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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-38626

MESA AIR GROUP, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange of Which Registered
Common Stock, no par value	MESA	Nasdaq Global Select Market

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

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

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

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

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

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

As of June 30, 2020, the registrant had 35,414,284 shares of common stock, no par value per share, issued and outstanding.

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Where You Can Find More Information

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

Cautionary Notes Regarding Forward Looking Statements

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

In some cases, you can identify forward-looking statements by terms such as "may", "should", "expects", "might", "plans", "anticipates", "could", "intends", "target", "projects", "contemplates", "believes", "estimates", "predicts", "potential", "seek", "would", "continue", or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described in the "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include:

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

While we may elect to update these forward-looking statements at some point in the future, whether as a result of any new information, future events, or otherwise, we have no current intention of doing so except to the extent required by applicable law.

Part I – Financial Information

Item 1. Financial Statements

MESA AIR GROUP, INC.
Condensed Consolidated Balance Sheets

(In thousands, except share amounts) (Unaudited)

	June 30, 2020	September 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,934	$ 68,855
Restricted cash	3,444	3,646
Receivables, net	14,618	23,080
Expendable parts and supplies, net	22,418	21,337
Prepaid expenses and other current assets	7,143	40,923
Total current assets	112,557	157,841
Property and equipment, net	1,233,727	1,273,585
Intangibles, net	8,407	9,532
Lease and equipment deposits	2,121	2,167
Operating lease right-of-use assets	131,480	—
Other assets	7,021	8,792
Total assets	$ 1,495,313	$ 1,451,917
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and financing leases	$ 176,896	$ 165,900
Current maturities of operating leases	43,219	—
Accounts payable	39,918	49,930
Accrued compensation	10,350	11,988
Other accrued expenses	37,663	28,888
Total current liabilities	308,046	256,706
Noncurrent liabilities:		
Long-term debt and financing leases, excluding current portion	586,877	677,423
Noncurrent operating lease liabilities	71,068	—
Deferred credits	9,355	12,134
Deferred income taxes	61,203	55,303
Deferred revenue, net of current portion	12,240	—
Other noncurrent liabilities	1,030	24,483
Total noncurrent liabilities	741,773	769,343
Total liabilities	1,049,819	1,026,049
Commitments and contingencies (Note 15 and Note 16)		
Stockholders' equity:		
Preferred stock of no par value, 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock of no par value and additional paid-in capital, 125,000,000 shares authorized; 35,414,284 (2020) and 31,413,287 (2019) shares issued and outstanding, 0 (2020) and 3,600,953 (2019) warrants issued and outstanding	241,782	238,504
Retained earnings	203,712	187,364
Total stockholders' equity	445,494	425,868
Total liabilities and stockholders' equity	$ 1,495,313	$ 1,451,917

See accompanying notes to these condensed consolidated financial statements.

MESA AIR GROUP, INC.
Condensed Consolidated Statements of Operations

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Operating revenues:				
Contract revenue	$ 71,648	$ 170,366	$ 409,228	$ 510,586
Pass-through and other	1,451	9,858	27,802	24,941
Total operating revenues	73,099	180,224	437,030	535,527
Operating expenses:				
Flight operations	29,664	53,025	135,199	155,636
Fuel	146	211	504	433
Maintenance	22,591	54,322	145,021	139,504
Aircraft rent	15,582	12,875	39,196	41,104
Aircraft and traffic servicing	538	978	2,938	2,977
General and administrative	11,737	12,435	39,233	38,121
Depreciation and amortization	20,635	19,761	61,656	57,528
Lease termination	—	9,540	—	9,540
CARES Act grant recognition	(43,018)	—	(43,018)	—
Total operating expenses	57,875	163,147	380,729	444,843
Operating income	15,224	17,077	56,301	90,684
Other (expenses) income, net:				
Interest expense	(10,368)	(13,496)	(34,668)	(42,110)
Interest income	1	733	95	1,188
Loss on extinguishment of debt	—	—	—	(3,616)
Other income (expense), net	79	(451)	720	82
Total other (expense), net	(10,288)	(13,214)	(33,853)	(44,456)
Income before taxes	4,936	3,863	22,448	46,228
Income tax expense	1,517	856	6,359	10,891
Net income	$ 3,419	$ 3,007	$ 16,089	$ 35,337
Net income per share attributable to common shareholders				
Basic	$ 0.10	$ 0.09	$ 0.46	$ 1.02
Diluted	$ 0.10	$ 0.09	$ 0.46	$ 1.01
Weighted-average common shares outstanding				
Basic	35,299	34,835	35,154	34,683
Diluted	35,299	35,112	35,248	35,051

See accompanying notes to these condensed consolidated financial statements.

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

(In thousands, except share amounts) (Unaudited)

	Nine Months Ended June 30, 2019				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2018	23,902,903	10,614,990	$ 234,683	$ 139,784	$ 374,467
Stock compensation expense	—	—	1,454	—	1,454
Stock issuance costs	—	—	157	—	157
Net income	—	—	—	19,081	19,081
Balance at December 31, 2018	23,902,903	10,614,990	$ 236,294	$ 158,865	$ 395,159
Stock compensation expense	—	—	$ 1,298	—	$ 1,298
Repurchased shares	(52,967)	—	(449)	—	(449)
Stock issuance costs	—	—	28	—	28
Warrants converted to common stock	3,834,693	(3,834,693)	—	—	—
Restricted shares issued	284,846	—	—	—	—
Net Income	—	—	—	13,249	13,249
Balance at March 31, 2019	27,969,475	6,780,297	$ 237,171	$ 172,114	$ 409,285
Stock compensation expense	—	—	$ 1,507	—	$ 1,507
Repurchased shares	(116,757)	—	(1,065)	—	(1,065)
Warrants converted to common stock	2,176,964	(2,176,964)	—	—	—
Restricted shares issued	331,486	—	—	—	—
Net Income	—	—	—	3,007	3,007
Balance at June 30, 2019	30,361,168	4,603,333	$ 237,613	$ 175,121	$ 412,734

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

(In thousands, except share amounts) (Unaudited)

	Nine Months Ended June 30, 2020				
	Number of Shares	Number of Warrants	Common Stock and Additional Paid-In Capital	Retained Earnings	Total
Balance at September 30, 2019	31,413,287	3,600,953	$ 238,504	$ 187,364	$ 425,868
Adoption ASU 2018-09 Stock compensation-income taxes	—	—	—	259	259
Stock compensation expense	—	—	1,320	—	1,320
Repurchased shares and warrants	(5,558)	—	(41)	—	(41)
Warrants converted to common stock	1,612,481	(1,612,481)	—	—	—
Restricted shares issued	18,916	—	—	—	—
Net income	—	—	—	10,785	10,785
Balance at December 31, 2019	33,039,126	1,988,472	$ 239,783	$ 198,408	$ 438,191
Stock compensation expense	—	—	1,193	—	1,193
Repurchased shares and warrants	(18,244)	—	(160)	—	(160)
Warrants converted to common stock	1,988,472	(1,988,472)	—	—	—
Restricted shares issued	141,614	—	—	—	—
Employee share purchases	43,934	—	243	—	243
Net income	—	—	—	1,885	1,885
Balance at March 31, 2020	35,194,902	—	$ 241,059	$ 200,293	$ 441,352
Stock compensation expense	—	—	1,020	—	1,020
Repurchased shares and warrants	(88,785)	—	(297)	—	(297)
Restricted shares issued	308,167	—	—	—	—
Net income	—	—	—	3,419	3,419
Balance at June 30, 2020	35,414,284	—	$ 241,782	$ 203,712	$ 445,494

See accompanying notes to these condensed consolidated financial statements.

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

(In thousands) (Unaudited)

	Nine Months Ended June 30,	
	2020	**2019**
Cash flows from operating activities:		
Net income	$ 16,089	$ 35,337
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	61,656	57,528
Stock compensation expense	3,533	4,259
Deferred income taxes	5,902	10,898
Long-term deferred revenue	12,240	—
Amortization of deferred credits	(2,928)	(3,854)
Unfavorable lease liabilities	—	(4,525)
Amortization of debt financing costs and accretion of interest on non-interest-bearing subordinated notes	3,182	3,147
Loss on extinguishment of debt	—	3,616
Loss (Gain) on disposal of assets	528	(49)
Provision for obsolete expendable parts and supplies	287	477
Loss on lease termination	—	9,540
Changes in assets and liabilities:		
Receivables	8,462	5,903
Expendable parts and supplies	(1,403)	(5,076)
Prepaid expenses and other current assets	(1,257)	(7,861)
Accounts payable	(9,890)	(4,888)
Accrued liabilities	11,659	9,625
Change in operating lease right-of-use assets	(4,459)	—
Net cash provided by operating activities	103,601	114,077
Cash flows from investing activities:		
Capital expenditures	(25,160)	(116,731)
Sales of investment securities	—	20,077
Lease and equipment deposits	(13,804)	621
Returns of lease and equipment deposits	13,850	—
Net cash used in investing activities	(25,114)	(96,033)
Cash flows from financing activities:		
Proceeds from long-term debt	23,000	163,658
Principal payments on long-term debt and financing leases	(103,718)	(197,409)
Debt financing costs	(1,394)	(4,870)
Debt prepayment costs	—	(1,672)
Stock issuance costs	—	185
Repurchase of stock	(498)	(1,514)
Net cash used in financing activities	(82,610)	(41,622)
Net change in cash, cash equivalents and restricted cash	(4,123)	(23,578)
Cash, cash equivalents and restricted cash at beginning of period	72,501	107,134
Cash, cash equivalents and restricted cash at end of period	$ 68,378	$ 83,556
Supplemental cash flow information		
Cash paid for interest	$ 30,375	$ 37,587
Cash paid for income taxes, net	$ 45	$ 415
Operating lease payments in operating cash flows (1)	$ 34,919	$ —
Supplemental non-cash operating activities		
Right-of-use assets obtained in exchange of lease liabilities	$ 145,054	$ —
Supplemental non-cash investing activities		
Accrued capital expenditures	$ 60	$ 836

See accompanying notes to these condensed consolidated financial statements.

(1)*See section 15 Leases and Commitments.*

1. Organization and Operations

About Mesa Air Group, Inc.

Headquartered in Phoenix, Arizona, Mesa Air Group, Inc. ("Mesa" or the "Company") is a holding company whose principal subsidiary, Mesa Airlines, Inc. ("Mesa Airlines"), operates as a regional air carrier providing scheduled flight service to 66 cities in 29 states, the District of Columbia and Mexico. As of June 30, 2020, Mesa operated a fleet of 145 aircraft with approximately 175 daily departures and 3,400 employees. Mesa operates all of its flights as either American Eagle or United Express flights pursuant to the terms of the capacity purchase agreements entered into with American Airlines, Inc. (“American”) and United Airlines, Inc. (“United”).

The financial arrangements between the Company and its major airline partners involve a revenue-guarantee arrangement (i.e., a "capacity purchase agreement") whereby the major airline pays a monthly guaranteed amount for each aircraft under contract, a fixed fee for each block hour (the number of hours during which the aircraft is in revenue service, measured from the time of gate departure before take-off until the time of gate arrival at the destination) and flight flown and reimbursement of certain direct operating expenses in exchange for providing regional flying. The major airline partners also pay certain expenses directly to suppliers, such as fuel, ground operations and landing fees. Under the terms of these capacity purchase agreements, the major airline controls route selection, pricing and seat inventories, thereby reducing the Company's exposure to fluctuations in passenger traffic, fare levels, and fuel prices.

Impact of the COVID-19 Pandemic

The unprecedented and rapid spread of COVID-19 and the related travel restrictions and social distancing measures implemented throughout the world have significantly reduced demand for air travel. The length and severity of the reduction in demand due to the pandemic remains uncertain. This reduction in demand has had an unprecedented and materially adverse impact on our revenues and financial position. The exact timing and pace of a recovery in demand is uncertain given the significant impact of the pandemic on the overall U.S. and global economy. Our forecasted expense management and liquidity measures may be modified as we clarify the demand recovery timing. Since a portion of the consideration we receive under our capacity purchase agreements is fixed, the impact to Mesa will be partially mitigated or offset. In addition, we have limited exposure to fluctuations in passenger traffic, ticket and fuel prices. While the fixed contract consideration remains mostly unchanged, the variable revenue based on number of block hours was significantly reduced beginning in the last few weeks in March and in the June 2020 quarter. We may experience further reductions in subsequent quarters. The Company further reports that, beginning in March 2020, it experienced a material decline in demand in block hours from both of its major airline partners, American and United Airlines, Inc. (“United” and together with American, the “Partners”) resulting from the spread of the COVID-19 virus. As a result of this decline in demand and the subsequent capacity reductions by the Company’s Partners, the Company operated at significantly lower block hours in the June 2020 quarter. While there has been a modest demand recovery, the Company anticipates similar schedule reductions will likely continue into the fourth quarter of 2020 and may continue throughout the remainder of calendar year 2020 and into 2021.

In response to the recent COVID-19 pandemic, we have implemented various measures to protect our employees as they continue to provide safe and reliable transportation to the passengers of American and United. The safety of our employees and passengers remains our primary focus and, to that end, measures that we have taken include but are not limited to:

- Increasing the scope of cleaning and sanitization of aircraft both while remaining overnight and on turn flights, including the use of Electrostatic Spraying (ESS) and the expansion of Flight Deck cleaning protocols. Both on our own, and in coordination with our codeshare partners, we have taken steps to ensure that high touch areas used by both employees and customers are routinely and comprehensively cleaned and disinfected to prevent transmission of the virus on surfaces. To assist our crewmembers in keeping the aircraft clean and disinfected, we have increased the supply of sanitizing wipes onboard.
- Mandated face covering for all employees working onboard aircraft, at corporate and training facilitates and locations where social distancing cannot be maintained.

