation, incentive compensation, or any other reimbursements in connection with such Operator Non-Cancelled Flights.

(i)(a) The "Base Rate Costs" shall include certain direct, operating costs recorded in accordance with generally accepted accounting principles ("GAAP"), (but specifically excluding any prepayments except as expressly provided herein). The Base Rate Costs for each of calendar years 2007 through 2017 are set forth on Exhibit B attached hereto and incorporated herein.

(b) Beginning with the Base Rates Costs in September 2007 (and each September thereafter), such Base Rate Costs (except pilot and flight attendant costs) shall be subject to increase at the same percentage as [*], provided that in any event, the

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applicable [*] for a given year shall be no greater than [*] percent ([*]%). For purposes of the Agreement, [*].

- (c) Pilot and flight attendant costs shall be adjusted for changes in the pay scales as per the respective existing collective bargaining agreements. Such costs will also be adjusted for any new or renegotiated collective bargaining agreements entered into after the Agreement Date. Changes to such costs will be effective at the same dates that the changes to pay scales come into effect. In no case, however, shall the annual increase in pilot costs or flight attendant costs be greater than [*] percent ([*]%).

Notwithstanding anything herein to the contrary, with respect to heavy checks, engine maintenance and landing gear overhauls, such services will be jointly sourced and negotiated by Operator and Delta at the time of the relevant event, and Exhibit B will be revised to reflect any change in expense resulting from such sourcing and negotiations (as compared to the rates set forth on Exhibit B) and any benefit or cost shall be retained by, and for the sole benefit of, Delta.

(ii) The "Pass Through Costs" shall include the following variable costs for which Delta shall bear the risk of price and volume fluctuations, provided that such costs shall be reconciled on a monthly basis to reflect the actual costs incurred by Operator:

- (1) Landing Fees;
- (2) Hull Insurance ;
- (3) Passenger Liability Insurance Costs;
- (4) War Risk Insurance;
- (5) Fuel Expense — Operator's actual fuel, into-plane expenses and fuel taxes (excluding any fuel purchased or managed by Delta or an affiliate of Delta for the benefit of Operator); provided, however, any Mark-Up of the Fuel Expense shall be capped at an amount equivalent to a \$[*]per gallon fuel price;
- (6) Glycol and de-icing services (but not if provided by Delta or an affiliate of Delta);
- (7) Catering Costs;
- (8) Property Taxes (including any reasonable fees and costs associated with appealing and obtaining reductions in Property Taxes); provided, however, any Mark-Up of any Property Tax on the Aircraft shall be capped at an amount equivalent to [*]% of the value of the Aircraft;
- (9) All costs to change the internal or external livery of any Aircraft pursuant to any request by Delta during the Term of this Agreement;
- (10) Engine Maintenance Expense, provided such expense shall not, in any event, exceed \$[*] per block hour (or such other amount mutually agreed upon by the parties, provided Operator and Delta enter into a mutually acceptable agreement to cover the maintenance and overhaul of engines);
- (11) "Aircraft Rent/Ownership Costs" — Operator's actual aircraft rent/ownership expenses for the Aircraft, which shall be [*] (\$[*]) per month per Aircraft; and
- (12) "Terminal Facility Rent and Use Charges"- Operator's actual applicable terminal facility rent and use charges (including common use, ramp rent and jet

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bridge expenses), including without limitation facilities maintenance and operation expenses, but excluding any such rent and use charges if premises are provided by Delta or any affiliate of Delta.

Notwithstanding the foregoing, Pass Through Costs shall not include any late payment charges, penalties and/or fees which Operator incurs in connection with the payment of the expenses listed above.

B. Reimbursable Costs not Subject to Mark-up.

Delta shall reimburse Operator for one hundred percent (100%) of the costs incurred for the following items ("Reimbursable Costs"), but it is expressly agreed that no Mark-Up (including any incentive compensation) of such costs shall be paid by Delta:

- (1) Any FAA or Department of Transportation ("DOT") fines administered or levied against Operator due to an action or omission principally caused by Delta or an affiliate of Delta.

C. Non-Reimbursable Costs.

The parties hereby acknowledge and agree that Operator shall be solely responsible, and Delta shall not be responsible, nor reimburse Operator, for any of the following costs:

- (1) Any and all [*] and/or [*]; and
- (2) Any and all FAA, DOT or any other government agency fines administered or levied against Operator due to any action or omission not principally caused by Delta or an affiliate of Delta; and
- (3) Passenger amenities costs and other interrupted trip expenses, including without limitation denied boarding compensation, food and lodging expenses and other transportation costs incurred by Operator due to any action or omission principally caused by Operator or an affiliate of Operator; and
- (4) Any Base Rate Costs or Pass Through Costs deemed commercially unreasonable by Delta, in its reasonable discretion.

D. Delta Costs.

The parties acknowledge and agree that the following costs related to Operator's services hereunder shall be paid directly by Delta and shall not be included in the Base Compensation or any incentive compensation calculation or payment:

- (1) Travel agency commissions, if any;
- (2) Credit card fees;
- (3) Reservations handling charges;
- (4) Booking fees;
- (5) Frequent flyer charges;

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- (6) Denied boarding costs, interrupted trip expense, baggage delivery and damaged/lost baggage compensation, except as set forth in Section 3(C)(3) above;
- (7) Advertising;
- (8) Glycol and de-icing services (if provided by Delta or an affiliate of Delta);
- (9) Terminal Facility Rent and use charges, including without limitation facilities maintenance and operations costs (if premises are provided by Delta or an affiliate of Delta);
- (10) Fuel and Fuel management expenses (if provided by Delta or an affiliate of Delta); and
- (11) The cost of any Support Services (as defined herein) and any ticketing services, if provided by Delta or an affiliate of Delta.

E. Incentive Compensation.

1. Definitions. The parties agree that for purposes of this Agreement the following terms shall have the respective meanings as set forth below:

- a. "Monthly Incentive Goal" shall mean with respect to each month during the Term, the monthly goals set forth in paragraph 1 of Schedule 3 attached hereto with respect to each of (i) completion rate and (ii) on-time arrival (collectively, "Monthly Performance Categories").
- b. "Semi-Annual Goal" shall mean, with respect to each of the semi-annual periods identified in paragraph 2 of Schedule 3 attached hereto, the semi-annual goals set forth therein with respect to each of (i) completion rate, (ii) on-time arrival and (iii) customer satisfaction rating (collectively, "Semi-Annual Performance Categories") (Semi-Annual Performance Categories and Monthly Performance Categories, collectively, "Performance Categories").

2. Monthly Incentive Compensation. In addition to the Base Compensation, Operator shall have the opportunity to earn additional compensation (the "Monthly Incentive Compensation") based upon its actual performance in the Monthly Performance Categories as compared to the applicable Monthly Incentive Goal. For each month during the Term of this Agreement, Delta shall pay Operator an additional [*]percent ([*]%) mark-up of the actual Direct Costs (as calculated monthly based on the established Annual Rate Plan) for each of the following performance goals that Operator achieves during such month:

- (i) Actual completion rate (excluding cancellations due to charter flights pursuant to Section 1(C) hereof and Disproportionate Cancellations) for its Delta Connection Flights equal to or greater than the applicable Monthly Incentive Goal; and
- (ii) Actual on-time arrival (A-14) rate (excluding Disproportionate Cancellations and Disproportionate Delays) for its Delta Connection Flights equal to or greater than the applicable Monthly Incentive Goal.

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3. Semi-Annual Incentive Compensation. In addition to the Base Compensation and the Monthly Incentive Compensation, Operator shall have the opportunity to earn additional compensation (the "Semi-Annual Incentive Compensation") based upon its semi-annual performance in the Semi-Annual Performance Categories as compared to the Semi-Annual Incentive Goal for each Semi-Annual Performance Category. During each six-month period (measured from each January 1 through June 30 and July 1 through December 31) during each year of the Term of this Agreement, Delta shall pay Operator a [*] of [*] percent ([*]%) mark-up of actual Direct Costs (as calculated monthly based on the established Annual Rate Plan) for each of the following performance goals that Operator achieves during the applicable six-month period:
- (i) Actual Completion rate (excluding cancellations due to charter flights pursuant to Section I (C) hereof and Disproportionate Cancellations) for its Delta Connection Flights equal to or greater than the applicable Semi-Annual Incentive Goal;
 - (ii) Actual on-time arrival (A-14) rate (excluding Disproportionate Cancellations Disproportionate and Delays) for its Delta Connection Flights equal to or greater than the applicable Semi-Annual Incentive Goal; and
 - (iii) Actual semi-annual customer satisfaction rating for its Delta Connection Flights is greater than the applicable Semi-Annual Incentive Goal.
4. If Operator reasonably believes, in good faith, that it failed to earn any Base Mark Up, Monthly Incentive Compensation or Semi-Annual Incentive Compensation directly as a result of operational specifications imposed by Delta (such as Operator's spare Aircraft ratio or Delta's requirement that Operator use a specific ground handler for some or all of the Delta Connection Flights), Operator may present to Delta evidence in support of such belief and Delta agrees to discuss with Operator if any adjustments should be made to Operator's actual completion rate and/or on-time arrival rate.
- F. Margin Cap. Within sixty (60) days after the end of each calendar year during the Term, Operator shall provide Delta a certificate (the "Margin Certificate") signed on behalf of Operator by its chief financial officer, that states the actual total margin that Operator earned on operating the Delta Connection Flights (and any charter operations pursuant to Section 1(C) hereof) (the "Actual Margin") during such calendar year. Such Margin Certificate shall include an exhibit that fully sets forth Operator's calculation of its Actual Margin and certify to the accuracy of the Actual Margin. Actual Margin for any given calendar year shall be determined, on a pre-tax basis, by subtracting Operator's aggregate actual Direct Costs incurred to operate the Delta Connection Flights (and any charter operations pursuant to Section I (C) hereof) for such calendar year from the total payments (the "Total Payments") made by Delta to Operator for such Delta Connection Flights for such year, including any and all Base Mark-up, Monthly Incentive Compensation and Semi-Annual Compensation, and dividing such difference by the Total Payments. In the event that Operator's Actual Margin is greater than [*] percent ([*]%), Operator shall pay Delta an amount equal to the amount necessary to reduce the Total Payments such that the Actual Margin for such calendar year will equal [*]%. Any payment made pursuant to this

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Section 3. F. shall be made within thirty (30) days of Delta receiving the Margin Certificate.

G. {Reserved.}

H. Accounting Provisions.

Delta shall retain all revenues (including, without limitation, passenger, cargo, mail, food, beverage and duty-free services or any other revenue including, without limitation, any guaranteed or incentive payments from airport, local or municipal authorities in connection with scheduling flights to such airport or locality or any federal funds payments in connection with the operation of the Delta Connection Flights. Operator shall promptly remit to Delta all monies with respect to all airline ticket sales, on-board sales, baggage charges, passenger charges, cargo sales and all other revenue collected by Operator or any agent or employee of Operator in connection with the operation of the Aircraft (including credit card transactions).