- In coordination with our codeshare partners, we’ve implemented a policy that requires all crewmembers to wear face coverings while on duty. We have provided, and continue to resupply, our employees with Personal Protective Equipment (PPE) consisting of gloves and face coverings for use whenever social distancing cannot be maintained or when working with our customers. In addition, at various locations, we have coordinated with our codeshare partners to conduct temperature checks of employees reporting for duty. In those locations where this is not yet established, crewmembers have been directed to self-monitor their temperature before reporting for duty and twice daily.
- Based on recommendations from the Centers for Disease Control (CDC), we have increased facility cleaning and disinfection protocols at all of our facilities and have implemented social distancing measures including extending our current remote working policy for many of our Corporate personnel. We’ve enhanced current protocol to increase physical distance between workers who remain working at our Corporate facilities.
- Enhanced protocols that exceed CDC guidance for the handling of employees who are positive for, or suspected of, COVID-19 to ensure that they have the necessary time off. Additionally, we have implemented protocols to ensure that proper notification is made to any affected employees. Protocols have also been put into place for the immediate disinfection of any affected aircraft above and beyond routine cleaning and disinfection protocols.
- Offering Leaves of Absence to employees starting in May in blocks of 1-3 months.

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

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

Balance Sheet, Cash Flow and Liquidity. As of June 30, 2020, our cash and cash equivalents balance was $64.9 million. We have taken the following actions to increase liquidity and strengthen our financial position.

- Reducing planned heavy engine and airframe maintenance events by approximately $16.8 million in the current fiscal year.
- Working with our major partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.
- Drew $23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.
- In April 2020, we were granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. We received $46.3 million as of June 2020 and the remaining $46.2 million is scheduled to be paid to Mesa in three equal monthly payments from July to September 2020. $43.0 million has been utilized to offset the payroll expenses in the quarter ended June 30, 2020 and $3.3 million has been deferred to offset future payroll costs.
- The CARES Act also provides for up to $25 billion in secured loans to the airline industry. We have been allocated $277.0 million under the loan program. We are in ongoing discussions with the U.S. Department of the Treasury regarding the terms and our participation level of such a loan.

American Capacity Purchase Agreement

As of June 30, 2020, the Company operated 54 CRJ-900 aircraft for American under our American Capacity Purchase Agreement. In exchange for providing flight services under our American Capacity Purchase Agreement, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown during each month. In addition, we may also receive incentives or incur penalties based upon our operational performance, including controllable on-time departures and controllable completion percentages. American also reimburses us for certain costs on an actual basis, including passenger liability and hull insurance and aircraft property taxes, all as set forth in our American Capacity Purchase Agreement. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by American. In addition, American also provides, at no cost to us, certain ground handling and customer service functions, as well as airport-related facilities and gates at American hubs and cities where we operate.

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

Our American Capacity Purchase Agreement will terminate with respect to different tranches of aircraft between 2021 and 2025, unless otherwise extended or amended. As of the date of this filing, we remain in discussions with American regarding the terms of extending the 31 aircraft that are due to expire in 2021, the 16 aircraft that are due to expire in 2022, and the 7 aircraft that expire in 2025. Our American Capacity Purchase Agreement is subject to termination prior to that date, subject to our right to cure, in various circumstances including:

- If either American or we become insolvent, file for bankruptcy or fail to pay our debts as they become due, the non-defaulting party may terminate the agreement;
- Failure by us or American to perform the covenants, conditions or provisions of our American Capacity Purchase Agreement, subject to 15 days' notice and cure rights;
- If we are required by the FAA or the DOT to suspend operations and we have not resumed operations within three business days, except as a result of an emergency airworthiness directive from the FAA affecting all similarly equipped aircraft, American may terminate the agreement;
- If our controllable flight completion factor falls below certain levels for a specified period of time, subject to our right to cure; or
- Upon a change in our ownership or control without the written approval of American.

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

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

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

On June 11, 2020, the Company entered into the Twenty-First Amendment to The American Capacity Purchase Agreement effective April 1, 2020. The amendments include (i) the permanent withdrawal of two (2) additional aircraft from the American Capacity Purchase Agreement, effective June 15, 2020, with such aircraft included in the tranche of aircraft American has the right to ratably remove commencing January 1, 2021 in exchange for American paying the full cost of the aircraft for the same period and (ii) the addition of utilization-based credits, entitling American to payment credits for the period April 1, 2020 through September 30, 2020, based upon the achievement of agreed upon aircraft utilization thresholds, subject to Mesa’s receipt of previously approved funds under the CARES Act. The impact of the contract modification was not material to the three or nine months ended June 30, 2020.

United Capacity Purchase Agreement

As of June 30, 2020, the Company operated 20 CRJ-700 and 60 E-175 aircraft for United under our United Capacity Purchase Agreement. In exchange for providing the flight services under our United Capacity Purchase Agreement, we receive a fixed monthly minimum amount per aircraft under contract plus certain additional amounts based upon the number of flights and block hours flown and the results of passenger satisfaction surveys. United also reimburses us for certain costs on an actual basis, including property tax per aircraft and passenger liability insurance. Other expenses, including fuel and certain landing fees, are directly paid to suppliers by United. Under our United Capacity Purchase Agreement, United owns 42 of the 60 E-175 aircraft and leases them to us at nominal amounts. United reimburses us on a pass-through basis for all costs related to heavy airframe and engine maintenance, landing gear, auxiliary power units ("*APUs*") and component maintenance for the 42 E-175 aircraft owned by United. Our United Capacity Purchase Agreement permits United, subject to certain conditions, including the payment of certain costs tied to aircraft type, to terminate the agreement in its discretion, or remove aircraft from service, by giving us notice of 90 days or more. If United elects to terminate our United Capacity Purchase Agreement in its entirety or permanently remove select aircraft from service, we are permitted to return any of the affected E-175 aircraft leased from United at no cost to us. In addition, if United removes any of our 18 owned E-175 aircraft from service at its direction, United would remain obligated to assume the aircraft ownership and associated debt with respect to such aircraft through the end of the term of the agreement.

On November 26, 2019, we amended and restated our United Capacity Purchase Agreement to, among other things, incorporate the terms of the 14 prior amendments to that Agreement and to extend the term thereof through the addition of twenty (20) new Embraer E175LL aircraft to the scope of such Agreement. These new aircraft will be financed and owned by us and operated for a period of twelve (12) years from the in-service date. Deliveries of the new E175LL aircraft were scheduled to begin in May 2020 and be completed by December 31, 2020. In March 2020, the deliveries of the new E175LL aircraft were negotiated between United and Embraer to begin in September 2020 and be completed by the quarter ended June 30, 2021. Commencing five (5) years after the actual in-service date, United has the right to remove the E175LL aircraft from service by giving us notice of 90 days or more, subject to certain conditions, including the payment of certain wind-down expenses plus, if removed prior to the ten (10) year anniversary of the in-service date, certain accelerated margin payments.

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

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

- By United if certain operational performance factors fall below a specified percentage for a specified time, subject to notice under certain circumstances;
- By United if we fail to perform the material covenants, agreements, terms or conditions of our United Capacity Purchase Agreement or similar agreements with United, subject to thirty (30) days' notice and cure rights;
- If either United or we become insolvent, file bankruptcy or fail to pay debts when due, the non-defaulting party may terminate the agreement; or
- By United if we merge with, or if control of us is acquired by another air carrier or a corporation directly or indirectly owning or controlling another air carrier.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

These condensed consolidated financial statements should be read in conjunction with, the Company's audited consolidated financial statements and notes thereto as of and for the year ended September 30, 2019 included in the Company's Annual Report on Form 10-K for the year ended September 30, 2019 on file with the U.S. Securities and Exchange Commission (the "SEC"). Information and footnote disclosures normally included in financial statements have been condensed or omitted in these condensed consolidated financial statements pursuant to the rules and regulations of the SEC and GAAP. These condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented.

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") and may remain an emerging growth company until the last day of its fiscal year following the fifth anniversary of its August 2018 IPO, subject to specified conditions. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. The Company has elected to "opt out" of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Adoption of New Lease Standard

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

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Variable lease payments are not included in the calculation of the right-of-use assets and lease liability due to uncertainty of the payment amount and are recorded as lease expense in the period incurred. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

As a lessee, we elected a short-term lease exception policy on all classes of underlying assets, permitting us to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less).

As a lessor, our capacity purchase agreements identify the "*right of use*" of a specific type and number of aircraft over a stated period-of-time. A portion of the compensation in the capacity purchase agreements are designed to reimburse the Company for certain aircraft ownership costs of these aircraft. We account for the non-lease component under ASC 606 and account for the lease component under ASC 842. We allocate the consideration in the contract between the lease and non-lease components based on their stated contract prices, which is based on a cost basis approach representing our estimate of the stand-alone selling prices.

Aircraft Leases

In addition to the aircraft we lease from United under our United Capacity Purchase Agreement, approximately 12% of our aircraft are leased from third parties. All of our aircraft leases have been classified as operating leases, which results in rental payments being charged to expense over the term of the related leases. In the event that we or one of our major airline partners decide to exit an activity involving leased aircraft, losses may be incurred. In the event that we exit an activity that results in exit losses, these losses are accrued as each aircraft is removed from operations for early termination penalties, lease settle up and other charges. Additionally, any remaining ROU assets and lease liabilities will be written off.

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

Contract Liabilities

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

Current and non-current deferred credits are recorded to other accrued expenses and non-current deferred credits in the condensed consolidated balance sheets. The Company's total current and non-current deferred credit balances at June 30, 2020 and September 30, 2019 are $9.4 million and $12.1 million, respectively. The Company recognized $0.9 million and $1.3 million of the deferred credits to revenue in the condensed consolidated statements of operations during the three months ended June 30, 2020 and 2019, respectively, and $2.9 million and $3.8 million during the nine months ended June 30, 2020 and 2019, respectively.

Contract Assets

The Company recognizes assets from the costs incurred to fulfill a contract including aircraft painting and reconfiguration and flight service personnel training costs. These costs are amortized based on the pattern of transfer of the services in relation to flight hours over the term of the contract. Contract assets are recorded as other assets in the condensed consolidated balance sheets. The Company's contract assets balances at June 30, 2020 and September 30, 2019 are $2.4 million and $3.9 million, respectively. Contract cost amortization was $0.3 million and $0.6 million for the three months ended June 30, 2020 and 2019, respectively, and $1.2 million and $1.8 million for the nine months ended June 30, 2020 and 2019, respectively.

Use of Estimates

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

Maintenance Expense

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

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

Engine overhaul expense totaled $3.2 million and $11.4 million for the three months ended June 30, 2020, and 2019, respectively, of which $0.4 million and $1.9 million, respectively, was pass-through expense. Engine overhaul expense totaled $28.3 million and $20.8 million for the nine months ended June 30, 2020, and 2019, respectively, of which $3.0 million and $3.0 million, respectively, was pass-through expense. Airframe C-check expense totaled $2.9 million and $4.4 million for the three months ended June 30, 2020, and 2019, respectively, of which $0.8 million and $0.0 million, respectively, was pass-through expense. Airframe C-check expense totaled $20.6 million and $10.6 million for the nine months ended June 30, 2020, and 2019, respectively, of which $5.9 million and $0.0 million, respectively, was pass-through expense.

3. Contract revenue and Pass- through and other

The Company recognizes contract revenue when the service is provided under its capacity purchase agreements. Under the capacity purchase agreements, our airline partners generally pay for each departure, flight hour (measured from takeoff to landing, excluding taxi time) or block hour (measured from takeoff to landing, including taxi time) incurred, and an amount per aircraft in service each month with additional incentives based on flight completion and on-time performance. The major airline partners also directly pay for or reimburses the Company for certain direct expenses incurred under the capacity purchase agreement, such as fuel and airport landing fees. The Company's performance obligation is met when each flight is completed and revenue is recognized and reflected in contract revenue. The directly reimbursed expenses, earned as flights are completed over the agreement term, are recognized and reflected in pass-through revenue.

During the quarter ended June 30, 2020, the Company completed a significantly lower than normal number of flights due to the impact of COVID-19. Since the revenue recognition is based on the number of flights completed, the fixed amount of cash received exceeded the revenue recognized based on the number of flights completed during the quarter. Under US GAAP, the fixed monthly payments are recognized as revenue ratably based on completed flights over the contract term. The Company deferred $16.0 million of revenue in the quarter ended June 30, 2020. The current portion of $3.8 million of deferred revenue is recorded as a part of other accrued expenses and long-term portion of $12.2 million is recorded as deferred revenue on the balance sheet. This deferred revenue will be recognized when flights are completed over the remaining contract term.

The deferred revenue balance as of June 30, 2020 represents our aggregate remaining performance obligations that will be recognized as revenue over the period in which the performance obligations are satisfied, and is expected to be recognized as revenue as follows (In thousands):

	Total Revenue
2020	$ —
2021	7,397
2022	8,603
Total	$ 16,000

A portion of the Company's compensation under its capacity purchase agreements with American and United is designed to reimburse the Company for certain aircraft ownership costs. The Company has concluded that a component of its revenue under these agreements is deemed to be lease revenue, as such agreements identify the "right of use" of a specific type and number of aircraft over a stated period-of-time.

The lease revenue associated with the Company's capacity purchase agreements is accounted for as an operating lease and is reflected as contract revenue on the Company's condensed consolidated statements of operations. The Company recognized $52.0 million and $54.5 million of lease revenue for the three months ended June 30, 2020 and 2019, respectively, and $157.7 million and $164.5 million of lease revenue for the nine months ended June 30, 2020 and 2019, respectively. The Company has not separately stated aircraft rental income and aircraft rental expense in the condensed consolidated statements of operations because the use of the aircraft is not a separate activity of the total service provided under our capacity purchase agreements.

4. Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) (“ASU2020-04”). This ASU provides optional expedients and exceptions for a limited period of time for accounting for contracts, hedging relationships, and other transactions affected by the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued. Optional expedients can be applied from March 12, 2020 through December 31, 2022. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

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

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

Additionally, the Company’s adoption of Topic 842 did not have a significant impact on the recognition, measurement or presentation of lease revenue and lease expenses within the consolidated statements of operations or the consolidated statements of cash flows. The Company’s adoption of Topic 842 did not have a material impact on the timing or amount of the Company’s lease revenue as a lessor. The Company’s prepaid aircraft rents, accrued aircraft rents and deferred rent credits that were separately stated in the Company’s September 30, 2019 balance sheet have been classified as a component of the Company’s right-of-use assets effective October 1, 2019. The consolidated financial statements for the three months ended December 31, 2019 are presented under the new standard, while comparative years presented are not adjusted and continue to be reported in accordance with the Company’s historical accounting policy. See Note 15, "Leases, Commitments and Contingencies," for more information.

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

5. Concentrations

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

Amounts billed by the Company under capacity purchase agreements are subject to the Company's interpretation of the applicable capacity purchase agreement and are subject to audit by the Company's major airline partners. Periodically, the Company's major airline partners dispute amounts billed and pay amounts less than the amount billed. Ultimate collection of the remaining amounts not only depends upon the Company prevailing under the applicable audit, but also upon the financial well-being of the major airline partner. As such, the Company periodically reviews amounts past due and records a reserve for amounts estimated to be uncollectible. The allowance for doubtful accounts was $5.4 million and $1.0 million at June 30, 2020 and September 30, 2019, respectively. If the Company's ability to collect these receivables and the financial viability of its partners is materially different than estimated, the Company's estimate of the allowance could be materially impacted.

American accounted for approximately 60% and 53% of the Company's total revenue for the three months ended June 30, 2020 and 2019, respectively, and 53 % and 54 % for the nine months ended June 30, 2020 and 2019, respectively. United accounted for approximately 40% and 47% of the Company's revenue for the three months ended June 30, 2020 and 2019, respectively, and 47% and 46% for the nine months ended June 30, 2020 and 2019, respectively. A termination of either the American or the United capacity purchase agreement would have a material adverse effect on the Company's business prospects, financial condition, results of operations, and cash flows.

6. Intangible Assets

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

We determined that our reduced flying schedules and cash flow projections as a result of the COVID-19 pandemic indicate that an impairment loss may have been incurred. Therefore, we quantitatively assessed whether it was more likely than not that the intangible assets we hold have been impaired as of June 30, 2020. We reviewed our previous forecasts and assumptions based on our current projections that are subject to various risks and uncertainties, including: (1) forecasted revenues, expenses and cash flows, including the duration and extent of impact to our business from the COVID-19 pandemic, (2) current discount rates, (3) changes to the regulatory environment and (4) the nature and amount of government support that will be provided.

Based on our carrying amount recoverability test, we have concluded that our finite-lived intangible assets are not impaired as of June 30, 2020. Given the uncertain future amid COVID-19, we will conduct additional tests in the 4th quarter of 2020.

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

	June 30, 2020	September 30, 2019
Customer relationship	$ 43,800	$ 43,800
Accumulated amortization	(35,393)	(34,268)
	$ 8,407	$ 9,532

Total amortization expense recognized was approximately $0.4 million and $0.5 million for the three months ended June 30, 2020 and 2019, respectively, and $1.1 million and $1.4 million for the nine months ended June 30, 2020 and 2019, respectively. The Company expects to record amortization expense of $0.4 million for the remainder of 2020, and $1.2 million, $1.0 million, $0.9 million, $0.8 million for fiscal years 2021, 2022, 2023, and 2024, respectively.

7. Balance Sheet Information

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

	June 30, 2020	September 30, 2019
Expendable parts and supplies, net:		
Expendable parts and supplies	$ 26,368	$ 25,336
Less: obsolescence and other	(3,950)	(3,999)
	$ 22,418	$ 21,337
Prepaid expenses and other current assets:		
Prepaid aircraft rent	$ —	$ 35,786
Deferred reimbursed costs	1,387	2,092
Other	5,756	3,045
	$ 7,143	$ 40,923
Property and equipment, net:		
Aircraft and other flight equipment	$ 1,597,916	$ 1,582,199
Other equipment	5,323	5,122
Leasehold improvements	2,763	2,797
Vehicles	962	924
Building	699	699
Furniture and fixtures	303	302
Total property and equipment	1,607,966	1,592,043
Less: accumulated depreciation	(374,239)	(318,458)
	$ 1,233,727	$ 1,273,585
Other accrued expenses:		
Accrued property taxes	$ 9,035	$ 9,186
Accrued interest	5,941	4,497
Accrued vacation	5,767	6,128
Deferred revenue-current portion	3,760	—
Other	13,160	9,077
	$ 37,663	$ 28,888

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

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

Based on our carrying amount recoverability test, we have concluded that no fleet was impaired as of June 30, 2020 as the future cash flows exceeded the carrying value of our long-lived fixed assets. Given the uncertain future amid COVID-19, we will conduct additional tests in 4th quarter 2020.

Depreciation expense totaled approximately $20.2 million and $19.3 million for the three months ended June 30, 2020 and 2019, respectively, and $60.5 million and $56.2 million for the nine months ended June 30, 2020 and 2019, respectively.

Prior to the Company’s adoption of Topic 842 on October 1, 2019, the Company recorded amortization of the unfavorable lease liability of approximately $1.4 million for the three months ended June 30, 2019 and $4.5 million for the nine months ended June 30, 2019 as a reduction to lease expense. Upon the Company’s adoption of Topic 842, the unfavorable lease liability is now included in its ROU asset balance and amortized therein.

8. Fair Value Measurements

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

The Company's debt agreements are not traded on an active market. The Company has determined the estimated fair value of its debt to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable and, therefore, could be sensitive to changes in inputs. The Company utilizes the discounted cash flow method to estimate the fair value of Level 3 debt.

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

	Jun 30, 2020		September 30, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt and financing leases, including current maturities(1)	$ 777.8	$ 857.2	$ 858.1	$ 882.7

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

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

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

	June 30, 2020	September 30, 2019
Notes payable to financial institution, collateralized by the underlying aircraft, due 2022(1)(2)	$ 41,472	$ 49,795
Notes payable to financial institution, collateralized by the underlying aircraft, due 2024(3)	55,674	60,761
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2027(4)	105,786	110,912
Notes payable to secured parties, collateralized by the underlying aircraft, due 2028(5)	181,776	191,168
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2028(6)	141,871	152,945
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022(7)	53,647	71,998
Senior and subordinated notes payable to secured parties, collateralized by the underlying aircraft, due 2022(8)	34,607	47,309
Notes payable to financial institution, collateralized by the underlying equipment, due 2020(9)	415	1,659
Notes payable to financial institution due 2020(10)	1,523	2,329
Notes payable to financial institution, collateralized by the underlying equipment, due 2022(11)	4,182	6,962
Other obligations due to financial institution, collateralized by the underlying equipment, due 2023(12)	7,196	8,530
Notes payable to financial institution, collateralized by the underlying equipment, due 2024(13)	67,631	80,153
Notes payable to financial institution, collateralized by the underlying aircraft, due 2023(14)	52,500	65,625
Notes payable to financial institution, collateralized by the underlying equipment, due 2023(15)	6,500	8,000
Working capital draw loan, used to cover operational needs (16)	23,000	—
Gross long-term debt, including current maturities	777,780	858,145
Less unamortized debt issuance costs	(14,007)	(14,822)
Net long-term debt, including current maturities	763,773	843,323
Less current portion	(176,896)	(165,900)
Net long-term debt	$ 586,877	$ 677,423

(1) In fiscal 2007, the Company financed three CRJ-900 and three CRJ-700 aircraft for $120.3 million. The debt bears interest at the monthly LIBOR plus 2.25% (2.41% at June 30, 2020) and requires monthly principal and interest payments.

(2) In fiscal 2014, the Company financed ten CRJ-900 aircraft for $88.4 million. The debt bears interest at the monthly LIBOR plus a spread ranging from 1.95% to 7.25% (2.11% to 7.41% at June 30, 2020) and requires monthly principal and interest payments. In fiscal 2018, the Company repaid $40.0 million related to four CRJ-900 aircraft.

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

(4) In fiscal 2015, the Company financed seven CRJ-900 aircraft with $170.2 million in debt. The senior notes payable of $151.0 million bear interest at monthly LIBOR plus 2.71% (2.87% at June 30, 2020) and require monthly principal and interest payments. The subordinated notes payable is noninterest-bearing and become payable in full on the last day of the term of the notes. The Company has imputed an interest rate of 6.25% on the subordinated notes payable and recorded a related discount of $8.1 million, which is being accreted to interest expense over the term of the notes.

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

(6) In fiscal 2016, the Company financed eight E-175 aircraft with $195.3 million in debt. The senior notes payable of $172.0 million bear interest at the three-month LIBOR plus a spread ranging from 2.20% to 2.32% (2.50% to 2.62% at June 30, 2020) and require quarterly principal and interest payments. The subordinated notes payable bear interest at 4.50% and require quarterly principal and interest payments.

(7) In June 2018, the Company refinanced six CRJ-900 aircraft with $27.5 million in debt and financed nine CRJ-900 aircraft, which were previously leased, with $69.6 million in debt. The senior notes payable of $65.8 million bear interest at the three-month LIBOR plus 3.50% (3.8% at June 30, 2020) and require quarterly principal and interest payments. The subordinated notes payable of $29.8 million bear interest at three month LIBOR plus 7.50% (7.8% at June 30, 2020) and require quarterly principal and interest payments.

(8) In December 2017, the Company refinanced nine CRJ-900 aircraft with $74.9 million in debt. The senior notes payable of $46.9 million bear interest at the three-month LIBOR plus 3.50% (3.8% at June 30, 2020) and require quarterly principal and interest payments. The subordinated notes payable bear interest at the three-month LIBOR plus 4.50% (4.8% at June 30, 2020) and require quarterly principal and interest payments.

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

(10) In fiscal 2015 and 2016, the Company financed certain flight equipment maintenance costs with $10.2 million in debt. The debt bears interest at the three-month LIBOR plus 3.07% (3.37% at June 30, 2020) and requires quarterly principal and interest payments.

(11) In fiscal 2016-2019, the Company financed certain flight equipment maintenance costs with $26.1 million in debt. The debt bears interest at the three-month LIBOR plus a spread ranging from 2.93% to 3.21% (3.23% to 3.51% at June 30, 2020) and requires quarterly principal and interest payments. The debt is subject to a fixed charge ratio covenant. As of June 30, 2020, the Company was in compliance with this covenant.

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

(13) In January 2019, the Company financed certain flight equipment with $91.2 million in debt. The debt bears interest at the monthly LIBOR plus 3.10% (3.26% at June 30, 2020) and requires monthly principal and interest payments.

(14) In June 2019, the Company financed ten CRJ-700 aircraft with $70.0 million in debt, which were previously leased. The debt bears interest at the monthly LIBOR plus 5.00% (5.16% at June 30, 2020) and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1st quarter, 2020 due to United Airlines extension of CRJ-700.

(15) On September 27,2019, the Company financed certain flight equipment for $8.0 million. The debt bears interest at the monthly LIBOR plus 5.00% (5.16% at June 30, 2020) and requires monthly principal and interest payments. The interest rate reduced from 5.25% to 5.00% in 1st quarter, 2020 due to United Airlines extension of CRJ-700.

(16) On September 25, 2019, the company extended the term on their $35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. In 2nd quarter, 2020, $23.0 million was drawn to cover operational needs.

Principal maturities of long-term debt as of June 30, 2020, and for each of the next five years are as follows (in thousands):

Periods Ending June 30,	**Total Principal**
Remainder of 2020	$ 178,459
2021	162,494
2022	133,663
2023	79,268
2024	55,677
Thereafter	168,219
	$ 777,780

The net book value of collateralized aircraft and equipment as of June 30, 2020 was $1,114.0 million.

In December 2015, an Enhanced Equipment Trust Certificate ("EETC") pass-through trust was created to issue pass-through certificates to obtain financing for new E-175 aircraft. At June 30, 2020 Mesa has $181.8 million of equipment notes outstanding issued under the EETC financing included in long-term debt on the condensed consolidated balance sheets. The structure of the EETC financing consists of a pass-through trust created by Mesa to issue pass-through certificates, which represent fractional undivided interests in the pass-through trust and are not obligations of Mesa.

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

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

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

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

On September 25, 2019, the Company extended the term on its $35.0 million working capital draw loan by three years, which now terminates in September 2022. Interest is assessed on drawn amounts at one-month LIBOR plus 3.75%. In the 2nd quarter of 2020, $23.0 million was drawn to cover operational needs.