On the [*] and [*] day of each month (or if not a business day, on the following business day) Delta will advance to Operator, via wire transfer or through the Airline Clearing House (the "Clearing House") in Delta's discretion, [*] percent ([*]%) of the estimated monthly Direct Costs and Base Mark-Up (collectively, the "Base Compensation"). In computing the amount of the advance, Operator shall submit an invoice to Delta will shall be based on the projected fuel costs and will estimate the anticipated number of weekly revenue block hours, departures and passengers.

Within [*] days following the end of each month, Delta and Operator will reconcile the actual costs incurred by Operator for the Base Compensation, the final operating results (including actual performance in the Performance Categories) of, and actual revenue block hours flown by, Operator with the estimated payments made pursuant to the previous paragraph. Within [*] business days of completing such reconciliation, Delta or Operator, as the case may be, shall pay, via wire transfer or the Clearing House in Delta's discretion, to an account designated by the other party, monies equal to the reconciled amount. If certain actual costs are not known by the end of such [*] period, Operator shall provide Delta with a good faith estimate of such unknown costs and such estimated amount shall be included in the initial [*] reconciliation. As soon as commercially reasonable, such estimated amounts shall be reconciled with the actual costs for such expenses, and Delta or Operator, as the case may be, shall pay, via wire transfer or the Clearing House in Delta's discretion, to an account designated by the other party, monies equal to the reconciled amount.

Notwithstanding anything herein to the contrary, in the event Operator is unable to operate any of the Aircraft, or any of the Delta Connection Flights, due to weather, fire, war, terrorism, act of God, a strike, labor dispute, work stoppage or similar event, or any other event, provided such other event is substantially not within the control of or not caused by some action or inaction of Delta, Delta shall not be obligated to pay Operator [*]. If the non-operated Aircraft or Delta Connection Flight is caused by some action or inaction of Delta, Delta shall pay Operator's [*], but not [*], with respect to such non-operated Aircraft and

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Delta Connection Flights during the period that Operator is unable to operate such Aircraft or the Delta Connection Flights.

I. Audit of Costs Operations and Service Levels.

Operator shall maintain complete and accurate books and records to support and document all revenues, costs and expenses related to the Aircraft and its Delta Connection operations hereunder, in accordance with generally accepted accounting principles consistently applied and in accordance with the accounting policies and procedures used by the parties to develop the Direct Costs. Delta's in-house finance staff and any independent consultants selected by Delta shall be entitled, following reasonable notice to Operator, to audit and inspect Operator's books and records with respect to services provided hereunder, the service levels achieved, and the determination of charges due pursuant to this Agreement for the purpose of (i) prospectively adjusting the Base Rate Amount in connection with any annual review pursuant to Section 3(H) hereof or (ii) auditing Reimbursable Costs, Pass Through Costs, Other Reimbursable Costs, any Mark-up or incentive compensation due or paid hereunder and the Margin Cap. Any such audit will be conducted during regular business hours and be paid for by Delta unless such audit determines that Operator owes Delta in excess of \$[*], then Operator shall pay Delta the costs and expenses incurred by Delta in connection with such audit.

J. Cost Reductions. At all times during the Term, Operator shall use its best efforts to reduce its Direct Costs. In addition, Delta maintains the right to develop cost savings initiatives which will enable Operator to reduce its Direct Costs (each, a "Cost Savings Initiative"). Provided any such Cost Savings Initiative does not materially interfere with the Operator's operational standards, Operator shall use its best efforts to implement all such Cost Savings Initiatives identified by either Operator or Delta; provided, however, Operator shall not be required to implement if the implementation of such initiative increases Operator's costs.

In addition, Delta may assist Operator in obtaining goods and services in connection with operating the Aircraft and/or the Delta Connection Flights in a more economical manner, including, without limitation, via bulk purchasing and inventory management systems and processes (each, a "Delta Sourcing Initiative"). If Delta initiates or identifies any such Delta Sourcing Initiative, Operator is obligated to participate in such initiative; provided, however, that if such initiative would increase Operator's costs with respect to Operator's operations not related to the Delta Connection Flights, then Operator shall not be required to participate in such Delta Sourcing Initiative (the "Sourcing Exclusion").

Delta shall establish a baseline for each of the Direct Costs based on either (at Delta's discretion) (i) the actual costs incurred by Operator in connection with operating the Delta Connection Flights during the previous twelve (12) months or (ii) Operator's Base Rate Costs set forth on Exhibit B hereto. Also at Delta's discretion, a baseline may be adjusted to reflect situations in which this methodology does not properly reflect future costs (e.g. annual escalation, contractual increases and one time occurrences). Savings realization will be measured against these baselines for purposes of determining the amount of savings to be

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shared among Delta and Operator, subject to the Sourcing Exclusion. Baselines shall be reestablished by Delta at the end of each contract year during the Term.

Subject to the Sourcing Exclusion, realized savings associated with each Cost Savings Initiative or Delta Sourcing Initiative shall be allocated between the parties as follows:

1. With respect to realized savings for the following Base Rate Costs, Delta will retain [%] of the net benefit and Operator will retain [%] of the net benefit throughout the remaining Term of the Agreement:

- (i) [%];
- (ii) [%];
- (iii) [%]; and
- (iv) [%].

In order to effectuate the cost savings benefit allocation contemplated by this section, upon implementation of any such initiative the Base Rate Costs set forth on Exhibit B shall be adjusted accordingly. Any realized savings on Base Rate Costs not set forth above shall be retained solely by Operator.

Notwithstanding anything herein to the contrary, with respect to [%], such services will be jointly sourced and negotiated by Operator and Delta at the time of the relevant event, and any realized savings resulting from such sourcing and negotiations (as compared to the rates set forth on Exhibit B) shall be retained by, and for the sole benefit of, Delta.

2. With respect to realized savings for the following Pass Through Costs, Delta will retain [%] of the net benefit and Operator will retain [%] of the net benefit throughout the remaining Term of the Agreement:

- (i) [%];
- (ii) [%];
- (iii) [%]; and
- (iv) [%].

With regard to a Cost Savings Initiative or Delta Sourcing Initiative that affects Pass Through Costs, the parties agree to meet and confer prior to implementation on the appropriate methodology by which the portion of realized savings to be retained by Operator is determined. Any realized savings on any Pass Through Costs not set forth above shall be retained by, and for the sole benefit of, Delta.

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Operator and Delta shall establish a supplier scorecard process to monitor the performance and the impact of the Cost Savings Initiatives and Delta Sourcing Initiatives.

K. Right of Set-off. Delta may offset against the next scheduled payment to be made pursuant to Section 3(H) above the amount of any undisputed payment that Operator or an affiliate of Operator owes to Delta or an affiliate of Delta but has not made when due.

ARTICLE 4. TICKETING SERVICES, SIGNAGE; FACILITIES; SLOTS AND ROUTES.

A. Ticketing Services. Either Delta or Operator will provide primary airport ticketing services in connection with the Delta Connection Flights, and, if applicable, the other party will provide supplemental ticketing services for the Delta Connection Flights at Delta's airport ticketing locations and will use Delta ticket stock for such purposes.

B. Signage. Unless otherwise agreed by the parties, Delta will design, provide and pay for appropriate airport and other signage installed after the Effective Date to reflect the Delta Connection and the relationship between Operator and Delta. The nature and type of such signage will be in the sole discretion of Delta, subject to any airport, governmental or quasigovernmental restrictions or requirements. Delta will be responsible for installing and maintaining all such signage, but the parties will mutually determine which party will obtain any necessary formal or informal approvals from appropriate airport or other authorities to install such signage. The parties will fully cooperate with each other in all endeavors relating to such signage and any necessary approvals.

C. Facilities.

(1) In connection with the Delta Connection Flights, Operator shall use the gates and facilities designated by Delta from time to time at the locations in which Operator operates such Delta Connection Flights. No other use of such gates and other facilities by Operator or parties other than Delta shall be allowed without Delta's express written consent.

(2) Delta's right to designate gates and other facilities to be used by Operator in connection with providing Delta Connection Flights shall include the right at each airport, in Delta's discretion, to either: (a) provide for use of some or all of the needed facilities to Operator through mutually acceptable subleases, ground handling agreements, licenses, permits or otherwise; or (b) require Operator to obtain use of such facilities from the airport operator or other lessors (subject to Delta providing mutually acceptable backstop protection in signatory airport leases for Delta Connection Flights). Delta and Operator agree that Delta may relocate Operator to comparable facilities at the service locations, provided that Delta pays Operator's reasonable relocation expenses.

(3) All leases, subleases, permits, licenses and other use agreements of airport facilities used in connection with Delta Connection Flights (each, a "Facility Lease" and collectively, "Facilities Leases") entered into by Operator shall be assignable to

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Delta or Delta's designee, at Delta's election, without the consent of the other party to such Facility Lease on termination of this Agreement, the withdrawal of Delta Connection Flights from such airport or upon written notice from Delta to Operator, provided that if the consent of the facility lessor is required by contract or governmental regulations, Operator will use its best efforts to obtain such consent: (a) at the time the Facility Lease is entered into and to incorporate such consent in the terms of the Facility Lease; or (b) for an already existing Facility Lease, if and at such time as Delta may direct. Subject only to Operator obtaining any necessary consent of such other party, Operator shall, at Delta's option, assign such Facilities Leases as Delta shall designate to Delta or Delta's designee on termination of this Agreement, the withdrawal of Delta Connection Flights from such airport or upon receipt of written notice from Delta. If Delta elects and if the other party to the Facilities Lease agrees, instead of an assignment, this transfer can be accomplished by either: (x) a termination of the applicable Operator Facilities Lease and a direct lease of such premises to Delta or Delta's designee; or (y) a release of premises designated by Delta from the applicable Operator Facility Lease and lease of such premises directly to Delta or Delta's designee. On termination of this Agreement, Delta shall have the option to purchase from Operator all facilities and equipment used in connection with Delta Connection Flights then owned by Operator for an amount equal to such assets' then fair market value or Delta depreciated book value, whichever is less. On the assignment of a Facility Lease to Delta or on the withdrawal of Delta Connection Flights from an airport and for a period of thirty (30) days thereafter, Delta shall have the option to purchase from Operator all facilities and equipment used in connection with Delta Connection Flights at such airport then owned by Operator for an amount equal to such assets' then fair market value or Delta depreciated book value, whichever is less.

(4) All Facilities Leases entered into by Operator shall expressly provide that Delta or Delta's designee, at Delta's election, shall have the right to sublease any or all of the premises covered by the applicable Facilities Lease without the consent of the other party to such Facility Lease on termination of this Agreement, the withdrawal of Delta Connection Flights from such airport or upon written notice from Delta to Operator, provided that if the consent of the facility lessor is required by contract or governmental regulations, Operator will use its best efforts to obtain such consent: (a) at the time the Facility Lease is entered into and to incorporate such consent in the terms of the Facility Lease; or (b) for an already existing Facility Lease, if and at such time as Delta may direct. Subject only to Operator obtaining any necessary consent of such other party, Operator shall, at Delta's option, sublease the premises Delta specifies under any applicable Facilities Lease to Delta or Delta's designee on termination of this Agreement, the withdrawal of Delta Connection Flights from such airport or upon receipt of written notice from Delta. If Delta or Delta's designee enters into such a sublease, at Delta's option, Operator shall enter into a sub-sublease of all or the portion of the subleased premises that Delta designates.

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(5) In addition to Delta's other options with respect to premises occupied by Operator pursuant to any Facilities Lease, sublease or sub-sublease, Delta shall have the right from time to time to direct Operator to handle or allow Delta to handle other carriers designated by Delta at any such premises. If Operator is the handling carrier, it will do so on terms consistent with the applicable Facilities Lease and handling arrangements and at fees mutually agreed upon by Delta and Operator.

(6) Operator shall not assign, transfer, sublease, alter, amend, modify or terminate any Facilities Lease to which it is a party without the prior written consent of Delta.

(7) Notwithstanding anything to the contrary in this Agreement, Delta may, at its option, elect to enter the Facilities Lease in lieu of Operator for any facilities to be used by Operator at any new or existing city to be served by Operator pursuant to this Agreement, and in the event Delta exercises this option (i) Delta shall enter into a Facilities Lease with the lessor of such facilities, (ii) Operator shall utilize such facilities pursuant to a sublease, license agreement, permit, facilities use agreement or ground handling agreement with Delta, (iii) at Delta's option, the sublease, facilities use agreement or ground handling agreement shall terminate when Operator ceases to operate Delta Connection Flights at the airport, and (iv) Delta shall enter into agreements for facilities which are reasonably suitable for Operator's operational needs. If for any reason Delta fails to provide such facilities, such failure shall not be a breach hereof and Operator shall be obligated to secure such facilities.

(8) At any location in which Operator is the signatory carrier of the applicable Facility Lease, Operator shall vote as directed by Delta on any matters submitted to the signatory carriers for a vote.

(9) Operator shall comply with all requirements of such Facilities Leases, subleases and sub-subleases described in this Section 4.C. and a default by Operator under any such agreements shall be a breach of this Agreement. If Operator receives any notice of default or breach with respect to any Facilities Lease, Operator shall promptly provide a copy to Delta, consult with Delta on handling and advise Delta on Operator's plans for resolving the matter.

D. Slots and Route Authorities. During the Term of this Agreement (including any renewal terms or extensions) or upon the expiration or termination of this Agreement, Delta may, in its sole discretion, require Operator to transfer to Delta or its designee at no charge any airport takeoff or landing slots, route authorities or other regulatory authorities as Delta shall designate which have been or are being used for Delta Connection Flights under this Agreement.

ARTICLE 5. CUSTOMER SERVICES.

A. Operator will handle all customer related services in connection with the Delta Connection Flights in a professional, businesslike and courteous manner. In order to ensure a high level of customer satisfaction for the Delta Connection Flights, Operator will (i) establish

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and maintain customer handling procedures and policies that are substantially similar to those utilized by Delta ("Customer Service Policies") and (ii) establish, maintain and enforce employee conduct, appearance and training standards and policies that are substantially similar to those used by Delta. All uniforms worn by Operator employees on the Delta Connection Flights and by any Operator employees providing support services in connection with such flights shall be subject to the prior approval of Delta and shall at all times be consistent with Delta's existing uniform standards.

B. Operator and Delta will periodically meet to discuss and review Operator's customer handling procedures and policies to insure compliance with this Article 5. Each party will seek to set forth concerns and complaints under this Article 5 in writing to the other party. To the extent Delta advises Operator of any deviation from Article 5(A) hereof, the parties shall meet to mutually determine appropriate solutions and to agree on the terms of a corrective action plan and the timing of its implementation. In the event Operator shall fail, in any material respect, to adopt or implement any such agreed corrective action plan in the time period described therein, any such failure may be deemed a material breach of this Agreement.

C. Operator shall adopt as its own Delta's Terms and Conditions of Contract of Carriage ("Contract of Carriage"), baggage liability policies and denied boarding compensation policies, each as amended from time to time, and be bound by their respective terms with respect to its operation of Delta Connection Flights.

D. Operator shall reimburse Delta for any expenses incurred as a result of Operator's non-compliance with any of the Customer Service Policies, Contract of Carriage, baggage liability policies and denied boarding compensation policies.

ARTICLE 6. TRAFFIC DOCUMENTS AND RELATED PROCEDURES To the extent that the parties subsequently agree that Operator will handle traffic documents or passenger handling services in connection with any Delta Connection Flights, the following terms and conditions shall apply:

A. Pursuant to mutually acceptable procedures, either Operator will purchase (which shall be a Pass Through Cost), or Delta will periodically provide Operator with, Delta machine and manual ticket stock, miscellaneous charges orders, credit card refund drafts, credit card refund vouchers, FIMS, expense vouchers, expense checks, travel credit vouchers and other related documents (collectively referred to as "Traffic Documents"). Delta will maintain a supply of Traffic Documents at a suitable location and, upon written request from Operator, will provide Operator with appropriate supplies of Traffic Documents.

B. Unless otherwise agreed to by Delta in writing, Traffic Documents may be used, completed, validated and issued only by Operator and only in connection with transactions related to Delta Connection Flights and for no other purpose.

C. Operator will promptly surrender and return all Traffic Documents to Delta upon Delta's written request.

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D. Operator will maintain records of the Traffic Documents in a manner and format acceptable to Delta. Operator will acknowledge receipt in writing of all Traffic Documents in the manner prescribed by Delta.

E. Operator will conform with and abide by all of Delta's rules and regulations regarding the Traffic Documents.

F. Operator will take all reasonable and necessary measures to safeguard the Traffic Documents as of the time of receipt and thereafter and will maintain the Traffic Documents in accordance with mutually agreed upon security procedures. Operator shall be responsible for all risk of loss, use, misuse, misappropriation or theft of Traffic Documents as of the time Operator takes possession of the Traffic Documents.

G. Reporting and Remitting With Respect to Traffic Documents.

1. On a daily basis, Operator will provide Delta with a report for each Operator ticketing location of all ticketing and related transactions on Traffic Documents for the prior day. Such report will be in a format determined by Delta and will include, without limitation, all credit card transactions and supporting documentation.

2. Operator will issue all Traffic Documents, and will collect appropriate charges, in accordance with the tariffs, fares, rates, rules and regulations of Delta and any other applicable carriers. Operator shall be responsible for all undercharges and incorrect fares, rates and charges on Traffic Documents issued by or for Operator, and Delta may deduct from sums due Operator or bill Operator for the amount of any such undercharges or incorrect fares, rates and charges. The amount of such undercharges will be determined by utilizing the ACH Procedures for passenger tickets and on a direct billing basis for baggage/cargo related items.

H. Refund Vouchers.

1. Delta will use Delta refund vouchers for all refund transactions handled by Delta involving Operator.

2. Operator will use Delta refund vouchers, and Delta credit card refund vouchers for credit card sales refunds, and will comply with Delta's rules and regulations for handling and processing such refunds.

ARTICLE 7. FREQUENT FLYER PARTICIPATION. During the Term of this Agreement, the parties agree that passengers on Operator's Delta Connection Flights will be eligible to participate in the Delta SkyMiles frequent flyer program, as may be amended from time to time, or any other similar program developed by Delta (the "Program") and all Program award tickets will be honored for travel on Delta Connection Flights on the following terms and conditions:

A. **Administration.** Administration of the Program shall be performed by and at the cost of Delta. Delta will promote and administer the Program.

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B. Program Information. Title and full and complete ownership rights to Program membership data and information developed by Delta, wherever located, shall remain with Delta or an affiliate of Delta. Operator understands and agrees that such data and information constitutes Delta's (or its affiliates') proprietary information. Any membership lists, labels, data, or other compiled membership information supplied to Operator in any form and any and all copies thereof are to be used by Operator exclusively in the performance of its obligations under this Agreement and will not be otherwise used, sold, licensed, leased, transferred, stored, duplicated or transmitted, in any form or by any means, without Delta's prior written consent. All such information will either be returned to Delta or destroyed at Delta's request.

C. Accrual and Redemption. Passengers on the Delta Connection Flights shall be eligible to accrue and redeem Program mileage on such flights, and Operator shall carry all passengers traveling pursuant to award travel under the Program at no charge to Delta.

ARTICLE 8. SUPPORT SERVICES. Notwithstanding anything to the contrary in this Agreement, but subject to any existing obligations of Operator at the time, from time to time during the Term, Delta may, at its sole discretion, require Operator to utilize Delta, an affiliate of Delta or a another third party designated by Delta for certain services or products including, without limitation, information technology hardware, software, maintenance and support; catering and on-board provisioning; aircraft and engine maintenance and ground handling (collectively, "Support Services") in connection with the Aircraft or Delta Connection Flights, provided such Support Services are cost competitive and do not unreasonably interfere with the operational standards or performance requirements of Operator.

ARTICLE 9. AUTOMATION SERVICES. Delta may provide Operator the following automation and related services for the Delta Connection Flights, and if provided by Delta, Operator agrees to participate in such services in the manner described below.

A. Internal Reservations Equipment. Delta shall provide or arrange for the provision to Operator of an electronic reservations system (currently referred to as "Deltamatic" but including any successor reservations system adopted by Delta) and shall provide Operator with: (i) the ability to access passenger name records, (ii) automated ticketing capabilities, (iii) operational messaging switching capabilities, (iv) the ability to update Delta Connection Flight information, (v) the ability to distribute flight releases and weather packages, and (vi) perform other reservations-related functions for the Delta Connection Flights (Deltamatic and any successor system are hereinafter referred to as the "Res System"). Delta reserves the right to modify the functionality of the Res System at any time. Operator will use the Res System made available by Delta for the Delta Connection Flights only.

B. Delta's Rights and Obligations.

1. Delta will install or cause to be installed the equipment requested by Operator at the locations set forth on Exhibit C to this Agreement and shall provide Operator connection to the Res System. The equipment described on Exhibit C and any software installed on the Equipment at the time of its delivery to Operator are hereinafter referred to as the "Equipment." Operator understands and agrees that: (i) all Equipment shall remain the sole property of Delta; (ii) Operator shall not remove any identifying marks from the Equipment; (iii) Operator shall

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not subject the Equipment to any lien; and (iv) Delta may enter Operator's premises to remove the Equipment immediately upon termination of this Agreement. Exhibit C may be amended from time to time by mutual agreement of the parties to reflect the installation, removal or relocation of Equipment.

2. Delta will provide initial and recurrent training to Operator training staff and other key designated personnel in the use of the Res System, at Delta's training centers unless otherwise agreed. Delta may remove from a training program any Operator employee who is not satisfactorily participating therein. Delta shall not charge Operator for any such training.