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

On April 9, 2020, Export Development Canada (“EDC”) provided Mesa Air with deferral of principle payments due and owing beginning on March 19, 2020 to and including September 30, 2020 totaling $28.0 million. All Deferred Payments shall be due in a lump sum payment on September 30, 2020 per the letter agreement dated April 9, 2020. The company performed the debt modification accounting assessment and treated as a modification with immaterial issuance costs capitalized.

In June 2020, the company amended their RASPRO aircraft lease agreement to defer $4.0 million of a lease payment otherwise due in June 2020. Per the amended agreement dated June 5,2020, the company is to pay this amount over the period of September 2021 through March 2024. The company made the accounting election available for COVID-19 related concession provided by a lessor. This event is not a lease modification and requires no changes to current accounting treatment.

10. Earnings Per Share and Equity

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Net income attributable to Mesa Air Group	$ 3,419	$ 3,007	$ 16,089	$ 35,337
Basic weighted average common shares outstanding	35,299	34,835	35,154	34,683
Add: Incremental shares for: (1)				
Dilutive effect of restricted stock	—	277	94	368
Diluted weighted average common shares outstanding	35,299	35,112	35,248	35,051
Net income per common share attributable to Mesa Air Group:				
Basic	$ 0.10	$ 0.09	$ 0.46	$ 1.02
Diluted	$ 0.10	$ 0.09	$ 0.46	$ 1.01

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

The number of incremental shares from the assumed issuance of shares relating to restricted stock and exercise of warrants (excluding warrants with a nominal conversion price) is calculated by applying the treasury stock method. Share-based awards and warrants whose impact is considered to be anti-dilutive under the treasury stock method were excluded from the diluted net income or loss per share calculation. In loss periods, these incremental shares are excluded from the calculation of diluted loss per share, as the inclusion of unvested restricted stock and warrants would have an anti-dilutive effect. There were no anti-dilutive shares relating to restricted stock and exercise of warrants that were excluded from the calculation of diluted loss per share for the three and nine months ended June 30, 2020 and 2019.

11. Common Stock

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

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

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

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

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

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

12. Income Taxes

The Company’s effective tax rate (ETR) from continuing operations was 30.7% and 28.3% for the three months and nine months ended June 30, 2020, respectively, and 22.2% and 23.6% for the three months and nine months ended June 30, 2019, respectively. The Company's ETR during the three months and nine months ended June 30, 2020 was different from the prior year tax rates as a result of differences in the book and tax value of the vesting and exercise of stock compensation, state taxes, and changes in valuation allowance against state net operating losses, as well as differences between the book and tax deductions associated with meals, entertainment, employer provided parking, and compensation of officers. The non-deductible amounts related to these items increased slightly from the prior year to the current year.

The Company's ETR during the nine months ended June 30, 2019 was different than the statutory rate as a result of state taxes, the vesting and exercises of stock compensation, differences in the GAAP and tax deductibility of meals and parking benefits, and changes in the valuation allowance against state net operating losses.

As of September 30, 2019, the Company had aggregate federal and state net operating loss carryovers of approximately $478.3 million and $228.3 million, respectively, which expire in fiscal years 2027-2037 and 2020-2039, respectively. Approximately $2.7 million of state net operating loss carryforwards are expected to expire in the current fiscal year.

13. Share-Based Compensation and Stock Repurchases

Restricted Stock

The restricted share activity for the nine months ended June 30, 2020 were summarized as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Restricted shares unvested at September 30, 2019	847,974	$ 9.56
Granted	660,297	4.07
Vested	(468,697)	9.69
Forfeited	(6,000)	7.03
Restricted shares unvested at June 30, 2020	1,033,574	$ 6.01

As of June 30, 2020, there was $5.0 million of total unrecognized compensation cost related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.4 years.

Compensation cost for share-based awards are recognized on a straight-line basis over the vesting period. Share-based compensation expense for the three months ended June 30, 2020 and 2019 was $1.0 million and $1.5 million, respectively, and for the nine months ended June 30, 2020 and 2019 was $3.5 million and $4.3 million, respectively.

The Company repurchased 112,587 shares of its common stock for $0.5 million to cover the income tax obligation on vested employee equity awards and warrant exercises during the nine months ended June 30, 2020.

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

14. Employee Stock Purchase Plan

2019 ESPP

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

A maximum of 500,000 Mesa Air Group, Inc. ordinary shares may be issued under the 2019 ESPP. As of June 30, 2020, eligible employees purchased and the Company issued 43,934 Mesa Air Group, Inc. ordinary shares under the 2019 ESPP.

15. Leases and Commitments

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

At June 30, 2020, the Company leased 18 aircraft, airport facilities, office space, and other property and equipment under non-cancelable operating leases. The leases require the Company to pay all taxes, maintenance, insurance, and other operating expenses. Rental expense is recognized on a straight-line basis over the lease term, net of lessor rebates and other incentives. The Company expects that, in the normal course of business, such operating leases that expire will be renewed or replaced by other leases, or the property may be purchased rather than leased. Aggregate rental expense under all operating aircraft, equipment and facility leases totaled approximately $15.6 million and $18.1 million for the three months ended June 30, 2020 and 2019, respectively, and $51.0 million and $55.9 million for the nine months ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, the Company's operating lease right-of-use assets were $131.5 million, the Company's current maturities of operating lease liabilities were $43.2 million, and the Company's noncurrent lease liabilities were $71.1 million.

As of June 30, 2020, the Company's operating lease payments in operating cash flows for the nine months ended June 30, 2020 is $34.9 million. The disclosure is not applicable for the nine months ended June 30, 2019 due to the method of adoption of the new leasing Standard ASC-842. (1)

The table below presents lease related terms and discount rates as of June 30, 2020:

As of June 30, 2020	
Weighted average remaining lease term Operating leases	3.8 years
Weighted average discount rate Operating leases	4.2%

	Three Months Ended June 30,			
	2020	2019	$ Change	% Change
Operating lease cost	$ 15,634	$ 18,094	$ (2,460)	(13.6)%

	Nine Months Ended June 30,			
	2020	2019	$ Change	% Change
Operating lease cost	$ 51,000	$ 55,897	$ (4,897)	(8.8)%

The following table summarizes future minimum rental payments primarily related to leased aircraft required under operating leases that had initial or remaining non-cancelable lease terms as of June 30, 2020 (in thousands):

Periods Ending June 30,	Total Maturities
2020	$ 9,390
2021	47,377
2022	33,216
2023	15,947
2024	14,682
Thereafter	1,654
Less: Interest	$ (7,892)
Amounts recorded in the Consolidated Balance Sheet	$ 114,374

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

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

Engine Purchase Commitments

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

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

The total purchase commitment under these agreements is approximately $108.0 million.

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

16. Contingencies

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

17. Supplemental Disclosure

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

	June 30, 2020	September 30, 2019
Condensed Consolidated Balance Sheets		
Cash and cash equivalents	$ 64,934	$ 68,855
Restricted cash	3,444	3,646
Cash, cash equivalents, and restricted cash in Condensed Consolidated Statement of Cash Flows	$ 68,378	$ 72,501

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

18. Subsequent Events

None.

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

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

Overview

Mesa Airlines is a regional air carrier providing scheduled flight service to 66 cities in 29 states, the District of Columbia and Mexico. All of our flights are operated as either American Eagle or United Express flights pursuant to the terms of capacity purchase agreements we entered into with American Airlines, Inc. ("***American***") and United Airlines, Inc. ("***United***") (each, our "*major airline partner*"). We have a significant presence in several of our major airline partners' key domestic hubs and focus cities, including Dallas, Houston, Phoenix and Washington-Dulles.

As of June 30, 2020, we operated a fleet of 145 aircraft with approximately 175 daily departures. We operate 54 CRJ-900 aircraft under our capacity purchase agreement with American (our "*American Capacity Purchase Agreement*") and 20 CRJ-700 and 60 E-175 aircraft under our capacity purchase agreement with United (our "*United Capacity Purchase Agreement*"). For the three months ended June 30, 2020, approximately 40% of our aircraft in scheduled service were operated for United and approximately 60% were operated for American. All of our operating revenue in our fiscal year ended September 30, 2019 (our "*2019 fiscal year*") and the nine months ended June 30, 2020 was derived from operations associated with our American and United Capacity Purchase Agreements.

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

Impact of the COVID-19 Pandemic

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

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

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

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

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

Balance Sheet, Cash Flow and Liquidity. As of June 30, 2020, our cash and cash equivalents balance was $64.9 million. We have taken the following actions to increase liquidity and strengthen our financial position.

- Reducing planned heavy engine and airframe maintenance events by approximately $16.8 million in the current fiscal year.
- Working with our major airline partners and original equipment manufacturers ("OEM") to delay the timing of our future aircraft and spare engine deliveries.
- Drew $23.0 million from our previously undrawn revolving credit facility with CIT Bank, N.A.
- In April 2020, we were granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. We received $46.3 million as of June 30 and the remaining $46.2 million is scheduled to be paid to Mesa in three equal monthly payments from July to September 2020. $43.0 million has been utilized to offset the payroll expenses in the quarter ended June 30, 2020 and $3.3 million has been deferred to offset future payroll costs.
- The CARES Act also provides for up to $25 billion in secured loans to the airline industry. We have been allocated $277.0 million under the loan program. We are in ongoing discussions with the U.S. Department of the Treasury regarding the terms and our participation level of such a loan.

Components of Results of Operations

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

Operating Revenues

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

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

Pass-Through and Other. Pass-through and other revenue consists of passenger and hull insurance, aircraft property taxes, and certain maintenance costs related to our E-175 aircraft.

Operating Expenses

Our operating expenses consist of the following items:

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

Fuel. Fuel expense includes fuel and related fueling costs for flying we undertake outside of our capacity purchase agreements, including aircraft repositioning and maintenance. All aircraft fuel and related fueling costs for flying under our capacity purchase agreements were directly paid and supplied by our major airline partners. Accordingly, we do not record an expense or the related revenue for fuel supplied by American and United for flying under our capacity purchase agreements.

Maintenance. Maintenance includes costs related to salaries and benefits earned by our maintenance personnel, engine overhauls, airframe, landing gear and normal recurring maintenance, which includes pass-through maintenance costs related to our E-175 aircraft, as well as maintenance lease return obligations on our leased aircraft when the expense is probable and can be reasonably estimated. We record these expenses using the direct expense method of accounting, wherein the expense is recognized when the maintenance work is completed, or over the repair period, if materially different. Our maintenance policy is determined by fleet when major maintenance is incurred. As a result of using the direct expense method, the timing of maintenance expense reflected in the financial statements may vary significantly period to period.

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

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

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

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

Other (Expense) Income, Net

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

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

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

Segment Reporting

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

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

Cautionary Statement Regarding Non-GAAP Measures

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

Adjusted EBITDA. We define Adjusted EBITDA as net income or loss before interest, income taxes, and depreciation and amortization, adjusted for the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt, and write-off of associated financing fees.

Adjusted EBITDAR. We define Adjusted EBITDAR as net income or loss before interest, income taxes, depreciation and amortization, and aircraft rent, adjusted for the impact of revaluation of liability awards, lease termination costs, loss on extinguishment of debt, and write-off of associated financing fees.

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

Results of Operations

Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

We had operating income of $15.2 million in our three months ended June 30, 2020 compared to operating income of $17.1 million in our three months ended June 30, 2019. In our three months ended June 30, 2020, we had net income of $3.4 million compared to net income of $3.0 million in our three months ended June 30, 2019. Our operating results for the three months ended June 30, 2020 reflected a decrease in contract revenue primarily related to lower flying on all our fleets due to the impact of COVID-19 and decrease in pass-through and other revenues primarily due to a decrease in maintenance pass-through expense.

Our maintenance expense decreased primarily due to fewer engine heavy maintenance events due to timing and a decrease in component contracts and rotable and expendable parts as a result of less flying. Flight operations expense also decreased this quarter due to lower pilot and flight attendant wages and pilot training expenses. We also had a decrease in lease termination expense relating to the purchase of ten CRJ-700 aircraft in June 2019 that were previously leased under our GECAS Lease Facility. In addition, we recognized the Federal Grant received through the Payroll Support Agreement under the CARES Act with the U.S. Department of the Treasury.

Operating Revenues

	Three Months Ended Jun 30,		Change	
	2020	2019		
Operating revenues ($ in thousands):				
Contract	$ 71,648	$ 170,366	$ (98,718)	(57.9)%
Pass-through and other	1,451	9,858	(8,407)	(85.3)%
Total operating revenues	$ 73,099	$ 180,224	$ (107,125)	(59.4)%
Operating data:				
Available seat miles—ASMs (thousands)	783,702	2,724,961	(1,941,259)	(71.2)%
Block hours	31,622	114,042	(82,420)	(72.3)%
Revenue passenger miles—RPMs (thousands)	314,422	2,211,275	(1,896,853)	(85.8)%
Average stage length (miles)	567	580	(13)	(2.2)%
Contract revenue per available seat mile—CRASM (in cents)	¢ 9.14	¢ 6.25	¢ 2.89	46.2%
Passengers	548,705	3,770,683	(3,221,978)	(85.4)%

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

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

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

"CRASM" means contract revenue divided by ASMs.

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

Total operating revenue decreased by $107.1 million, or 59.4%, to $73.1 million for our three months ended June 30, 2020 as compared to our three months ended June 30, 2019. Contract revenue decreased by $98.7 million, or 57.9%, to $71.6 million primarily due to a decrease in flying on our CRJ-900, CRJ-700, and E-175 fleets as a result of COVID-19. Our block hours flown during our three months ended June 30, 2020 decreased 72.3% compared to the three months ended June 30, 2019 due to decreased flying on all our fleets. Our pass-through and other revenue decreased during our three months ended June 30, 2020 by $8.4 million, or 85.3%, to $1.5 million primarily due to pass-through maintenance revenue related to our E-175 fleet.

During the three months ended June 30, 2020, the Company completed a significantly lower than normal number of flights due to the impact of COVID-19. Since the revenue recognition is based on number of flights completed, the fixed amount of cash received exceeded the revenue recognized based on the number of flights completed during the quarter. Under US GAAP, the fixed monthly payments are recognized as revenue ratably based on completed flights over the contract term. As a result, the Company deferred $16.0 million of revenue in the three months ended June 30, 2020. The deferred revenue will be recognized when flights are completed over the remaining contract term.

Operating Expenses

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 29,664	$ 53,025	$ (23,361)	(44.1)%
Fuel	146	211	(65)	(30.8)%
Maintenance	22,591	54,322	(31,731)	(58.4)%
Aircraft rent	15,582	12,875	2,707	21.0%
Aircraft and traffic servicing	538	978	(440)	(45.0)%
General and administrative	11,737	12,435	(698)	(5.6)%
Depreciation and amortization	20,635	19,761	874	4.4%
Lease Termination	—	9,540	(9,540)	(100.0)%
CARES Act grant recognition	(43,018)	—	(43,018)	100.0%
Total operating expenses	$ 57,875	$ 163,147	$ (105,272)	(64.5)%
Operating data:				
Available seat miles—ASMs (thousands)	783,702	2,724,961	(1,941,259)	(71.2)%
Block hours	31,622	114,042	(82,420)	(72.3)%
Average stage length (miles)	567	580	(13)	(2.2)%
Departures	18,092	61,798	(43,706)	(70.7)%

Flight Operations. Flight operations expense decreased $23.4 million, or 44.1%, to $29.7 million for three months ended June 30, 2020 compared to the same period in 2019. The decrease was primarily driven by a decrease in pilot and flight attendant wages, pilot training related costs, and employee related expense as a result of less flying due to COVID-19. The decrease was also due to $5.0 million in tax credits provided by the Employee Retention Credit under the CARES Act related to the quarter ended June 30, 2020.

Fuel. Fuel expense decreased $0.1 million, or 30.8%, to $0.1 million for three months ended June 30, 2020 compared to the same period in 2019. The decrease was primarily driven by a decrease in ferry flight fuel. All fuel costs related to flying under our capacity purchase agreements during our three months ended June 30, 2020 and 2019 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs decreased $31.7 million, or 58.4%, to $22.6 million for three months ended June 30, 2020 compared to the same period in 2019. This decrease was primarily driven by a decrease in engine overhaul, component contracts, other pass-through, and labor and other expenses. Total pass-through maintenance expenses reimbursed by our major airline partners decreased by $7.7 million during our three months ended June 30, 2020.

The following table presents information regarding our maintenance costs during our three months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Change	
Engine overhaul	$ 2,816	$ 9,508	$ (6,692)	(70.4)%
Pass-through engine overhaul	402	1,856	(1,454)	(78.3)%
C-check	2,096	4,417	(2,321)	(52.5)%
Pass-through C-check	762	—	762	100.0%
Component contracts	3,162	9,353	(6,191)	(66.2)%
Rotable and expendable parts	3,381	6,620	(3,239)	(48.9)%
Other pass-through	(3,660)	3,368	(7,028)	(208.7)%
Labor and other	13,632	19,200	(5,568)	(29.0)%
Total	$ 22,591	$ 54,322	$ (31,731)	(58.4)%

Aircraft Rent. Aircraft rent expense increased $2.7 million, or 21.0%, to $15.6 million for three months ended June 30, 2020 compared to the same period in 2019. The increase is due to $4.9 million in additional engine rent expense offset by a $2.1 million decrease in aircraft lease expense as a result of purchasing ten CRJ-700 aircraft in June 2019 which were previously leased under the GECAS Lease Facility.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense decreased $0.4 million, or 45.0%, to $0.5 million for three months ended June 30, 2020 compared to the same period in 2019. The decrease is primarily due to a decrease in pass-through regulatory charges. For our three months ended June 30, 2020 and 2019, 7.9% and 56.8%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense decreased $0.7 million, or 5.6%, to $11.7 million for three months ended June 30, 2020 compared to the same period in 2019. The decrease is primarily due to a decrease in wages and pass-through insurance expense, partially offset by an increase in property taxes. For our three months ended June 30, 2020 and 2019, $3.9 million and $3.7 million, respectively, of our insurance and property tax expenses were reimbursed by our major airline partners.

Depreciation and Amortization. Depreciation and amortization expense increased $0.9 million, or 4.4%, to $20.6 million for three months ended June 30, 2020 compared to the same period in 2019. The increase is primarily attributable to an increase in depreciation expense related to the purchase of ten CRJ-700 aircraft which were previously leased under the GECAS Lease Facility. The increase is partially offset by a decrease in aircraft enhancement depreciation.

Lease Termination. Lease termination expense decreased $9.5 million, or 100.0%, to $0.0 million for three months ended June 30, 2020 compared to the same period in 2019. We incurred a lease termination expense for the ten CRJ-700 aircraft purchased in June 2019 that were previously leased under the GECAS facility.

CARES Act Grant Recognition. CARES Act grant recognition increased $43.0 million, or 100.0%, to $43.0 million for three months ended June 30, 2020 compared to none in the same period in 2019. Under the CARES Act, the government provided the company $46.3 million in payroll support during the quarter ended June 30, 2020. The company has recorded $43.0 million to offset the payroll expenses in the quarter ended June 30, 2020 and $3.3 million has been deferred to offset the future payroll costs. The support offsets payroll expenses recorded in the functional areas of the operating expense lines.

Other Expense

Other expense decreased $2.9 million, or 22.1%, to $10.3 million for three months ended June 30, 2020, compared to the same period in 2019. The decrease is primarily a result of a decrease in outstanding aircraft principal balances.

Income Taxes

The Company's effective tax rate (ETR) from continuing operations was 30.7% for the three months ended June 30, 2020 and 22.2% for the three months ended June 30, 2019. The Company's current year effective tax rate increased compared to the prior year tax rate as a result of an increase to permanent differences between book and taxable income in the deductibility of meals, employer provided parking, and compensation of officers. In addition, the Company's rate varied from the prior year's as a result of the vesting of stock compensation where the tax deduction differed from the book expense, state taxes, changes in the valuation allowance against state net operating losses, and changes in state statutory rates.

The income tax provision for the three months ended June 30, 2020 results in an effective tax rate of 30.7%, which differs from the U.S. federal statutory rate of 21% primarily due to permanent book and tax deductible expense differences, state taxes, changes in the valuation allowance against state net operating losses, routine stock vestings and exercises, and changes in state apportionment and state statutory rates.

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

As of September 30, 2019, the Company had aggregate federal and state net operating loss carryforwards of $478.3 million and $228.3 million, respectively, which expire in 2027-2037 and 2020-2039, respectively. Approximately $2.7 million of state net operating loss carryforwards are expiring in 2020.

Nine Months Ended June 30, 2020 Compared to Nine Months Ended June 30, 2019

We had operating income of $56.3 million in our nine months ended June 30, 2020 compared to operating income of $90.7 million in our nine months ended June 30, 2019. In our nine months ended June 30, 2020, we had net income of $16.0 million compared to net income of $35.3 million in our nine months ended June 30, 2019. Our operating results for the nine months ended June 30, 2020 reflected a decrease in contract revenue primarily related to the decrease in flying due to COVID-19.

Our flight operations expense decreased this quarter due to lower pilot and flight attendant wages and pilot training expenses as a result of less flying due to COVID-19. Our maintenance expense increased primarily due to more airframe C-Checks and engine heavy maintenance events due to timing of events. We also had an increase in depreciation expense primarily due to the purchase of ten CRJ-700 aircraft that were previously leased under our GECAS Lease Facility. We had a decrease in lease termination expense relating to the purchase of ten CRJ-700 aircraft in June 2019 that were previously leased under our GECAS Lease Facility. In addition, we recognized the Federal Grant received through the Payroll Support Agreement under the CARES Act with the U.S. Department of the Treasury.

	Nine Months Ended June 30,			
	2020	2019	Change	
Operating revenues ($ in thousands):				
Contract	$ 409,228	$ 510,586	$ (101,358)	(19.9)%
Pass-through and other	27,802	24,941	2,861	11.5%
Total operating revenues	$ 437,030	$ 535,527	$ (98,497)	(18.4)%
Operating data:				
Available seat miles—ASMs (thousands)	6,131,028	8,088,146	(1,957,118)	(24.2)%
Block hours	255,488	341,071	(85,583)	(25.1)%
Revenue passenger miles—RPMs (thousands)	4,251,169	6,402,057	(2,150,888)	(33.6)%
Average stage length (miles)	591	582	9	1.5%
Contract revenue per available seat mile—CRASM (in cents)	¢ 6.67	¢ 6.31	¢ 0.36	5.7%
Passengers	7,084,255	10,874,745	(3,790,490)	(34.9)%

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

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

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

"CRASM" means contract revenue divided by ASMs.

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

Total operating revenue decreased by $98.5 million, or 18.4%, to $437.0 million for our nine months ended June 30, 2020 as compared to our nine months ended June 30, 2019. Contract revenue decreased by $101.4 million, or 19.9%, to $409.2 million primarily due to a decrease in flying on our CRJ-900, CRJ-700, and E-175 fleets as a result of COVID-19. Our block hours flown during our nine months ended June 30, 2020 decreased 25.1% compared to the nine months ended June 30, 2019 primarily due to decreased flying on all of our fleets. Our pass-through and other revenue increased during our nine months ended June 30, 2020 by $2.9 million, or 11.5%, to $27.8 million primarily due to pass-through maintenance revenue related to our E-175 fleet.

During the three months ended June 30, 2020, the Company completed a significantly lower than normal number of flights due to the impact of COVID-19. Since the revenue recognition is based on number of flights completed, the fixed amount of cash received exceeded the revenue recognized based on the number of flights completed during the quarter. Under US GAAP, the fixed monthly payments are recognized as revenue ratably based on completed flights over the contract term. As a result, the Company deferred $16.0 million of revenue in the three months ended June 30, 2020. The deferred revenue will be recognized when flights are completed over the remaining contract term.

Operating Expenses

	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019	Change	
Operating expenses ($ in thousands):				
Flight operations	$ 135,199	$ 155,636	$ (20,437)	(13.1)%
Fuel	504	433	71	16.4%
Maintenance	145,021	139,504	5,517	4.0%
Aircraft rent	39,196	41,104	(1,908)	(4.6)%
Aircraft and traffic servicing	2,938	2,977	(39)	(1.3)%
General and administrative	39,233	38,121	1,112	2.9%
Depreciation and amortization	61,656	57,528	4,128	7.2%
Lease Termination	—	9,540	(9,540)	(100.0)%
CARES Act grant recognition	(43,018)	—	(43,018)	100.0%
Total operating expenses	$ 380,729	$ 444,843	$ (64,114)	(14.4)%
Operating data:				
Available seat miles—ASMs (thousands)	6,131,028	8,088,146	(1,957,118)	(24.2)%
Block hours	255,488	341,071	(85,583)	(25.1)%
Average stage length (miles)	591	582	9	1.5%
Departures	136,252	182,557	(46,305)	(25.4)%

Flight Operations. Flight operations expense decreased $20.4 million, or 13.1%, to $135.2 million for nine months ended June 30, 2020 compared to the same period in 2019. The decrease was primarily driven by a decrease in pilot and flight attendant wages, pilot training related costs, and employee related expense as a result of less flying due to COVID-19. The decrease was also due to $5.0 million in tax credits provided by the Employee Retention Credit under the CARES Act related to the quarter ended June 30, 2020

Fuel. Fuel expense increased $0.1 million, or 16.4%, to $0.5 million for nine months ended June 30, 2020 compared to the same period in 2019. The increase was primarily driven by an increase in ferry flight fuel. All fuel costs related to flying under our capacity purchase agreements during our nine months ended June 30, 2020 and 2019 were directly paid to suppliers by our major airline partners.

Maintenance. Aircraft maintenance costs increased $5.5 million, or 4.0%, to $145.0 million for nine months ended June 30, 2020 compared to the same period in 2019. This increase was primarily driven by an increase in engine overhaul expense, airframe C-Check expense, offset by a decrease in component contracts, rotable and expendable, and other pass-through expense. Total pass-through maintenance expenses reimbursed by our major airline partners increased by $2.6 million during our nine months ended June 30, 2020.