3. Delta will provide, or arrange to provide, all repairs and maintenance services required for the Equipment and will use reasonable business efforts to keep the Equipment and the Res System in good repair and condition. Operator will not perform or attempt to perform repairs or maintenance of any kind on the Equipment without prior consultation with Delta and will promptly contact Delta regarding the need for repairs or maintenance.

C. Operator's Rights and Obligations.

1. Operator will not for any reason relocate or remove any of the Equipment without Delta's prior written consent. Delta will pay all costs associated with the installation, relocation or removal of Equipment.

2. Operator will use the Equipment and the Res System in strict conformity with the training and operating instructions provided by, or arranged to be provided by, Delta. Without limiting the generality of the foregoing, unless authorized by Delta, Operator will not use the Res System to develop or publish any reservation, ticketing, sales, cargo, tariff or other guide, to provide services not authorized by this Agreement to third parties, to train persons other than Operator's employees in the use of the Equipment or the Res System, or for other uses designated by Delta in writing as prohibited. Operator may not publish, disclose or otherwise make available to any third party the compilations of air carrier service or fares obtained from the Res System; provided, however, that Operator may use specific air carrier service and fare data for the benefit of its customers.

3. Operator will encourage and allow its employees to attend training sessions related to the Res System, and it is Operator's responsibility to insure that each employee receives full and adequate training on the Res System.

4. Operator will protect the Equipment from loss, damage or theft and shall prevent its unauthorized use or improper operation. Operator will make no alterations to the Equipment and will return the Equipment to Delta upon the termination of this Agreement in the same condition as received, excepting only ordinary wear and tear in the normal course of Operator's operations. Operator will obtain and maintain insurance for the Equipment against all risks of damage and loss, including without limitation loss by fire, theft and such other risks of loss as are customarily insured in a standard all-risk policy. Such insurance shall also provide the following:

- (a) Full replacement value coverage for the Equipment (subject to policy)

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(b) An endorsement naming Delta as the loss payee to the extent of its interest in the Equipment; and

(c) An endorsement requiring the insurer to give Delta at least thirty (30) days prior written notice of any intended cancellation, nonrenewal or material change of coverage; provided that only ten (10) days prior written notice of cancellation, nonrenewal or material change of coverage need be given in the event that such cancellation, nonrenewal or material change in coverage is caused solely by failure to make a premium payment.

Upon request by Delta, Operator will promptly provide satisfactory evidence of the insurance required pursuant to this Section 9(C)(4). Notwithstanding the foregoing, Operator shall be liable to Delta for any loss or damage to the Equipment, regardless of cause, occurring while the Equipment is in the possession, custody or control of Operator.

5. Operator waives any proprietary rights that it may have with respect to information entered into the Res System.

D. Entry and Infection. Delta personnel and persons designated or authorized by Delta may enter Operator's premises during normal business hours for the purposes of (a) monitoring, inspecting, and reviewing Operator's use of and operations with respect to the Res System, (b) performing repairs or maintenance on the Equipment, (c) installing, removing, replacing or relocating the Equipment (unless otherwise permitted by this Agreement), or (d) training or retraining Operator's employees in the use of the Res System; provided that such activities may not unreasonably interfere with Operator's business.

E. Limitations on Liability. In addition to any other limitations on liability set forth herein:

1. Delta is not responsible for errors or inaccuracies in the availability records, fare quotes, or other information contained in the Res System at any time, for any planned or unplanned interruptions, delays or malfunctions in the operation of the Res System or the Equipment or for the merchantability or fitness for a particular purpose of any of the data or Equipment made available to Operator.

2. OPERATOR HEREBY WAIVES AND RELEASES DELTA AND ITS AFFILIATES AND THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS FROM ANY AND ALL OBLIGATIONS AND LIABILITIES AND ALL RIGHTS, CLAIMS AND REMEDIES OF OPERATOR AGAINST DELTA OR ITS AFFILIATES OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, DUE TO ANY DEFECTS OR INTERRUPTIONS OF SERVICE IN, OR ERRORS OR MALFUNCTIONS BY, SOFTWARE, THE EQUIPMENT OR THE RES SYSTEM, INCLUDING ALL LIABILITY, OBLIGATION, RIGHT, CLAIM, OR REMEDY IN TORT, AND INCLUDING ALL LIABILITY, OBLIGATION, RIGHT, CLAIM OR REMEDY FOR LOSS OF REVENUE OR PROFIT OR ANY OTHER DIRECT, INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES. FURTHER DELTA DISCLAIMS AND OPERATOR

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HEREBY WAIVES ANY WARRANTIES EXPRESS OR IMPLIED INCLUDING BUT NOT LIMITED TO ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR INTENDED USE RELATING TO THE RES SYSTEM, THE EQUIPMENT, DATA, OR SERVICES FURNISHED HEREUNDER.

F. Patent and Copyright Indemnity. Delta will defend or settle, at its own expense, any action brought against Operator to the extent that it is based on a claim that the Res System provided by Delta pursuant to this Agreement, in its normal use, or any part thereof, infringes any U.S. copyright or patent; and Delta will pay those costs, damages and attorney's fees finally awarded against Operator in any such action attributable to any such claim, but such defense, settlements and payments are conditioned on the following: (1) that Delta shall be notified promptly in writing by Operator of any such claim; (2) that Delta shall have sole control of the defense of any action on such claim and of all negotiations for its settlement or compromise; (3) that Operator shall cooperate with Delta in a reasonable way to facilitate the settlement or defense of such claim, provided that Delta shall pay all of Operator's reasonable expenses in connection with any such cooperation requested by Delta; and (4) should such Res System become, or in Delta's opinion be likely to become, the subject of such claim of infringement, then Operator shall permit Delta, at Delta's option and expense, either to (a) procure for Operator the right to continue using the Res System, or (b) replace or modify the same so that it becomes noninfringing and functionally equivalent, or (c) upon failure of (a) and (b) above despite the reasonable efforts of Delta, accept immediate termination of this Agreement as it relates to such system. This paragraph (F) states the entire liability of Delta with respect to the infringement of copyrights and patents by the Res System provided hereunder or the operation thereof.

ARTICLE 10. OPERATION PERFORMANCE.

A. Operator agrees to provide the following information (excluding sub-paragraphs (iv) and (v)) to Delta for each day during the Term of this Agreement within one (1) business day after the applicable day:

(i) The number of mishandled bags per 1,000 passengers (including, without limitation, international and non-revenue passengers) flown on Delta Connection Flights during such month. Operator understands that it is Delta's current requirement, as of the Effective Date, that carriers in the Delta Connection Program maintain a number of mishandled bags as set forth on Schedule 10 attached hereto and made a part hereof.

(ii) The completion rate (actual) of the Delta Connection Flights during such month. Operator understands that it is Delta's current requirement, as of the Effective Date, that carriers in the Delta Connection Program maintain a completion rate as set forth on Schedule 10 attached hereto and made a part hereof. For purposes of this Agreement, Delta Connection Flights operated with no revenue passengers or completed over [*] late shall be considered as cancelled, unless operated at the direction of Delta.

(iii) The number of scheduled Delta Connection Flights that do not arrive at their scheduled destination prior to 15 minutes after their respective scheduled arrival

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times during such month. Operator understands that it is Delta's current requirement, as of the Effective Date, that carriers in the Delta Connection Program maintain a percentage of on-time arrivals as set forth on Schedule 10 attached hereto and made a part hereof.

(iv) Operator's overall customer satisfaction rating as compiled and reported by the Customer Satisfaction Monitor, or any successor thereto or replacement thereof. Operator understands that it is Delta's current requirement, as of the Effective Date, that carriers in the Delta Connection Program maintain a customer satisfaction rating as set forth on Schedule 10 attached hereto and made a part hereof.

(v) The number of complaints per 1,000 passengers flown on Delta Connection flights during such month. Operator understands that it is Delta's current requirement that carriers in the Delta Connection Program achieve a number of complaints per 1,000 passengers flown that is no more than the number as set forth on Schedule 10 attached hereto and made a part hereof.

B. If Delta is concerned about Operator's performance in connection with any of the performance standards set forth in Section 10(A), Operator agrees to discuss with Delta such performance and potential ways to improve such performance at Delta's request. The parties shall have [*] days to determine appropriate solutions and/or a corrective action plan, and Operator agrees to diligently comply with the terms and conditions of any such solutions and corrective action plans.

C. The parties recognize and agree that the performance requirements set forth on Schedule 10 may be modified or adjusted by Delta from time to time during the Term of this Agreement.

ARTICLE 11. TERM AND TERMINATION.

A. This Agreement and its effectiveness shall be subject to and conditioned upon the following (the "Conditions to Effectiveness"): the United States Bankruptcy Court for the Southern District of New York, which is administering Delta's case under Chapter 11 Case No. 05-17923 (ASH), (the "Bankruptcy Court") shall have entered all orders required under any provisions of Chapter 11 of Title 11 of the United States Code authorizing Delta to perform its obligations and exercise its rights under (1) this Agreement and to execute and deliver the other instruments and documents contemplated hereby and to perform its obligations and consummate the transactions contemplated hereby and thereby (collectively, the "Mesa Approval Order") and (2) unless waived by Operator and Parent in writing, the Bankruptcy Court shall have entered all orders required under any provisions of Chapter 11 of Title 11 of the United States Code authorizing Delta to assume the Delta Connection Agreement dated and effective May 3, 2005 among Delta, Freedom Airlines, Inc., and Parent, as amended by the First Amendment to Delta Connection Agreement of even date herewith (collectively, the "Assumption Order"). Any motion for rehearing or reconsideration of the Mesa Approval Order or the Assumption Order shall have been denied. If either of the Mesa Approval Order or the Assumption Order shall have been appealed, either (i) no stay of such Order shall be in effect or (ii) if such a stay has been granted by a court of competent jurisdiction, then (x) the stay shall have been dissolved or (y) a final order of a court having jurisdiction to hear such

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appeal shall have affirmed such Order and the time allowed to appeal from such affirmance or to seek review or rehearing thereof shall have expired and no further hearing, appeal or petition for certiorari can be taken or granted. If either of the Conditions to Effectiveness are not satisfied or waived as provided herein, this Agreement shall be null and void and of no force and effect.

This Agreement shall become effective as of the satisfaction of the Conditions to Effectiveness and shall terminate upon the [*] anniversary of the in-service date of the first Aircraft (such period, and any extension or renewal thereof, the "Term") unless terminated earlier in accordance with the terms of this Agreement or the mutual agreement of the parties. At the end of such initial term, this Agreement shall automatically renew for successive [*] terms on the same terms and conditions unless Delta provides Operator with not less than [*] days prior written notice of its intention not to renew this Agreement for the next one-year period. In the event of a Merger (as defined below) or Change of Control (as defined below) of Operator or Parent, Delta shall have the right to either (i) extend the term of the Agreement for an additional [*] years beyond the applicable termination date of this Agreement pursuant to this Section 11 (A) or (ii) terminate this Agreement effectively immediately upon any such Merger or Change of Control.

B. Notwithstanding the provisions of Section 11(A), either party may terminate this Agreement immediately if the other party files a voluntary petition in bankruptcy, makes an assignment for the benefit of creditors, fails to secure dismissal of any involuntary petition in bankruptcy within sixty (60) days after the filing thereof, or petitions for reorganization, liquidation, or dissolution under any federal or state bankruptcy or similar law.

C. Notwithstanding the provisions of Section 11 (A), in the event of a material breach (except for a breach set forth in Section 11 (D) below when the applicable shorter cure period shall apply) of this Agreement by either party remaining uncured for more than [*] days after receipt of written notification of such breach by the nonbreaching party, then the nonbreaching party may immediately terminate this Agreement at its sole option. If a notice of breach is delivered under this Section and a notice of termination is not delivered within ninety [*] thereafter, then either party shall be deemed to have waived its right to terminate under this Section for such occurrence.

D. In the event Delta fails to make any undisputed payment required to be made by Delta to Operator hereunder on and when due and such failure continues for [*] days after Delta's receipt of written notice of such failure from Operator, then Operator may immediately terminate this Agreement at its sole option.

E. Notwithstanding the provisions of Section 11(A), in the event a "Force Majeure Event" (as defined in Article 21) substantially prevents one party's performance of its obligations pursuant to this Agreement, for a period of [*] or more consecutive days, Delta may (i) temporarily suspend some or all of the Aircraft from the scope of this Agreement upon written notice to the Operator, or (ii) terminate this Agreement in its entirety upon [*] days prior written notice to Operator.

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F. Notwithstanding the provisions of Sections 11(A), (B), (C) and (E), Delta shall have the right to terminate this Agreement immediately and at its sole option upon the occurrence of one or more of the following:

(i) Operator or Parent agrees to merge into or with any entity, agrees to be acquired by any entity, agrees to sell substantially all of its assets or enters into a letter of intent, or similar document, to merge into or with any entity, to be acquired by any entity, or to sell substantially all of its assets (each such event, a "Merger");

(ii) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (as amended, the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than [*] percent ([*]%) of either (a) the then outstanding shares of common stock of Operator or Parent, or (b) the combined voting power of the then outstanding voting securities of Operator or Parent entitled to vote generally in the election of such party's directors or managers, as applicable (each such event, a "Change of Control");

(iii) Operator's level of safety with respect to its operation of the Aircraft or the Delta Connection Flights is not reasonably satisfactory to Delta;

(iv) a breach by Operator of Section 19(H) hereof,

(v) Operator's failure to pass, in Delta's sole discretion, a safety and codeshare audit to be conducted by Delta, at its sole discretion, at any time during the Term of this Agreement (after responding to initial findings of the audit);

(vi) Operator fails to maintain (y) a completion rate of [*] percent ([*]%) or (z) an on-time arrival rate of [*] percent ([*]%), in each case, with respect to the Delta Connection Flights (excluding any Disproportionate Cancellations and Disproportionate Delays) during any three (3) months during any consecutive six (6) month period commencing with the date at least [*] percent ([*]%) of the Aircraft have been scheduled to be placed into service in the Delta Connection Program;

(vii) a material breach of any representation or warranty by Operator of Section 16(A)(5);

(viii) Operator's failure to comply with the insurance provisions of Articles 13 and

(ix) Operator's FAA or DOT Certification is for any reason suspended or revoked or otherwise not in full force and effect so as to permit Operator to operate the Delta Connection Flights required under this Agreement; and

(x) Operator shall commence operating an aircraft type which causes Delta to be in violation of its existing collective bargaining agreement with its pilots in effect at such time.

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G. Termination for Convenience. (i) At any time prior to the initial in-service date of the first Aircraft, Delta may terminate this Agreement by providing Operator and Parent not less than [*] days' prior written notice. In the event of such termination, Delta shall reimburse Operator the applicable amounts as set forth on the attached Schedule 11 incorporated herein. If Delta terminates the Agreement pursuant to this provision, then (x) if Delta adds any [*] aircraft to the "Existing Delta Connection Fleet" (as defined below) prior to [*], or if such aircraft are instead added during such period to the fleet of any affiliate of Delta and such aircraft were not part of any existing contractual arrangement of such affiliate existing as of the date hereof, Operator shall have the right to again operate the Aircraft pursuant to substantially the same terms and condition of this Agreement; (y) Sections [*] and [*] of that certain First Amendment to Delta Connection Agreement of even date herewith by and among the parties hereto (the "First Amendment") shall be null and void, and Operator and Parent shall have an additional [*] days in which to file any claims arising out of the Delta Connection Agreement or the First Amendment thereto in lieu of the claim provided for in Section 3 of the First Amendment; and (z) Operator shall have the option to extend the "Initial Term" (as defined in Section 2.A. of the First Amendment) through the schedule change date closest to [*], and if Operator elects to so extend the Initial Term, Section [*] of the First Amendment shall be null and void. For purposes of this Agreement, "Existing Delta Connection Fleet" shall mean (i) the aircraft operating in Delta Connection service as of [*]; and (ii) any aircraft which are not yet in Delta Connection service as of [*], but to which Delta is committed to place into Delta Connection service pursuant to a Delta Connection Agreement in effect as of [*]; and (iii) [*] aircraft subject to a Memorandum of Understanding dated on or about [*] to which Delta and another carrier (the "Other Carrier") are a parties, provided, if Delta does not place such [*] aircraft into Delta Connection service with the Other Carrier starting no later than [*], such aircraft shall not be included within the meaning of the Existing Delta Connection Fleet.

(ii) Notwithstanding anything herein to the contrary, effective at any time after the [*] anniversary of the Agreement Date, Delta may terminate this Agreement without cause upon providing Operator and Parent not less than [*] prior written notice.

H. Termination of this Agreement for any reason shall not relieve either party of rights and obligations incurred prior to the effective date of termination. A party's right to terminate this Agreement shall be in addition to any other rights or remedies, in law or equity, available to such party.

ARTICLE 12. INDEPENDENT CONTRACTORS; LIABILITY PROVISIONS

A. Operator shall act as an independent contractor. The employees, agents and/or independent contractors of Operator engaged in performing any of the services Operator is obligated to perform pursuant to this Agreement shall be employees, agents and independent contractors of Operator for all purposes and under no circumstances shall employees, agents or independent contractors of Operator be deemed to be employees, agents or independent contractors of Delta. In its performance of obligations under this Agreement, Operator shall act, for all purposes, as an independent contractor and not as an agent for Delta. Delta shall have no supervisory power or control over any employees, agents or independent contractors

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engaged by Operator in connection with Operator's performance of its obligations hereunder, and all complaints or requested changes in procedure shall, in all events, be transmitted by Delta to a designated representative of Operator. Nothing contained in this Agreement is intended to limit or condition Operator's control over its operation or the conduct of its business as an air carrier, and Operator assumes all risks of financial losses which may result from the operation of the air services to be provided by Operator hereunder.

B. Delta shall act as an independent contractor. The employees, agents and/or independent contractors of Delta engaged in performing any of the services Delta is to perform pursuant to this Agreement shall be employees, agents and independent contractors of Delta for all purposes and under no circumstances shall employees, agents and independent contractors of Delta be deemed to be employees, agents or independent contractors of Operator or Parent. In performing its obligations under this Agreement, Delta shall act, for all purposes, as an independent contractor and not as an agent for Operator or Parent. Neither Operator nor Parent shall have supervisory power or control over any employees, agents or independent contractors engaged by Delta in connection with the performance of its obligations hereunder, and all complaints or requested changes in procedure shall, in all events, be transmitted by Operator or Parent to a designated representative of Delta. Nothing contained in this Agreement is intended to limit or condition Delta's control over its operation or the conduct of its business as an air carrier.

C. Operator and Parent, jointly and severally, shall be liable for and hereby agrees fully to defend, release, discharge, indemnify, and hold harmless Delta and its affiliates, and each of their respective directors, officers, employees and agents (each, a "Delta Indemnitee") from and against any and all claims, demands, damages, liabilities, suits, judgments, actions, causes of action, losses, costs and expenses of any kind, character or nature whatsoever (in each case whether groundless or otherwise), including reasonable attorneys' fees, costs and expenses in connection therewith and expenses of investigation and litigation thereof, which may be suffered by, accrued against, charged to, or recoverable from any Delta Indemnitee in any manner arising out of, connected with, or attributable to this Agreement, the performance, improper performance, or nonperformance of any and all obligations to be undertaken by Operator pursuant to this Agreement, the loss, theft, use, misuse or misappropriation of Traffic Documents, or the operation, non-operation, or improper operation of Operator's aircraft, equipment or facilities at any location, excluding only claims, demands, damages, liabilities, suits, judgments, actions, causes of action, losses, costs and expenses resulting from the gross negligence or willful misconduct of Delta, its affiliates, and their respective directors, officers, agents or employees. Operator will do all things necessary to cause and assure, and will cause and assure, that Operator will at all times be and remain in custody and control of all aircraft, equipment, and facilities of Operator, and no Delta Indemnitee shall, for any reason, be deemed to be in custody or control, or a bailee, of Operator's aircraft, equipment or facilities.

D. Delta shall be liable for and hereby agrees fully to defend, release, discharge, indemnify, and hold harmless Operator, and each of its directors, officers, employees, and agents (each, an "Operator Indemnitee") from and against any and all claims, demands, damages, liabilities, suits, judgments, actions, causes of action, losses, costs and expenses of any kind, character or nature whatsoever (in each case whether groundless or otherwise), including reasonable

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attorneys' fees, costs and expenses in connection therewith and expenses of investigation and litigation thereof, which may be suffered by, accrued against, charged to, or recoverable from any Operator Indemnitee in any manner arising out of, connected with, or attributable to Delta's performance, improper performance or nonperformance of any and all obligations to be undertaken by Delta pursuant to this Agreement, or the operation, non-operation or improper operation of Delta's aircraft, equipment or facilities at any location, excluding only claims, demands, damages, liabilities, suits, judgments, actions, causes of action, losses, costs and expenses resulting from gross negligence or willful misconduct of Operator, its affiliates, and their respective directors, officers, agents or employees. Delta will do all things necessary to cause and assure, and will cause and assure, that Delta will at all times be and remain in custody and control of any aircraft, equipment and facilities of Delta used in connection with performance of this Agreement, and no Operator Indemnitee shall, for any reason, be deemed to be in the custody or control, or a bailee, of such Delta aircraft, equipment or facilities.

E. Operator and Delta agree to comply with all lawful rules, regulations, directives and similar instructions of appropriate governmental, judicial and administrative entities including, but not limited to, airport authorities, the Federal Aviation Administration and the Department of Transportation (and any successor agencies) with respect to operations covered by this Agreement.