The following table presents information regarding our maintenance costs during our nine months ended June 30, 2020 and 2019 (in thousands):

	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019	Change	
Engine overhaul	$ 25,361	$ 17,738	$ 7,623	43.0%
Pass-through engine overhaul	2,956	3,044	(88)	(2.9)%
C-check	14,787	10,629	4,158	39.1%
Pass-through C-check	5,856	—	5,856	100.0%
Component contracts	22,243	27,726	(5,483)	(19.8)%
Rotable and expendable parts	18,247	21,397	(3,150)	(14.7)%
Other pass-through	5,188	8,393	(3,205)	(38.2)%
Labor and other	50,383	50,577	(194)	(0.4)%
Total	$ 145,021	$ 139,504	$ 5,517	4.0%

Aircraft Rent. Aircraft rent expense decreased $1.9 million, or 4.6%, to $39.2 million for nine months ended June 30, 2020 compared to the same period in 2019. The decrease is attributable to a $9.9 million decrease in aircraft lease expense as a result of purchasing ten CRJ-700 aircraft in June 2019 which were previously leased under the GECAS Lease Facility, offset by an $8.0 million increase in engine rent due to additional engine rent expense.

Aircraft and Traffic Servicing. Aircraft and traffic servicing expense decreased $0.04 million, or 1.3%, to $2.9 million for nine months ended June 30, 2020 compared to the same period in 2019. The decrease is primarily due to a decrease in pass-through regulatory charges, offset by an increase in interrupted trip expense. For our nine months ended June 30, 2020 and 2019, 31.3% and 57.1%, respectively, of our aircraft and traffic servicing expenses were reimbursed by our major airline partners.

General and Administrative. General and administrative expense increased $1.1 million, or 2.9%, to $39.2 million for nine months ended June 30, 2020 compared to the same period in 2019. The increase is primarily due to an increase in pass-through property tax, partially offset by a decrease in legal expense. For our nine months ended June 30, 2020 and 2019, $13.2 million and $11.3 million, respectively, of our insurance and property tax expenses were reimbursed by our major airline partners.

Depreciation and Amortization. Depreciation and amortization expense increased $4.1 million, or 7.2%, to $61.7 million for nine months ended June 30, 2020 compared to the same period in 2019. The increase is primarily attributable to an increase in depreciation expense related to the purchase of ten CRJ-700 aircraft which were previously leased under the GECAS Lease Facility. The increase was also partially related to the purchase of rotable inventory, partially offset by a decrease in aircraft improvement depreciation.

Lease Termination. Lease termination expense decreased $9.5 million, or 100.0%, to $0.0 million for nine months ended June 30, 2020 compared to the same period in 2019. We incurred a lease termination expense for the ten CRJ-700 aircraft purchased in June 2019 that were previously leased under the GECAS facility.

CARES Act Grant Recognition. CARES Act grant recognition increased $43.0 million, or 100.0%, to $43.0 million for three months ended June 30, 2020 compared to none in the same period in 2019. Under the CARES Act, the government provided the company $46.3 million in payroll support during the quarter ended June 30, 2020. The company has recorded $43.0 million to offset the payroll expenses in the quarter ended June 30, 2020 and $3.3 million has been deferred to offset the future payroll costs. The support offsets payroll expenses recorded in the functional areas of the operating expense lines.

Other Expense

Other expense decreased $10.6 million, or 23.9%, to $33.9 million for nine months ended June 30, 2020, compared to the same period in 2019. The decrease is primarily a result of a decrease in interest expense due to lower interest rates on our new Spare Engine Facility and a decrease in outstanding aircraft principal balances. Additionally, we had one-time $3.6 million early termination fee related to our engine financing in the nine months ended June 30, 2019. We also saw a decrease in interest income.

Income Taxes

The income tax expense (benefit) totaled $6.4 million for the nine months ended June 30, 2020 as compared to a tax expense (benefit) of $10.9 million for the nine months ended June 30, 2019. The effective tax rate was 28.3% versus 23.6% in the prior year.

The effective tax rate for the nine months ended June 30, 2020 was impacted by permanent difference between book and taxable income in the deductibility of meals, employer provided parking, and compensation of officers. The effective rate was also impacted by changes in the valuation allowance against state net operating losses, vesting and exercises of stock compensation, and changes in state apportionment and state statutory rates.

We file income tax returns in the US and in various state jurisdictions with varying statutes of limitations. We are generally no longer subject to income tax examination by tax authorities for years prior to 2017 and 2015 for federal and state purposes, respectively, with the exception of the examination of our net operating losses. The balance of unrecognized tax benefits is not anticipated to fluctuate significantly from fiscal 2019 to fiscal 2020. It is our policy to recognize interest expense and penalties related to uncertain income tax matters as a component of income tax expense.

Adjusted EBITDA and Adjusted EBITDAR

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Reconciliation:				
Net income	$ 3,419	$ 3,007	$ 16,089	$ 35,337
Income tax expense	1,517	856	6,359	10,891
Income before taxes	$ 4,936	$ 3,863	$ 22,448	$ 46,228
Adjustments (1)	—	9,540	—	13,156
Adjusted income before taxes	$ 4,936	$ 13,403	$ 22,448	$ 59,384
Interest expense	10,368	13,496	34,668	42,110
Interest income	(1)	(733)	(95)	(1,188)
Depreciation and amortization	20,635	19,761	61,656	57,528
Adjusted EBITDA	$ 35,938	$ 45,927	$ 118,677	$ 157,834
Aircraft rent	15,582	12,875	39,196	41,104
Adjusted EBITDAR	$ 51,520	$ 58,802	$ 157,873	$ 198,938

(1) We have added non-GAAP adjustments for costs associated with lease termination, loss on extinguishment of debt and write-off of associated financing fees:

- Our financial results include lease termination expense of $9.5 million for the three and nine months ended June 30, 2019 related to our acquisition of ten CRJ-700 which were previously leased under our aircraft lease facility with Wells Fargo Bank Northwest, National Association, as owner trustee and lessor (the “GECAS Lease Facility”).

- Our financial results reflect loss on extinguishment of debt of $3.6 million related to repayment of the Company’s Spare Engine Facility for the nine months ended June 30, 2019. This loss includes a $1.9 million write-off of financing fees.

Liquidity and Capital Resources

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

Reducing planned heavy engine and airframe maintenance events by approximately $16.8 million in the current fiscal year.

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

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

One of our aircraft lenders has agreed to defer $28.0 million of principal debt payments otherwise due beginning on March 19, 2020, to and including September 30, 2020. All deferred payments will be due in a lump sum payment on September 30, 2020 per a letter agreement dated April 9, 2020. Although the agreement is to pay the full amount back on September 30, 2020, the Company is seeking more favorable repayment terms from the lender. No assurance can be given that we will be successful in further modifying or securing more favorable repayment terms. The company performed a debt modification accounting assessment and determined that this event is a debt modification and no changes to the current accounting treatment is required.

In June 2020, the Company amended its RASPRO aircraft agreement to defer a $4.0 million lease payment otherwise due in June 2020. Per the amended agreement dated June 5,2020, the Company is required to pay this amount over the period of September 2021 through March 2024. The Company made the accounting election available for COVID-19 related concession provided by a lessor. This event is not a lease modification and requires changes to current accounting treatment.

In April 2020, we were granted $92.5 million in emergency relief through the payroll support program of the CARES Act to be paid in installments through September 2020. We received $46.3 million as of June 2020, and the remaining $46.2 million is scheduled to be paid to Mesa in three equal monthly payments from July to September 2020. $43.0 million has been utilized to offset the payroll expenses in the quarter ended June 30, 2020 and $3.3 million has been deferred to offset future payroll costs.

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

The CARES Act also provides for up to $25 billion in secured loans to the airline industry. We have been allocated $277.0 million under the loan program. We are in ongoing discussions with the U.S. Department of the Treasury regarding the terms and our participation level of such a loan.

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

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

We expect to meet our cash needs for the next twelve months with cash and cash equivalents, financing arrangements, government assistance from the CARES Act, and cash flows from operations. As of June 30, 2020, we had $65 million in unrestricted liquidity. Additionally, we have five unencumbered CRJ-700 aircraft available to use as collateral for potential financing arrangements if needed. However, we continue to monitor the impact of the pandemic, including its adverse effect on customer demand, the general economy, and our major airline partners. Should the effects of the pandemic continue long-term, our capital requirements and sources of capital may be adversely impaired. See Part II, Item 1A, Risk Factors for additional discussion.

Sources and Uses of Cash

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures, aircraft pre-delivery payments, maintenance, aircraft rent and to pay debt service obligations, including principal and interest payments. Our cash needs vary from period to period primarily based on the timing and costs of significant maintenance events. Our principal sources of liquidity are cash on hand, cash generated from operations and funds from external borrowings. In the near term, we expect to fund our primary cash requirements through cash generated from operations and cash and cash equivalents on hand. We also have the ability to utilize our credit and guaranty agreement (the "CIT Revolving Credit Facility") pursuant to which the CIT Lenders committed to lend to Mesa Airlines and Mesa Air Group—Airline Inventory Management, LLC, ("*MAG-AIM"*) revolving loans in the aggregate principal amount of up to $35.0 million. As of June 30, 2020, $12.0 million remains available for borrowing until the facility matures on August 12, 2022.

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

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

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

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

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

During the ordinary course of business, we evaluate our cash requirements and, if necessary, adjust operating and capital expenditures to reflect the current market conditions and our projected demand. Our capital expenditures are primarily directed toward our aircraft fleet and flight equipment. Our capital expenditures, net of purchases of rotable spare parts and aircraft and spare engine financing for the three months ended June 30, 2020 is approximately 6.4% which is higher compared to our historical expense of approximately 1.2% to 1.5% of annual revenues not only due to expenses incurred related to aircraft enhancements but also a decrease in revenue due to the COVID-19 pandemic impact on the airline industry. We expect to continue to incur capital expenditures to support our business activities. Future capital expenditures may be impacted by events and transactions that are not currently forecasted.

As of June 30, 2020, our principal sources of liquidity were cash and cash equivalents of $64.9 million. In addition, we had restricted cash of $3.4 million as of June 30, 2020. Restricted cash includes certificates of deposit that secure letters of credit issued for particular airport authorities as required in certain lease agreements. Primary uses of liquidity are capital expenditures, and debt repayments. As of June 30, 2020, we had $176.9 million of short-term debt, excluding financing leases, and $586.9 million of long-term debt excluding financing leases.

Sources of cash for the nine months ended June 30, 2020 were primarily cash flows from operations of $103.6 million. This positive cash flow was primarily driven by receipts from performance under our capacity purchase agreements.

Restricted Cash

As of June 30, 2020, we had $3.4 million in restricted cash. We have an agreement with a financial institution for a $6.0 million letter of credit facility and to issue letters of credit for landing fees, worker's compensation insurance and other business needs. Pursuant to such agreement, $3.5 million of outstanding letters of credit are required to be collateralized by amounts on deposit.

Cash Flows

The following table presents information regarding our cash flows for each of the three months ended June 30, 2020 and 2019 (in thousands):

	Nine Months Ended June 30,	
	2020	**2019**
Net cash provided by operating activities	$ 103,601	$ 114,077
Net cash used in investing activities	(25,114)	(96,033)
Net cash used in by financing activities	(82,610)	(41,622)
Net decrease in cash and cash equivalents	(4,123)	(23,578)
Cash and cash equivalents at beginning of period	72,501	107,134
Cash and cash equivalents at end of period	$ 68,378	$ 83,556

Net Cash Flow Provided By Operating Activities

During our nine months ended June 30, 2020, cash flow provided by operating activities was $103.6 million. We had net income of $16.1 million adjusted for the following significant non-cash items: depreciation and amortization of $61.7 million, stock-based compensation of $3.5 million, deferred income taxes of $5.9 million, long-term deferred revenue of $12.2 million, amortization of deferred credits of $(2.9) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of $3.2 million, $0.5 million loss on disposal of assets and provision for obsolete expendable parts of $0.3 million. We had a net change of $3.1 million within other net operating assets and liabilities largely driven by an increase in accrued liability during our nine months ended June 30, 2020.

During our nine months ended June 30, 2019, cash flow provided by operating activities of $114.1 million reflects our growth and execution of our strategic initiatives. We had net income of $35.3 million adjusted for the following significant non-cash items: depreciation and amortization of $57.5 million, stock-based compensation of $4.3 million, deferred income taxes of $10.9 million, amortization of unfavorable lease liabilities and deferred credits of $(8.4) million, amortization of debt financing costs and accretion of interest on non-interest bearing subordinated notes of $3.1 million, and loss on extinguishment of debt of $3.6 million and loss on lease termination of $9.5 million. We had a net change of $(2.3) million within other net operating assets and liabilities largely driven by a decrease in prepaid expenses and other current assets primarily due to the purchase of ten CRJ-700 aircraft that were previously leased under our GECAS Lease Facility during our nine months ended June 30, 2019.

Net Cash Flows Used In Investing Activities

During our nine months ended June 30, 2020, net cash flow used in investing activities totaled $(25.1) million. We invested $(11.0) million in spare engines and (3.8) million in aircraft improvements, $(8.4) million in inventory, $(1.9) million in tools and miscellaneous projects and $(13.8) million in lease and equipment deposits offset by $13.9 million from the return of lease and equipment deposits.

During our nine months ended June 30, 2019, net cash flow used in investing activities totaled $(96.0) million. We invested $116.7 million in ten aircraft and seven spare engines and aircraft improvements, offset by $20.1 million from sales of investment securities, and $0.6 million in equipment deposits

Net Cash Flows Used In Financing Activities

During our nine months ended June 30, 2020, net cash flow used in financing activities was $(82.6) million. We drew $23.0 million from our $35.0 million working capital draw loan for operational needs. We made $(104.0) million of principal repayments on long-term debt during the period. We incurred $(1.4) million of costs related to debt financing and $(0.5) million of costs related to the repurchase of shares of our common stock.