F. OTHER THAN ANY WARRANTIES SPECIFICALLY CONTAINED IN THIS AGREEMENT, EACH PARTY DISCLAIMS AND THE OTHER PARTY HEREBY WAIVES ANY WARRANTIES, EXPRESS OR IMPLIED, ORAL OR WRITTEN, WITH RESPECT TO THIS AGREEMENT OR ITS PERFORMANCE OF ITS OBLIGATIONS HEREUNDER INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR INTENDED USE RELATING TO ANY EQUIPMENT, DATA, INFORMATION OR SERVICES FURNISHED HEREUNDER. EACH PARTY AGREES THAT THE OTHER PARTY IS NOT LIABLE TO IT OR ANY OTHER PERSONS FOR CONSEQUENTIAL OR PUNITIVE DAMAGES UNDER ANY CIRCUMSTANCES.

G. Indemnification Claims. A party (the "Indemnified Party") entitled to indemnification from the other party under the terms of this Agreement (the "Indemnifying Party") shall provide the Indemnifying Party with prompt written notice (an "Indemnity Notice") of any third party claim which the Indemnified Party believes gives rise to a claim for indemnity against the Indemnifying Party hereunder, and the Indemnifying Party shall be entitled, if it accepts financial responsibility for the third party claim, to control the defense of or to settle any such third party claim at its own expense and by its own counsel; provided that the Indemnified Party's prior written consent (which may not be unreasonably withheld or delayed) must be obtained prior to settling any such third party claim. If the Indemnifying Party does not accept financial responsibility for the third party claim or fails to defend against the third party claim that is the subject of an Indemnity Notice within thirty (30) days of receiving such notice (or sooner if the nature of the third party claim so requires), or otherwise contests its obligation to indemnify the Indemnified Party in connection therewith, the Indemnified Party may, upon providing written notice to the Indemnifying Party, pay, compromise or defend such third party claim. The Indemnified Party shall provide the

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Indemnifying Party with such information as the Indemnifying Party shall reasonably request to defend any such third party claim and shall otherwise cooperate with the Indemnifying Party in the defense of any such third party claim. Except as set forth above in this Section 12(G), the Indemnified Party shall not enter into any settlement or other compromise or consent to a judgment with respect to a third party claim as to which the Indemnifying Party has an indemnity obligation hereunder without the prior written consent of the Indemnifying Party (which may not be unreasonably withheld or delayed), and the entering into any settlement or compromise or the consent to any judgment in violation of the foregoing shall constitute a waiver by the Indemnified Party of its right to indemnity hereunder to the extent the Indemnifying Party was prejudiced thereby. Any Indemnifying Party shall be subrogated to the rights of the Indemnified Party to the extent that the Indemnifying Party pays for any Loss suffered by the Indemnified Party hereunder. Notwithstanding anything contained in this Section 12(G) to the contrary, Operator, Parent and Delta will cooperate in the defense of any claim imposed jointly against them or as the result of the conduct of the other.

ARTICLE 13. WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE PROVISIONS.

A. For purposes of workers' compensation insurance, Delta's employees, agents and independent contractors under no circumstances shall be deemed to be, or shall be, employees, agents or independent contractors of Operator.

B. For purposes of workers' compensation insurance, Operator's employees, agents and independent contractors under no circumstances shall be deemed to be, or shall be, the employees, agents or independent contractors of Delta.

C. Each party assumes full responsibility for, and liability to, its own employees on account of injury, or death resulting therefrom, sustained in the course of their employment. Each party, with respect to its own employees, accepts full and exclusive liability for the payment of applicable workers' compensation and employers' liability insurance premiums with respect to such employees, and for the payment of all taxes, contributions or other payments for unemployment compensation and old age benefits, and other similar benefits now or hereafter imposed upon employers by any government or agency thereof having jurisdiction in respect of such employee. Each party also agrees to make such payments and to make and file all reports and returns and to do all things necessary to comply with all applicable laws at any time imposing such taxes, contributions, or payments.

D. Each party will have their workers' compensation insurance carrier endorse its policy to provide a waiver of subrogation against the other party.

ARTICLE 14. INSURANCE PROVISIONS.

A. Operator shall procure and maintain in full force and effect during the term of this Agreement policies of insurance of the types and in the minimum amounts set forth below, with such insurers and under such terms and conditions as are satisfactory to Delta:

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1. All risk hull insurance on an agreed value basis, not to exceed replacement value, except as required by financing agreements.
2. Comprehensive aviation liability (including premises, products and completed operations) covering bodily injury, personal injury and property damage in an amount not less than \$[*] per occurrence; provided, however, that non-passenger personal injury coverage may be limited to \$[*] per occurrence.
3. Workers' compensation for statutory limits.
4. Employer's liability in an amount not less than \$[*].
5. Baggage liability in an amount not less than \$[*] per occurrence.
6. Cargo liability in an amount not less than \$[*] per loss, casualty or disaster.
7. Automobile liability in an amount not less than \$[*] combined single limit per occurrence.
8. War, Hijacking and Other Allied Perils insurance protecting against the perils in AVN52D, as amended from time to time, or its U.S. equivalent through the FAA War Program in an amount not less than \$[*] per occurrence. Such insurance may be maintained through a combination of primary and excess layers.
9. Insurance required by any Facilities Lease.

B. Operator shall cause the policies of insurance described in Article 14(A) above to be duly and properly endorsed by Operator's insurance underwriters as follows:

1. As to the policies of insurance described in Articles 14(A)(1), (A)(2), (A)(3), (A)(4), (A)(5), (A)(6), (A)(7) and (A)(8): (a) to provide that any waiver of rights of subrogation against other parties by Operator will not affect the coverage provided hereunder with respect to Delta, its affiliates, and their directors, officers, employees and agents; and (b) to provide that Operator's underwriters shall waive all subrogation rights arising out of this Agreement against Delta, its affiliates, and their directors, officers, employees and agents without regard to any breach of warranty on the part of Operator.
2. As to the policies of insurance described in Articles 14(A)(2), (A)(5), (A)(6), (A)(7) and (A)(8): (a) to provide that Delta, its affiliates, and their directors, officers, employees and agents shall be named as additional insured parties thereunder; and (b) to provide that such insurance shall be primary insurance as respects any insurance carried by Delta.

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3. As to the policies of insurance described in Articles 14(A)(2) and (A)(7): (a) to provide a cross-liability clause as though separate policies were issued for Delta and Operator and their respective affiliates, and their directors, officers, employees and agents; and (b) to provide contractual liability insurance coverage for liability assumed by Operator under this Agreement.
4. As to any insurance obtained from foreign underwriters, to provide that Delta may maintain against such underwriters a direct action in the United States upon such insurance policies and, to this end, to include a standard service of process clause designating a United States attorney in Washington, D.C. or New York, New York.
5. All insurance policies shall provide that the insurance shall not be invalidated by any action or inaction of Operator.

C. Operator shall cause each of the insurance policies to be duly and properly endorsed to provide that such policy or policies or any part or parts thereof shall not be canceled, terminated or materially altered, changed or amended by Operator's insurance underwriters until after thirty (30) days' written notice to Delta, which thirty (30) days' notice shall commence to run from the date such notice is actually received by Delta.

D. Not later than the Effective Date, and upon renewal thereafter or upon request by Delta, Operator shall furnish Delta evidence satisfactory to Delta of the aforesaid insurance coverages and endorsements, including certificates certifying that the aforesaid insurance policy or policies with the aforesaid limits are duly and properly endorsed as aforesaid and are in full force and effect.

E. In the event Operator fails to maintain in full force and effect any of the insurance and endorsements required to be maintained by Operator pursuant to Article 14(A), Delta shall have the right (but not the obligation) to procure and maintain such insurance or any part thereof on behalf of Operator. The cost of such insurance shall be payable by Operator to Delta upon demand by Delta. The procurement of such insurance or any part thereof by Delta does not discharge or excuse Operator's obligation to comply with the provisions set out herein. Operator agrees not to cancel, terminate or materially alter, change or amend any of the policies until after providing thirty (30) days' advance written notice to Delta of Operator's intent to so cancel, terminate or materially alter, change or amend such policies of insurance, which thirty (30) day notice period shall commence to run from the date notice is actually received by Delta.

F. With respect to all claims against Operator (but not against Delta) with respect to which Operator is not entitled to be indemnified by Delta pursuant to Article 12(B), whether or not covered by the insurance policies set forth in this Article 14 or otherwise. Delta is responsible only for filing an initial report and has no other obligations with respect to such claims, and Operator is fully responsible for handling all adjustments, settlements, negotiations, litigation and similar activities in any way related to or connected with such claims.

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G. The parties hereby agree that from time to time during the term of this Agreement Delta may require Operator to procure and maintain insurance coverages in amounts in excess of the minimum amounts set forth in Article 14(A) should the circumstances and conditions of Operator's operations under this Agreement be deemed, in Delta's sole discretion, to require reasonable increases in any or all of the foregoing minimum insurance coverages.

ARTICLE 15. OPERATIONS OF OPERATOR AS A DELTA CONNECTION CARRIER.

A. Delta and Operator agree that, subject to the provisions of this Agreement, Operator will operate the Delta Connection Flights exclusively as a Delta Connection carrier. Unless otherwise agreed by Delta, Operator will operate all Delta Connection Flights and the Aircraft with the passenger seat capacity as determined by Delta from time to time.

B. Operator acknowledges and agrees that participation in the Delta Connection program obligates Operator to offer and maintain a professional, high quality level of service in terms of schedules, customer service and the like. Accordingly, at the request of Delta, the parties will: (a) meet to mutually review and discuss the services, operations and plans of Operator and Delta for the Delta Connection program; and (b) jointly develop a written business plan for the Delta Connection operations and services of Operator. Operator will comply with the business plans so developed and all reasonable recommendations of Delta in this area.

C. Delta shall have the right, from time to time, to inspect Operator's Delta Connection service, including without limitation Operator's in-flight service, flight, maintenance, technical operations, gate-check in service, ground operations, Aircraft cleaning and any and all other services and operations performed by Operator in connection with the Delta Connection Flights. Such inspections may be announced or unannounced, but under no circumstances shall they interfere with the operation of Operator's business. Failure on the part of Delta to conduct such inspections shall not relieve Operator of its obligations to conform with the service and performance standards set forth in this Agreement.

ARTICLE 16. REPRESENTATIONS AND WARRANTIES.

A. Representations, Warranties and Covenants of Operator and Parent. Operator and Parent each represents and warrants to Delta as of the date hereof as follows:

(1) Organization and Qualification. Each of Operator and Parent is a duly organized and validly existing corporation in good standing under the laws of the State of Nevada and has the corporate power and authority to own, operate and use its assets and operate the Delta Connection Flights.

(2) Authority Relative to this Agreement. Each of Parent and Operator has the corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby in accordance with the terms hereof. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Operator and Parent. This Agreement has been duly and validly executed and delivered by Operator and Parent and

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is, assuming due execution and delivery thereof by Delta, a valid and binding obligation of Operator and Parent, enforceable against Operator and Parent in accordance with its terms.

(3) Conflicts: Defaults. Neither the execution or delivery of this Agreement nor the performance by Operator or Parent of the transactions contemplated hereby will (i) violate, conflict with, or constitute a default under any of the terms of Operator's or Parent's articles of incorporation, by-laws, or any provision of, or result in the acceleration of any obligation under, any contract, sales commitment, license, purchase order, security agreement, mortgage, note, deed, lien, lease, agreement or instrument, including without limitation, any order, judgment or decree relating to the Delta Connection Flights, (ii) result in the creation or imposition of liens in favor of any third person or entity, (iii) violate any law, statute, judgment, decree, order, rule or regulation of any governmental authority, or (iv) constitute any event which, after notice or lapse of time or both, would result in such violation, conflict, default, acceleration or creation or imposition of liens.

(4) Broker. Neither Operator nor Parent has not retained or agreed to pay any broker or finder with respect to this Agreement and the transactions contemplated hereby.

(5) Compliance. All air transportation services performed pursuant to this Agreement or otherwise shall be conducted in full compliance with all applicable statutes, orders, rules, regulations and notifications, whether now in effect or hereafter promulgated, of all governmental agencies having jurisdiction over its operations, including, but not limited to, the FAA, DOD, and DOT. Operator's compliance with such governmental statutes, orders, rules, regulations and notifications will be the sole and exclusive obligation of Operator and Parent, and Delta will have no obligation, responsibility, or liability, whether direct or indirect, with respect to such matters.

B Representations and Warranties of Delta. Delta represents to Operator and Parent as of the date hereof as follows:

(1) Organization and Qualification. Delta is a duly incorporated and validly existing corporation in good standing under the laws of the State of Delaware.

(2) Authority Relative to this Agreement. Delta has the corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby in accordance with the terms hereof. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Delta. This Agreement has been duly and validly executed and delivered by Delta and is, assuming due execution and delivery thereof by Operator and Parent and that Operator and Parent have full legal power and right to enter into this Agreement, a valid and binding obligation of Delta, enforceable against Delta in accordance with its terms.

(3) Conflicts: Defaults. Neither the execution or delivery of this Agreement nor the performance by Delta of the transactions contemplated hereby will (i) violate, conflict

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with, or constitute a default under any of the terms of Delta's articles of incorporation, by-laws, or any provision of, or result in the acceleration of any obligation under, any contract, sales commitment, license, purchase order, security agreement, mortgage, note, deed, lien, lease, agreement or instrument, including without limitation, any order, judgment or decree relating to the Delta Connection Flights, (ii) result in the creation or imposition of any liens in favor of any third person or entity, (iii) violate any law, statute, judgment, decree, order, rule or regulation of any governmental authority, or (iv) constitute any event which, after notice or lapse of time or both, would result in such violation, conflict, default, acceleration or creation or imposition of liens.

(4) Broker. Delta has not retained or agreed to pay any broker or finder with respect to this Agreement and the transactions contemplated hereby.

ARTICLE 17 {Reserved.}

ARTICLE 18 {Reserved.}

ARTICLE 19. COVENANTS OF OPERATOR AND PARENT. Operator and Parent hereby covenant and agree that:

A. If requested by Delta at any time during the Term of this Agreement, Operator shall place its flight designator code, "178", on certain flights operated by Delta or an affiliate of Delta.

B. [*].

C. Operator shall not enter into any binding agreement or arrangement (or series of agreements or arrangements) with any third party (excluding any employee collective bargaining units) for the procurement of any goods or services relating to Operator, the Aircraft or operation of any of the Delta Connection Flights that may materially increase Operator's Direct Costs to perform its services hereunder without the prior written consent of Delta.

D. At the request of Delta, Operator, in connection with providing services contemplated by this Agreement, shall procure certain goods and/or services under strategic sourcing arrangements with affiliated or third parties established by Delta from time to time.

E. At the request of Delta, Operator agrees to enter into such agreement(s) with another air carrier as may be necessary to implement shared code-sharing on the Delta Connection Flights with such other air carrier.

F. Operator agrees that any pilot furloughed by Delta will be given preferential new hire opportunities at Operator if such pilot completes all new hire paper work, meets all new hire airman and medical qualifications, satisfies background checks and successfully

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completes an interview and employment process. Operator and Delta shall determine and implement mutually acceptable procedures and processes to effectuate the new hire opportunity commitment set forth above. Delta agrees to offer preferential interviews for employment to

airmen employed by Operator, subject to Delta's objectives for diversity and experience among newly hired pilots.

G. Operator shall file all reports and plans relating to its operations with the DOD, DOT, FAA, NTSB or any state or airport authority, and Operator shall promptly furnish Delta with copies of all such reports and such other available traffic and operating reports as Delta may request from time to time. Delta shall provide Operator with any required information maintained by Delta in connection herewith. Additionally, Operator will promptly furnish Delta with a copy of every report and plan that Operator prepares, whether or not such report is filed with the FAA, NTSB or any other governmental agency, relating to any accident or incident involving an Aircraft when such accident or incident is claimed to have resulted in the death or injury to any person or the loss of, damage to or destruction of any property.

H. All flight operations, dispatch operations and flights and all other operations undertaken by Operator pursuant to this Agreement shall be conducted and operated by Operator in strict compliance with all Governmental Regulations, including, without limitation, those relating to airport security, the use and transportation of hazardous materials, flight crew and mechanic qualifications and licensing requirements, crew training and hours. All Aircraft shall be operated and maintained by Operator in strict compliance with all Minimum Maintenance Standards, all Governmental Regulations, Operator's own operations manuals and maintenance manuals and procedures, and all applicable equipment manufacturer's instructions. At all times, Operator shall operate with the highest standards of care.

I. In the event Parent is no longer a public reporting company, Operator shall furnish to Delta (1) within 45 days after the end of each of the three interim calendar quarters, unaudited financial statements including Operator's then current corporate balance sheet and profit and loss statement and (2) within 91 days after the end of Operator's fiscal year, Operator's then current, audited financial statements including, either separately or on a consolidated basis, the balance sheet and the profit and loss statement, together with associated footnotes, and a copy of the independent auditor's report. Notwithstanding the reporting status of Parent, Operator shall furnish to Delta within 91 days after the end of Operator's fiscal year, a profit and loss statement with respect to Operator's Delta Connection operations prepared by SEC line-item and certified by Operator's chief financial officer.

ARTICLE 20. CONTRACT INTERPRETATION.

A. This Agreement is subject to, and will be governed by and interpreted in accordance with, the laws of the State of New York, excluding conflicts of laws principles, and of the United States of America. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may only be brought in the courts of the State of Georgia in Fulton County, or, if it has or can acquire jurisdiction, in the United States District

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Court for the Northern District of Georgia, and each of the parties hereto irrevocably consents to the exclusive jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives, to the fullest extent permitted by law, any objection to venue laid therein. Process in any action or proceeding referred to in the proceeding sentence may be served on any party anywhere in the world. EACH PARTY FURTHER AGREES TO WAIVE ANY RIGHT TO A TRIAL BY JURY.

B. The descriptive headings of the several articles and sections of this Agreement are inserted for convenience only, confer no rights or obligations on either party, and do not constitute a part of this Agreement.

C. Time is of the essence in interpreting and performing this Agreement.

D. This Agreement (including the Exhibits and Schedules hereto), together with the Reimbursement Agreement, constitutes the entire understanding between the parties with respect to the subject matter hereof, and any other prior or contemporaneous agreements, whether written or oral, are expressly superseded hereby.

E. If any part of any provision of this Agreement shall be invalid or unenforceable under applicable law, such part shall be ineffective to the extent of such invalidity or unenforceability only, without in any way affecting the remaining parts of such provision or the remaining provisions.

F. This Agreement may be executed in any number of counterparts, including via facsimile, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same instrument.

G. Because a breach of the provisions of this Agreement could not adequately be compensated by money damages, any party shall be entitled to an injunction restraining such breach or threatened breach and to specific performance of any provision of this Agreement and, in either case, no bond or other security shall be required in connection therewith, and the parties hereby consent to the issuance of such injunction and to the ordering of specific performance.

H. NO PARTY SHALL BE LIABLE FOR ANY INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, ARISING FROM THIS AGREEMENT OR ANY BREACH HEREOF.

ARTICLE 21. CIRCUMSTANCES BEYOND THE PARTIES' CONTROL.

With the exception of outstanding rights and obligations, and subject to Section 3(H) hereof, each party will be relieved of its obligations under this Agreement in the event, to the extent and for the period of time that performance is delayed or prevented caused by any acts of God, acts of terrorism or hostilities, war, strike, labor disputes, work stoppage, fire, act of government, court order, or any other act reasonably beyond the control of that party, including but not limited to, non-delivery or delay in delivery of the Aircraft or

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delay in the completion of required training of the Operator's employees by the Aircraft manufacturer (each, a "Force Majeure Event").

ARTICLE 22. NO LICENSE GRANTED.

- A. This Agreement is not, and shall not be construed to be, a license for either party to use the trade names, trademarks, service marks, or logos of the other party, or its affiliates, without such party's prior written consent.
- B. Operator will conduct all operations described herein under the service mark "Delta Connection." Delta hereby grants to Operator a nonexclusive, nontransferable, non-sublicensable license to use certain trademarks, service marks, logos and trade names that Delta owns or has the right to use, including, "Delta," "Delta Connection," "SkyMiles," and the Delta widget design (collectively, the "Delta Marks") in connection with the services to be rendered by Operator pursuant to this Agreement; provided, however, that at any time during the Term of this Agreement, Delta may alter, amend or revoke the license hereby granted and require Operator's use of a new or different Delta Mark in connection with the services provided hereunder as Delta may determine in its sole discretion.
- C. Operator hereby acknowledges Delta's right to use the Delta Marks, further acknowledges the validity of the Delta Marks, and agrees that it will not do anything in any way to infringe or abridge Delta's, or any of its affiliates', rights in the Delta Marks or directly or indirectly to challenge the validity of the Delta Marks.
- D. Operator shall not use any of the Delta Marks without Delta's prior written consent.
- E. Nothing in this Agreement shall be construed to give Operator the exclusive right to use any of the Delta Marks, or to abridge Delta's right to use or license any of its trademarks, service marks, trade names or logos (collectively, "Identification") and to license such other uses of such Identification as Delta or its affiliates may desire.
- F. Should this Agreement be canceled or otherwise terminated for any reason as set forth in Article 11 hereof, all right to use the Delta Marks shall revert to Delta and shall not thereafter be used by Operator in any form or fashion.
- G. **Branding.**
1. **Livery.** Each of the Aircraft shall be in the color scheme, including exterior paint and interior upholstery and appointments ("Livery") of the Delta Connection Livery, as provided by Delta to Operator from time to time. Any changes to the Livery of any of the Aircraft shall be done on a schedule as mutually agreed by the parties.
 2. **On Board Branding.** Delta shall control all on board branding and in-flight materials including, without limitation, in-flight publications, food and beverage products, paper goods and service ware. In the event of any change to the on-board branding or in-flight materials, Delta shall be responsible for reimbursing Operator for any reasonable costs and expenses

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incurred by Operator in connection therewith. Operator shall be solely responsible for maintaining all licenses necessary for the serving of in-flight food and beverages on the Delta Connection Flights.