During our nine months ended June 30, 2019, net cash flow used in financing activities was $(41.6) million. We received $163.7 million in proceeds from long-term debt primarily related to purchasing ten aircraft, and spare aircraft engine and aircraft engine kit financing. We made $197.4 million of principal repayments on long-term debt during the period. We incurred $4.9 million of costs related to debt financing, $1.7 million in debt prepayment costs, and $1.5 million of costs related to the repurchase of shares of our common stock.

Off-Balance Sheet Arrangements

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

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

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

Commitments and Contractual Obligations

There have been no material changes outside of the ordinary course of business in our commitments and contractual obligations from those specified in our Form 10-K for the fiscal year ended September 30, 2019.

Critical Accounting Policies and Estimates

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

The accompanying discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated interim financial statements included elsewhere in this Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. Except with respect to our revenue recognition practices included in Note 2: "Summary of Significant Accounting Policies" in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q, there have been no changes to the critical accounting policies as explained in Part 1, Item 7 of the 2019 Form 10-K under the heading "Critical Accounting Policies."

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 4: "Summary of Significant Accounting Policies" to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

As of June 30, 2020, we had $510.4 million of variable-rate debt including current maturities. A hypothetical 50 basis point change in market interest rates would have affected interest expense by approximately $2.6 million in the twelve months ended June 30, 2020.

As of June 30, 2020, we had $270.8 million of fixed-rate debt, including current maturities. A hypothetical 50 basis point change in market interest rates would not impact interest expense or have a material effect on the fair value of our fixed-rate debt instruments as of June 30, 2020.

On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become acceptable alternatives to LIBOR, or what effect these changes in views or alternatives may have on financial markets for LIBOR-linked financial instruments. While the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by Treasury securities, we cannot currently predict whether this index will gain widespread acceptance as a replacement for LIBOR. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere.

We may in the future pursue amendments to our LIBOR-based debt transactions to provide for a transaction mechanism or other reference rate in anticipation of LIBOR's discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. As of June 20, 2020, we had $510.4 million of borrowings based on LIBOR. The replacement of LIBOR with a comparable or successor rate could cause the amount of interest payable on our long-term debt to be different or higher than expected.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2020, to which this report relates that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of the Company.

Inherent Limitations on Effectiveness of Controls

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to two putative class action lawsuits alleging federal securities law violations in connection with its IPO— one in the Superior Court of the State of Arizona and one in U.S. District Court of Arizona. These purported class actions were filed in March and April against the Company, certain current and former officers and directors, and certain underwriters of the Company's IPO. The state and federal lawsuits each make the same or similar allegations of violations of the Securities Act of 1933, as amended, for allegedly making materially false and misleading statements in, or omitting material information from, our IPO registration statement. The plaintiffs seek unspecified monetary damages and other relief. We do not currently believe that this matter is likely to have a material adverse impact on our consolidated results of operations, cash flows, or our financial position. However, any litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could materially and adversely impact our business, results of operations, financial condition, and prospects.

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

Item 1A. Risk Factors

We refer you to documents filed by us with the SEC, specifically "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 (the "2019 10-K"), as updated by the information disclosed in "Part II, Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the "Second Quarter Form 10-Q"), each of which identify important risk factors that could materially affect our business, financial condition and future results. We also refer you to the factors and cautionary language set forth in the section entitled "Cautionary Statements Regarding Forward-looking Statements" of this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q, including the accompanying condensed consolidated financial statements and related notes, should be read in conjunction with such risks and other factors for a full understanding of our operations and financial condition. The risks described in the 2019 Form 10-K and the Second Quarter Form 10-Q are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results particularly in light of the fast-changing nature of the COVID-19 pandemic, containment measures, the potential for future waves of outbreaks and the related impacts to the travel industry and on our major airlines partners.

We have updated our existing risk factors to add the following risk factor related to recent developments. Except for the updates set forth below, there have been no material changes in our risk factors from those disclosed in our 2019 10-K, as updated in our Second Quarter 10-Q.

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

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

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

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

We have taken and intend to take additional actions to improve our financial position, including measures to improve liquidity, such as obtaining financial assistance under the CARES Act. In April 2020, we were granted $92.5 million in emergency relief through the Payroll Support Program of the CARES Act. We received $46.3 million as of June 2020 and expect to receive the remaining $46.2 million in three equal installments from July to September 2020. The Company is also considering borrowing up to approximately $277 million from the U.S. Treasury Department pursuant to the loan program under the CARES Act. In connection with the financial assistance we have received and expect to receive under this legislation, we will be required to comply with certain provisions of the CARES Act, including the requirement that funds provided pursuant to the Payroll Support Program be used exclusively for the continuation of payment of employee wages, salaries and benefits; the requirement against involuntary furloughs and reductions in employee pay rates and benefits through September 2020; the requirement of continuing essential air service; restrictions on share repurchases and dividends; and limits on the payment of certain executive compensation. The substance and duration of these restrictions may materially affect our operations, and we may not be successful in managing these impacts for the duration of the restrictions. In particular, limitations on executive compensation, which, depending on the form of aid, could extend up to six years, may impact the Company's ability to attract and retain senior management or attract other key employees during this critical time.

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

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

The Company has a significant amount of debt and other contractual obligations and intends to seek material amounts of additional financial liquidity in the short-term, and insufficient liquidity may have a material adverse effect on the Company's financial condition and business.

The Company has a significant amount of debt and other contractual obligations, including debt incurred in connection with the acquisition of aircraft and aircraft engines, and long-term lease obligations primarily relating to our aircraft fleet. In addition, the Company has substantial noncancelable commitments for capital expenditures, including for the acquisition of new aircraft and related spare engines.

In addition, in response to the travel restrictions, decreased demand for air travel and other effects the COVID-19 pandemic has had and is expected to have on our major airline partners and, in turn, on the Company's business, the Company currently intends to continue to seek material amounts of additional financial liquidity in the short-term, which may include the proposed drawing of loans under the loan program of the CARES Act.

There can be no assurance as to the timing of any such incurrence, which may be in the near term, or that any such additional financing will be completed on favorable terms, or at all. As of June 30, 2020, we had total long-term debt of $777.7 million (including current portion of $176.8 million) and $12.0 million available for borrowing under our CIT Revolving Credit Facility at June 30, 2020. We received $46.3 million under the payroll support program under the CARES Act as of June 30, 2020, and expect to receive the remaining $46.2 million in three equal payments from July to September 2020. As discussed elsewhere in this Quarterly Report on Form 10-Q, we are eligible for a $277.0 million loan under the loan program of the CARES Act.

The Company's substantial level of indebtedness, the Company's non-investment grade credit ratings and the availability of Company assets as collateral for loans or other indebtedness, which available collateral would be reduced as a result of any CARES Act loan program borrowings and other future liquidity-raising transactions, may make it difficult for the Company to raise additional capital if needed to meet its liquidity needs on acceptable terms, or at all.

Although the Company's cash flows from operations and its available capital, including the proceeds from financing transactions, have been sufficient to meet its obligations and commitments to date, the Company's liquidity has been, and may in the future be, negatively affected by the risk factors discussed in the 2019 Form 10-K, as updated by the Second Quarter 10-Q and this report, including risks related to future results arising from the COVID-19 pandemic. If the Company's liquidity is materially diminished, the Company's cash flow available to fund its working capital requirements, capital expenditures and business development efforts may be materially and adversely affected.

A material reduction in the Company's liquidity could also result in the Company not being able to timely pay its leases and debts or comply with material provisions of its contractual obligations, including covenants under its financing agreements and leases with, among others, CIT, Export Development Canada, and RASPRO Trust 2005. In addition, several of the Company's debt agreements contain affirmative and negative covenants that, among other things, restrict the ability of the Company and its subsidiaries to enter into, create, incur, assume or suffer to exist any liens.

In addition to the foregoing, the degree to which we are leveraged could have important consequences to holders of our securities, including the following:

- we must dedicate a substantial portion of cash flow from operations to the payment of principal and interest on applicable indebtedness, which, in turn, reduces funds available for operations and capital expenditures;
- our flexibility in planning for, or reacting to, changes in the markets in which we compete may be limited;
- we may be at a competitive disadvantage relative to our competitors with less indebtedness;
- we are rendered more vulnerable to general adverse economic and industry conditions;
- we are exposed to increased interest rate risk given that a portion of our indebtedness obligations are at variable interest rates; and
- our credit ratings may be reduced and our debt and equity securities may significantly decrease in value.

See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report for additional information regarding the Company's liquidity as of June 30, 2020.

The loss of key personnel upon whom we depend to operate our business or the inability to attract additional qualified personnel could adversely affect our business.

We believe that our future success will depend in large part on our ability to retain or attract highly qualified management, technical and other personnel. We may not be successful in retaining key personnel or in attracting other highly qualified personnel. Among other things, the CARES Act imposes significant restrictions on executive compensation which, assuming we receive a secured loan from Treasury, will remain in place through the date that is one year after such secured loan is fully repaid. Such restrictions, over time, will likely result in lower executive compensation in the airline industry than is prevailing in other industries which may present retention challenges in the case of executives presented with alternative, non-airline opportunities. Any inability to retain or attract significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition.

The Inability to Secure Financing for the Twenty New E-175 Aircraft Scheduled for Delivery Beginning in September 2020 May Negatively Affect Our Prospects, Operations and Financial Condition.

As we previously reported, our United Capacity Purchase Agreement provides for the addition of twenty (20) new Embraer E175 aircraft to the scope of such Agreement. We intend to finance and own these new aircraft and operate them for a period of twelve (12) years from the in-service date. While deliveries of the new E-175 aircraft are scheduled to begin in September 2020 and continue through June 2021, as of the date of this Quarterly Report on Form 10-Q, given the current COVID-19 environment, we do not currently have the financing in place to acquire and take delivery of such aircraft. If we are unable to secure such financing on a timely basis or at all, we could forfeit the right to acquire some or all of such aircraft. A loss of the aircraft to a competitor could have a material adverse effect on our business prospects, financial condition, results of operations, and cash flows.

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

The Company repurchased 112,587 shares of its common stock for $0.5 million to cover the income tax obligation on vested employee equity awards and warrant exercises during the nine months ended June 30, 2020.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.1**	Twenty- First Amendment to Code Share and Revenue Sharing Agreement
31.1	Certification of Principal Executive Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13(a)-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MESA AIR GROUP, INC.

Date: August 10, 2020	By: /s/ Michael J. Lotz
	Michael J. Lotz
	President and Chief Financial Officer
	(Principal Financial Officer)

TWENTY-FIRST AMENDMENT TO CODE SHARE AND REVENUE SHARING AGREEMENT

THIS TWENTY-FIRST AMENDMENT TO CODE SHARE AND REVENUE SHARING AGREEMENT (this "Twenty-First Amendment"), is made and entered into as of June 10, 2020, to be effective retroactive to April 1, 2020 (the "Effective Date") by and between AMERICAN AIRLINES, INC., a Delaware corporation ("American"), and MESA AIRLINES, INC., a Nevada corporation ("Mesa", and together with American, the "Parties").

RECITALS:

A. American and Mesa are parties to that certain Code Share and Revenue Sharing Agreement, dated as of March 20, 2001, but effective as of February 1, 2001 (as amended, modified and supplemented prior to the Effective Date, the "Code Share Agreement").

B. The Code Share Agreement has previously been amended, including by:

i. the Thirteenth Amendment to Code Share and Revenue Sharing Agreement, dated December 14, 2013 (the "Thirteenth Amendment");

ii. the Eighteenth Amendment to Code Share and Revenue Sharing Agreement, dated March 1, 2017 (the "Eighteenth Amendment");

iii. the Nineteenth Amendment to Code Share and Revenue Sharing Agreement, dated as of January 22, 2019 (the "Nineteenth Amendment"); and

iv. the Twentieth Amendment to Code Share and Revenue Sharing Agreement, dated as of November 22, 2019.

C. The Parties desire to further amend the Code Share Agreement as set forth in this Twenty-First Amendment.

D. All capitalized terms used herein, but not otherwise defined herein, shall have the meanings given to such terms in the Code Share Agreement. It is the intent of the Parties that this Twenty-First Amendment and the subject matter addressed herein is integral to the entirety of the Code Share Agreement and is not severable therefrom.

AGREEMENT:

In consideration of the mutual covenants contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Expiration of Nineteenth Amendment. Subject to Section 1.3 of the Nineteenth Amendment, the Parties acknowledge and agree that the Nineteenth Amendment expired on March 23, 2020. For the avoidance of doubt, the following sections of the Nineteenth

Amendment survive such expiration and remain in full force and effect: Section 3.2(d), Section 3.2(e), Section 3.2(f), Section 3.3(a), Section 3.3(b), Section 8 and Section 9

2. Monthly Reconciliation Procedure. Section 7.5.2 of the Code Share Agreement is hereby deleted in its entirety and replaced with the following:

"7.5.2 Monthly Reconciliation. Not later than [***] days following the last day of each [***], Mesa shall provide a reconciliation of Estimated Costs for Guaranteed Non-Maintenance Costs, Actual Costs, Guaranteed Maintenance costs against the actual Guaranteed Non-Maintenance Costs, Actual Costs, and Guaranteed Maintenance costs owed for such month by applying the rates set forth in Exhibit C to the Eighteenth Amendment, as applicable (collectively, the "Incurred Costs"). Mesa will provide American with an invoice reflecting any additional payments or credits resulting from such reconciliation. Each such reconciliation, together with its accompanying invoice, shall be referred to herein as an "Incurred Costs Statement".