ARTICLE 23. MODIFICATION AND WAIVER.

No amendment, modification, supplement, termination or waiver of any provision of this Agreement, and no consent to any departure by either party therefrom, shall in any event be effective unless in writing signed by authorized representatives of both parties, and then only in the specific instance and for the specific purpose given.

ARTICLE 24. NOTICES.

Unless otherwise provided herein, all notices, requests and other communications required or provided for hereunder shall be in writing (including telecopy or similar teletransmission or writing) and shall be given at the following addresses:

(1) If to Delta:

Delta Air Lines, Inc.
1030 Delta Boulevard
Atlanta, GA 30354
Dept. 915
Attention: Vice President- Supply Chain & Delta Connection
Telecopy: (404) 677-6247

with copies to:

Delta Air Lines, Inc.
1030 Delta Boulevard
Atlanta, GA 30354
Dept. 981
Attn: Sr. V.P. and General Counsel
Telecopy: (404) 715-2233

(2) If to Operator or Parent:

Mesa Air Group, Inc.
410 North 44th Street, Suite 700
Phoenix, AZ 85008
Attention: President
Telecopy: (602) 685-4350

with copies to:

Mesa Air Group, Inc.
410 North 44th Street, Suite 700

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Phoenix, AZ 85008
Attn: Chief Financial Officer
Telecopy: (602) 685-4352

Mesa Air Group, Inc.
410 North 44th Street, Suite 700
Phoenix, AZ 85008
Attn: Vice President & General Counsel
Telecopy: (602) 685-4352

Any such notice, request or other communication shall be effective (i) if given by mail, upon the earlier of receipt or the third business day after such communication is deposited in the United States mails, registered or certified, with first class postage prepaid, addressed as aforesaid or (ii) if given by any other means including, without limitation, by air courier, when delivered at the address specified herein. Each party may change its address for notice purposes by notice to the other party in the manner provided herein.

ARTICLE 25. ASSIGNMENT.

This Agreement shall bind and inure to the benefit of Delta, Operator and Parent and their respective successors and assigns; provided, however, neither party may assign or transfer this Agreement or any portion hereof to any person or entity without the express written consent of the other party. Any assignment or transfer, by operation of law or otherwise, without such consent shall be null and void and of no force or effect.

ARTICLE 26. GOOD FAITH.

Each party shall exercise good faith in its dealings with the other party hereto and in performance of its obligations under this Agreement.

ARTICLE 27. CONFIDENTIALITY.

A. Except as otherwise provided below, each party shall, and shall ensure that its directors, officers, employees, affiliates and professional advisors (collectively, the "Representatives"), at all times, maintain strict confidence and secrecy in respect of all Confidential Information (as defined below) of the other party (including its affiliates) received directly or indirectly as a result of this Agreement. If a party (the "Disclosing Party") in good faith determines that it is required to disclose any Confidential Information of other party (the "Affected Party") in order to comply with any applicable law or government regulation, or under the terms of a subpoena or order issued by a court or governmental body, it shall (a) notify the Affected Party immediately of the existence, terms and circumstances surrounding such request, (b) consult with the Affected Party on the advisability of taking legally available steps to resist or narrow such request and (c) if any disclosure of Confidential Information is required to prevent the Disclosing Party from being held in contempt or subject to other legal penalty, furnish only such portion of the Confidential Information as it is legally compelled to disclose and use commercially reasonable efforts (at the cost of the party whose Confidential Information is being protected) to obtain an order or other reliable assurance that confidential treatment shall

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be accorded to the disclosed Confidential Information. Each party agrees to transmit Confidential Information only to such of its Representatives as required for the purpose of implementing and administering this Agreement, and shall inform such Representatives of the confidential nature of the Confidential Information and instruct such Representatives to treat such Confidential Information in a manner consistent with this Article 27.

For purposes of this Agreement, "Confidential Information" shall mean (a) all confidential or proprietary information of a party, including, without limitation, trade secrets, information concerning past, present and future research, development, business activities and affairs, finances, properties, methods of operation, processes and systems, customer lists, customer information (such as passenger name record or "PNR" data) and computer procedures and access codes; and (b) the terms and conditions of this Agreement and any reports, invoices or other communications between the parties given in connection with the negotiation or performance of this Agreement; and (c) excludes (i) information already in a party's possession prior to its disclosure by other party; (ii) information obtained from a third person or entity that is not prohibited from transmitting such information to the receiving party as a result of a contractual, legal or fiduciary obligation to the party whose information is being disclosed; (iii) information that is or becomes generally available to the public, other than as a result of disclosure by a party in violation of this Agreement; or (iv) information that has been or is independently acquired or developed by a party, or its affiliate, without violating any of its obligations under this Agreement.

B. Each party acknowledges and agrees that in the event of any breach of this Article 27, the Affected Party shall be irreparably and immediately harmed and could not be made whole by monetary damages. Accordingly, it is agreed that, in addition to any other remedy at law or in equity, the Affected Party shall be entitled to an injunction or injunctions (without the posting of any bond and without proof of actual damages) to prevent breaches or threatened breaches of this Article 27 and/or to compel specific performance of this Article 27.

C. The confidential obligations of the parties under this Article 27 shall survive the termination or expiration of this Agreement.

ARTICLE 28. ADDITIONAL DOCUMENTS.

The parties hereby covenant and agree, prior to the first Aircraft being placed into Delta Connection revenue service, to execute and deliver leases with respect to the Aircraft, and any other instruments and documents contemplated thereby, on terms and conditions mutually agreed upon by the parties.

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IN WITNESS WHEREOF, the parties have executed this Agreement by their undersigned duly authorized representatives:

Mesa Air Group, Inc.

By: _____
Name: _____
Title: _____

Delta Air Lines, Inc.

By: _____
Name: _____

Freedom Airlines, Inc.

By: _____
Name: _____
Title: _____

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EXHIBIT A
The Aircraft and In-Service Dates

Aircraft	In-Service Date*
1	[*]
2	[*]
3	[*]
4	[*]
5	[*]
6	[*]
7	[*]
8	[*]
9	[*]
10	[*]
11	[*]
12	[*]
13	[*]
14	[*]

* In-service dates based on current estimates of Aircraft deliveries. Deliveries are to take place in the month preceding the aircraft in-service date listed above. Dates may change when delivery schedule is finalized with the manufacturer.

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Exhibit B

The Base Rate Costs for Years 2007 through 2017

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Direct Costs ¹		Unit Rates by Year											
		Driver	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fixed Costs:													
Mix Facilities	Months	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
HQ/Other Facilities	Months	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Startup Costs ³	Per A/C Included	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Overhead	Aircraft Months	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Variable Costs:													
Flight Ops ²	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
In-Flight ²	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Other MX ⁴	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Overhead	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Dispatch	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Pass Through Costs (estimates included, paid by actual costs)													
Engine Overhaul	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Fuel	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Landing Fees	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Aviation Liability Insurance	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Hull and War Risk Insurance	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Property Tax	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]

- 1 [*]
- 2 [*]
- 3 [*]
- 4 [*]

Pass Through Costs (estimates included, paid at actual cost)

Engine Overhaul	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Fuel	Block Hours	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Landing Fees	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Aviation Liability Insurance	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Hull and War Risk Insurance	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]
Property Taxes	Departures	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]	[*]

-
1. [*]
 2. [*]
 3. [*]
 4. [*]
-

Exhibit C

RES SYSTEM EQUIPMENT

Equipment, as defined in Section 9(B)(1) of the Agreement, may be provided to Operator by Delta for installation at one or more of the following locations of Operator:

1. Headquarters
2. Dispatch
3. Training
4. Maintenance base for the Aircraft
5. Stations handled by Operator, if any.

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Schedule 3

1. Monthly Incentive Goals for monthly completion rate and monthly on-time arrival rate:

Completion: The lesser of [*]% or the actual completion rate of Delta mainline operations in similar geographic markets as the Delta Connection Flights during the same applicable month ([*]). A flight shall be “completed” only if it arrives within [*] of scheduled arrival, [*].

On-Time Arrival: The lesser of [*]% or the actual on time arrival rate of Delta mainline operations in similar geographic markets as the Delta Connection Flights during the same applicable month ([*]). A flight shall be “on-time” if the flight arrives within 15 minutes of scheduled arrival.

2. Semi-Annual Incentive Goals for semi-annual completion rate, semi-annual on-time arrival rate and semi-annual customer satisfaction rating:

Completion: The lesser of [*]% or [*]% of the actual completion rate of Delta mainline operations in similar geographic markets as the Delta Connection Flights ([*]) during the same applicable semi-annual period. A flight shall be “completed” only if it arrives within [*] of scheduled arrival, [*].

On-Time Arrival: The lesser of [*]% or [*]% of the actual on time arrival rate of Delta mainline operations in similar geographic markets as the Delta Connection Flights ([*]) during the same applicable semi-annual period. A flight shall be “on-time” if the flight arrives within 15 minutes of scheduled arrival.

Customer Satisfaction: Greater than the average for all regional carriers during the applicable semi-annual period.

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Schedule 10

MINIMUM PERFORMANCE REQUIREMENTS

1. **Mishandled Baggage:** [*].
2. **Completion Rate (actual):** [*]% or greater.
3. **On-time Arrivals:** [*]% of all flights flown or greater.
4. **Overall Customer Satisfaction:** [*].
5. **Passenger Complaints:** [*].

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Schedule 11
TERMINATION FEE

Month of Termination	Termination Fee Payable to Operator
March, 2007	\$[*]
April, 2007	\$[*]
May, 2007	\$[*]
June, 2007	\$[*]
July, 2007	\$[*]
August, 2007	\$[*]
September, 2007	\$[*]

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MESA AIR GROUP, INC. AND ITS SUBSIDIARIES
CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

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 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 the 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 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 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.

/s/ JONATHAN G. ORNSTEIN

Jonathan G. Ornstein
Chairman of the Board and Chief Executive Officer
Mesa Air Group, Inc.

Date: May 15, 2007

MESA AIR GROUP, INC. AND ITS SUBSIDIARIES
CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, George Murnane III, 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 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 the 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 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 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.

/s/ GEORGE MURNANE III
George Murnane III
Executive Vice President and Chief Financial Officer
Mesa Air Group, Inc.

Date: May 15, 2007

MESA AIR GROUP, INC. AND ITS SUBSIDIARIES
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Mesa Air Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan G. Ornstein, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §§ 1350, as adopted pursuant to §§ 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ JONATHAN G. ORNSTEIN
Jonathan G. Ornstein
Chairman of the Board and Chief Executive Officer

Date: May 15, 2007

MESA AIR GROUP, INC. AND ITS SUBSIDIARIES
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Mesa Air Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George Murnane III, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §§ 1350, as adopted pursuant to §§ 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ GEORGE MURNANE III
George Murnane III
Executive Vice President and Chief Financial Officer

Date: May 15, 2007