If the Estimated Costs paid by American exceed the Incurred Costs, then Mesa shall reimburse American the amount by which the Estimated Costs exceeded the Incurred Costs. Payment by Mesa is due at the time of the next scheduled weekly Estimated Costs payment following American's receipt of the applicable Incurred Costs Statement. If the Incurred Costs exceed the Estimated Costs, then American shall reimburse Mesa the amount by which the Incurred Costs exceeded the Estimated Costs. Payment by American of any undisputed reimbursement amounts is also due at the time of the next scheduled weekly Estimated Costs payment following American's receipt of such Incurred Costs Statement (for example, Mesa shall provide the Incurred Costs Statement for [***] [***] on or before [***] [***], [***]. If the Estimated Costs exceed the Incurred Costs, Mesa shall reimburse American the amount of such excess in connection with the [***] [***], [***] Estimated Costs payment. Similarly, if the Incurred Costs exceed the Estimated Costs, assuming American does not dispute such excess, American shall reimburse Mesa the amount of such excess in connection with the [***] [***] Estimated Costs payment). The Parties further agree that the [***] [***] and [***] [***] Incurred Costs Statements will be completed on or before [***] [***] and any applicable reimbursement will be made in accordance with this paragraph.

For avoidance of doubt, all invoices that include charges for pass-through expenses shall be accompanied by appropriate receipts or other supporting documentation evidencing the pass-through expenses charged. Notwithstanding anything in Section 7.5.4 of the Code Share Agreement to the contrary, American acknowledges and agrees that in the event Mesa receives an invoice for expenses that would otherwise be included in an Incurred Costs Statement following the issuance by Mesa of such Incurred Costs Statement, Mesa shall have the right to amend such Incurred Costs Statement so that any such additional expense is included in any subsequent reconciliation performed by the Parties."

3. Aircraft Withdrawal.

3.1 The Parties acknowledge and agree that [***] [***] Aircraft, with FAA registration numbers [***] [***] [***], shall be permanently withdrawn from the Code Share Agreement, effective as of 11:59 PM Central Daylight Time on [***] [***] [***]. The [***] [***] Aircraft removed pursuant to this Section 3.1 shall constitute the first [***] [***] Aircraft of the remaining [***] [***] Original Aircraft that American has the right to ratably remove commencing [***] [***] [***] pursuant to Section 5 of the Thirteenth Amendment. For the avoidance of doubt, the [***] [***] Original Aircraft that were withdrawn from the Code Share Agreement pursuant to the Nineteenth Amendment are no longer included in the Original Aircraft.

3.2 [***]

4. Additional Compensation.

4.1 Section 9(a)(iii) of the Nineteenth Amendment is hereby deleted in its entirety. The following is hereby added to Section 9 of the Nineteenth Amendment (which section survives the expiration of the Nineteenth Amendment) as new Sections 9(a)(iii)-9(a)(v) thereof:

"iii. [***] [***] [***] [***] [***] [***] [***] [***] per month beginning in [***] [***] and ending in [***] [***], which shall be solely to the extent that Mesa meets or exceeds the Mesa Performance Criteria thresholds contained in Sections 3.2(b)(i) (MEL Counts), 3.2(b)(ii) (CCF), 3.2(b)(iii) (MxD60), 3.2(b)(iv) (CD0) and 3.3(c) – (f) (Maintenance and Staffing) hereof during such relevant month; provided that solely for purposes of this Section 9(a)(iii), the Mesa Performance Criteria described herein shall be measured on a calendar month basis using the thresholds provided in the aforementioned Sections for Measurement Dates after [***] [***], [***]. If any Failure occurs within an applicable calendar month, American shall not be required to pay Mesa and Mesa shall not be entitled to the Additional Monthly Compensation for such calendar month;

iv. [***] [***] [***] [***] [***] [***] [***] [***] per month in each of [***] [***] and [***] [***]; and

v. [***] [***] [***] [***] [***] [***] [***] [***] per month beginning in [***] [***] and ending in [***] [***], which shall be solely to the extent that Mesa meets or exceeds the Mesa Performance Criteria thresholds contained in Sections 3.2(b)(i) (MEL Counts), 3.2(b)(ii) (CCF), 3.2(b)(iii) (MxD60) and 3.2(b)(iv) (CD0) hereof during such relevant month; provided that solely for purposes of this Section 9(a)(v), the Mesa Performance

Criteria described herein shall be measured on a calendar month basis using the thresholds provided in the aforementioned Sections for Measurement Dates after [***] [***] [***]. If any Failure occurs within an applicable calendar month, American shall not be required to pay Mesa and Mesa shall not be entitled to the Additional Monthly Compensation for such calendar month."

4.2 In addition to any amounts otherwise payable by American to Mesa pursuant to the Code Share Agreement (including the amounts described in Section 9 of the Nineteenth Amendment, as amended by Section 4.1), American will pay to Mesa the following amounts:

a. [***] [***] [***] [***] [***] [***] [***] in [***] [***]; and

b. [***] [***] [***] [***] [***] [***] per month beginning in [***] [***] and ending in [***] [***].

5. Utilization-Based Credits.

5.1 *Definitions*. For purposes of this Section 5:

a. "Credit Period" means the period beginning on [***] [***], [***] and ending on [***] [***], [***].

b. "Utilization" means, with respect to a particular month, a number [***] to (i) the total number of block hours set forth in the Schedule for such month [***] the number of American-Canceled Block Hours (as defined below) for such month, [***] *by* (ii) the number of Revenue Available Aircraft in the Schedule for such month, [***] *by* (iii) the number of calendar days in such month, [***] *to* the nearest [***] [***].

c. "American-Canceled Block Hours" means, with respect to a particular month, the total number of block hours in the Schedule for such month that were attributed to Flight departures that were canceled pursuant to the following cancellation codes: [***], [***], [***], [***], [***], [***], [***] and/or [***].

d. "Estimated Cost Statement" means, with respect to a particular month, the good faith statement of Estimated Costs for such month that Mesa provides to American in accordance with Section 7.5.1 of the Code Share Agreement.

5.2 *Monthly Credits*. With respect to each month during the Credit Period, American shall be entitled to a credit (each, a "Monthly Credit") in the amount set forth in the "Monthly Credit Amount" column of the table below that corresponds to the Utilization for the applicable month.

Utilization	Monthly Credit Amount
[***] [***]	[***]
[***] [***]	[***]

Utilization	Monthly Credit Amount
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]

5.3 *Aircraft Credits*. With respect to each month during the Credit Period, American shall be entitled to a credit (each, a "Aircraft Credit") in an amount [***] to (a) the amount set forth in the "Aircraft Credit Amount" column of the table below that corresponds to the Utilization for the applicable month, [***] *by* (b) the daily average during such month of (i) total Aircraft [***] (ii) Spare Aircraft.

Utilization	Aircraft Credit Amount
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]

5.4 *Block Hour Credits*. With respect to each month during the Credit Period, American shall be entitled to a credit (each, a "Block Hour Credit") in an amount [***] to (a) the amount set forth in the "Block Hour Credit Amount" column of the table below that corresponds to the Utilization for the applicable month, [***] *by* (b) the total number of block hours actually flown by Mesa during such month.

Utilization	Block Hour Credit Amount
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]
[***] [***]	[***]

5.5 *Procedure*.

a. For [***] [***] and [***] [***], Mesa shall provide the Monthly Credits, Aircraft Credits and/or Block Hour Credits applicable to such months as separate credit line items in the Estimated Cost Statement for [***] [***].

b. For [***] [***], Mesa shall provide the Monthly Credits, Aircraft Credits and/or Block Hour Credits applicable to such month to American on or before [***] [***], and American will apply such Monthly Credits, Aircraft Credits and/or Block Hour Credits to the Estimated Costs payments American makes to Mesa during [***] [***]in accordance with Section 7.5.1 of the Code Share Agreement.

c. For [***] [***], [***] [***] and [***] [***], Mesa shall provide, as separate credit line items in the Estimated Cost Statement for such month:

i. a good faith estimate (assuming there will be [***] American-Canceled Block Hours for such month) of the Monthly Credit to which American will be entitled for such month;

ii. a good faith estimate (based on any upcoming Aircraft withdrawals of which Mesa is aware at the time it provides the applicable Estimated Cost Statement, and assuming there will be [***] American-Canceled Block Hours for such month) of the Aircraft Credit to which American will be entitled for such month; and

iii. a good faith estimate (assuming there will be [***] American-Canceled Block Hours for such month) of the Block Hour Credit to which American will be entitled for such month.

d. To the extent that the actual Monthly Credit, Aircraft Credit and/or Block Hour Credit to which American is entitled for a particular month (if any) exceeds, or is less than, the estimated Monthly Credit, Aircraft Credit and/or Block Hour Credit provided by Mesa under Section 5.5(c) for such month (if any), such excess or shortfall shall be reconciled in accordance with Section 7.5.2 of the Code Share Agreement (as amended by Section 2 hereof).

5.6 *Reimbursement in the Event of American Nonpayment*. Notwithstanding anything in this Twenty-First Amendment to the contrary, in the event that American fails to make any undisputed Estimated Costs payment as and when due in accordance with Section 7.5.1 of the Code Share Agreement, and such failure continues for [***] business days after American's receipt of written notice from Mesa, the obligation of Mesa to provide Monthly Credits, Aircraft Credits and Block Hour Credits pursuant to this Section 5 shall immediately cease and American shall repay to Mesa, as soon as reasonably practicable, any Monthly Credits, Aircraft Credits and Block Hour Credits previously provided to American pursuant to this Section 5 without any further action on the part of Mesa.

5.7 [***]

a. [***]

b. [***]

c. [***]

i. [***]

ii. In the event that Mesa receives any such notice described in Section 5.7(c)(i):

1. If Mesa receives such notice prior to providing the Estimated Costs Statement for the applicable month, Mesa shall provide a copy of such notice to American in connection with such Estimated Costs Statement, and Mesa will not be required to provide any Monthly Credit, Aircraft Credit or Block Hour Credit estimates under Section 5.5(c);

2. If Mesa receives such notice after providing the Estimated Costs Statement for the applicable month, but before the beginning of the applicable month, Mesa shall immediately provide a copy of such notice to American, and to the extent that Mesa has already provided any Monthly Credit, Aircraft Credit or Block Hour Credit estimates under Section 5.5(c) for such month, American will not apply such credits to the Estimated Costs payments for such month;

3. If Mesa receives such notice after the beginning of the applicable month, but before providing the Incurred Costs Statement for such month, Mesa shall provide a copy of such notice to American in connection with the Incurred Costs Statement for such month, and to the extent that Mesa has already provided any Monthly Credit, Aircraft Credit or Block Hour Credit estimates under Section 5.5(c) for such month, American will reimburse Mesa the amount of such credits in connection with the reconciliation for such month in accordance with Section 7.5.2 of the Code Share Agreement; and

4. If Mesa receives such notice after Mesa's provision of the Incurred Costs Statement for the applicable month, then notwithstanding anything to the contrary in Section 5.7(b) hereof or Section 7.5.2 of the Code Share Agreement, American shall be entitled to retain the Monthly Credits, Aircraft Credits and/or Block Hour Credits for such month, if any, that were provided to American.

iii. In the event that Mesa receives any such notice described in Section 5.7(c)(i) with respect to a particular month, but subsequently receives any portion of the Expected Payment for such month, then the Monthly Credit, Aircraft Credit and/or Block Hour Credit to which American is entitled for such month, if any, shall be applied in connection with the reconciliation for such month in accordance with Section 7.5.2 of the Code Share Agreement.

6. Miscellaneous.

6.1 Except as expressly set forth in this Twenty-First Amendment, all of the terms and conditions, including all obligations, rights, and remedies, currently existing under the Code Share Agreement shall remain in full force and effect and be applicable to this Twenty-First Amendment. In the event of a conflict between this Twenty-First Amendment and the Code Share Agreement, this Twenty-First Amendment shall control.

6.2 Each Party hereby reserves all rights, remedies and defenses they may have under the Code Share Agreement or otherwise. In addition, neither Party waives any of the other Party's defaults, past, current or future.

6.3 This Twenty-First Amendment and the Code Share Agreement constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior understandings with respect thereto.

6.4 This Twenty-First Amendment may be executed in counterparts, all of which when taken together shall be one and the same document.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Parties have executed this Twenty-First Amendment as of the Effective Date.

AMERICAN AIRLINES, INC.

By: ____/s/ Devon May__________________

Name: Devon May

Title: Senior Vice President – Network Strategy

Date: ___6-10-20____________________

MESA AIRLINES, INC.

By: ___/s/ Bradford Rich________

Name: _Bradford Rich___________

Title: __EVP & COO______________

Date: ___6-11-20 ________________

Exhibit 31.1

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

I, Jonathan G. Ornstein, certify that:

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

Date: August 10, 2020

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

Exhibit 31.2

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

I, Michael J. Lotz, certify that:

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

Date: August 10, 2020

/s/ MICHAEL J. LOTZ
Michael J. Lotz
Chief Financial Officer

Exhibit 32.1

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

I, Jonathan G. Ornstein, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 10, 2020

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

Exhibit 32.2

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

I, Michael J. Lotz, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of Mesa Air Group, Inc. for the fiscal quarter ended June 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Mesa Air Group, Inc.

Dated: August 10, 2020

/s/ MICHAEL J. LOTZ
Michael J. Lotz
President and Chief Financial Officer